

CITY OF SIERRA MADRE

SIERRA MADRE, CALIFORNIA



Basic Financial Statements and Required Supplementary Information

with

Independent Auditors' Report

June 30, 2009

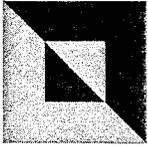
*Prepared by the City of Sierra Madre, California
Administrative Services Department*

CITY OF SIERRA MADRE, CALIFORNIA

June 30, 2009

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R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Sierra Madre
Sierra Madre, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sierra Madre, California (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of America. 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 significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including cities, counties, districts and agencies. These actions by the State include:

- 8% of Property Taxes borrowed – to be repaid in 3 years
- Gas Tax payments deferred – to be paid at a future date
- Redevelopment Agency Funds – prepared to be taken for fiscal year 2010

These above amounts are significant to the City and may affect its ongoing operations. Certain lawsuits are in process to stop such State actions. For more detailed information, see Note 13 in the Notes to the Financial Statements.

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In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 21, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

January 21, 2010
Arcadia, California

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants

CITY OF SIERRA MADRE MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Sierra Madre ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. This is the fifth year the report complies with the new financial reporting model developed by the Governmental Accounting Standards Board (GASB) statement 34. The new financial reporting model changed the format of the City's financial statements. It has improved financial reporting by adding significant additional information not previously available in local government financial statements. The implementation of GASB 34 has enabled the City Council and residents of Sierra Madre to become more aware of the benefits and information contained in the new financial reporting model. In addition to the fund-by-fund financial information currently presented in the City's financial statements, government-wide financial statements are also included. These include a Statement of Net Assets that provides the total net equity of the City, including infrastructure, and the Statement of Activities that shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. Reconciliation reports are provided as a key to understanding the changes between the two reporting methods (found on pages 22 and 24). The new reporting model also includes an emphasis on the City's major funds as shown in the Governmental Fund Statements.

These statements, combined with other information, are further analyzed in the narrative section called Management's Discussion and Analysis (MDA). The MDA provides financial highlights and interprets the reports by analyzing trends and by explaining changes, fluctuations, and variances in the financial data. In addition, the MDA is intended to disclose significant events or decisions that affect the financial condition of the City. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, we encourage the readers to consider the information presented here in conjunction with additional information furnished in the Letter of Transmittal in the City's biennial budget and the accompanying basic financial statements. Comparative data on the government-wide financial statements are only presented in the MD&A.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable in understanding of the City's financial activities have been included.

FINANCIAL HIGHLIGHTS

- The City's governmental activities net assets decreased \$174,961, or 0.09 percent, and net assets of the business-type activities increased by \$1,115,728, or 4.88 percent.
- During the year, the City's General Fund increased by \$135,715; the CRA increased \$18,074; and Total Government Funds increased \$529,178.

- In the City's proprietary funds, the Water Fund increased fund balance by \$1,057,216 (primarily from the increase in Capital Assets from the construction of Mira Monte); the Sewer Fund increased \$77,307, Other Enterprise Funds decreased \$18,794; and Total Internal Services Fund decreased (\$748,268).

OVERVIEW OF FINANCIAL STATEMENTS

The City is required to present its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) which includes complying with the Governmental Accounting Standards Board (GASB) pronouncements. In 2004, the City was required to implement GASB Statement No. 34 (GASB 34) which required the City to add new financial reports with a new format to the existing published Financial Report. The new financial reporting format includes the Government-wide Financial Statements, which are comprised of the Statement of Net Assets and the Statement of Activities (explained below), and the original reporting format, which is the Fund Financial Statements (explained below), combined into a single unified format. These two statements combined with the notes to the financial statements comprise the City's basic financial statements. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report also contains certain supplementary information to the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements include the City and its component units. As stated in Note 1.a. of the notes to the financial statements, the inclusion of an organization within the scope of the reporting entity of the City of Sierra Madre, as either blended or separately shown, is based on the provisions of GASB Statement No. 14 *The Financial Reporting Entity*. Although legally separate, component units function for all practical purposes as departments of the City and, therefore, have been blended as part of the primary government. The City's component unit is the Sierra Madre Community Redevelopment Agency (CRA).

These statements are designed to provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view is intended to illustrate the City's ability to continue functioning as a viable entity well beyond the next fiscal year's operations. The statements are prepared using the accrual basis of accounting. The accrual basis of accounting considers money available when earned and considers money spent when a liability is incurred. As such, this basis of accounting focuses on measuring economic resources that is available to the City regardless of the timing of the availability of those resources. For example, grant revenue may have been earned as of fiscal year end, but may not be received until several months subsequent to fiscal year end. Under the accrual basis of accounting, this revenue would be recognized as a resource available to the City as of fiscal year end, even though the actual cash is not received for several months. An example related to expenditures would be the City's accrued interest liability. This liability is recognized as a usage of the City's resources as of fiscal year end, even though the actual cash payment will occur over an extended period of time. The accrual basis of accounting is similar to that used by most private sector companies. Accordingly, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Additionally, these

statements reflect the capitalization and depreciation of infrastructure and other capital assets (e.g., buildings, vehicles, furniture and fixtures, etc.) as well as the recognition of various long-term liabilities (e.g., bonds payable, accrued employee benefits, claims and judgments payable, etc.).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes, intergovernmental and use of money and property revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government Public safety - police, public safety - fire protection, public safety – community development, community services, and engineering and public works. The City's business-type activities include the Municipal Utility operations, and other self-supporting activities.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. This statement includes changes in "capitalized and depreciated" capital assets. The purpose behind the statement of net assets is that, over time, increases or decreases in the net assets are one potential useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both the governmental activities and the business-type activities are presented on the accrual basis of accounting, which considers money available when earned and considers money spent when a liability is incurred. The accrual basis of accounting focuses on measuring economic resources that are available to the City regardless of timing of the availability of those resources. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 19 through 20 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds and other funds – not the City as a whole. Some funds are required by state law and by bond covenants. In addition, in order to meet legal responsibilities for using certain taxes, grants, and other resources, prudent fiscal management requires the establishment of other funds to help control and manage

money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

By contrast to the government-wide financial statements, the governmental fund financial statements, a part of the Fund Financial Statements, use the modified accrual basis of accounting which considers money available when it is collectible within the current period or soon enough thereafter (60 days after the end of the current fiscal period) to pay liabilities of the current period. Expenses are recorded when a liability is incurred. Debt service, claims and judgments, and accrued employee leave benefits are not recorded as liabilities, they are expensed at the time a payment is due. Note 1 of the notes to the Financial Statements more fully describes each basis of accounting.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the results in the governmental fund financial statements and those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement (see pages 22 and 24 of this report).

The City maintains 77 individual governmental 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 the General Fund, the Redevelopment Agency Capital Project Fund, and the Redevelopment Agency Debt Service Fund, all of which are considered to be major funds. For FY 2008-09, the City added the Federal Grant called Fire Management Assistance Grant (FMAG) as a major fund. This grant is one-time grant provided by FEMA (Federal Emergency Management Agency) to aide in the costs of the April 2008 Santa Anita Fire. Major funds determination is based on guidelines established by GASB 34. Data for the other 77 governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21 and 23 of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget. This comparison can be found on 54 of this report.

Proprietary funds: When the City charges customers' fees to cover the cost of the services it provides, these services are generally reported in proprietary funds. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. In the fund financial statements section, proprietary funds provide similar information to that contained in the *business-type activities* in the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

“*Enterprise*” refers to the fund type while “*business-type*” refers to the activity type. The City uses enterprise funds to account for its Water Utility and Sewer Utility, both of which are major funds; and various smaller self-supporting community operations, which are shown in aggregate titled Other Enterprise Funds. *Enterprise funds* are used to report the same functions presented as *Business-Type* activities in the government-wide financial statements.

Internal Service funds by contrast are an accounting mechanism used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for Vehicle/Equipment Replacement and Maintenance, Facilities Maintenance, City Administration/Personnel, and Information Technology (IT), Workers Compensation and Self-Insurance. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Internal Service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting. However, because these services predominantly involve governmental rather than business-type activities, this fund type has been included within *Governmental Activities* in the government-wide financial statements.

Fiduciary funds: The City is the trustee, or *fiduciary*, for certain funds held for construction deposits and to account for the payment of various employee benefits and deductions including, but not limited to, health and dental insurance premiums, federal and state withholding taxes and various other items that is withheld from regular compensation. The City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets found on page 28. These activities are excluded from the City’s other financial statements since the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 29 of this report.

THE CITY AS A WHOLE

Government-Wide Financial Statements

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

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities. These statements include *all* assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's infrastructure, such as City wells and reservoirs construction/replacements, street maintenance/repairs, and building maintenance/improvements.

In the Statement of Net Assets and the Statement of Activities, City activities are separated as follows:

Governmental activities – The majority of the City's basic services are reported in this category, including Administrative Services, Police, Fire, Public Works, Planning and Development Services, Redevelopment, Parks and Recreation, and the Library. Revenues such as property taxes, sales taxes, utility taxes, franchise fees, interest income and other state and federal funds finance these activities.

Business-type activities – The City charges a fee to customers to cover the services it provides within this category. The City's Water system, Sewer system and Community operations are reported in this category.

Government-wide Financial Analysis

Our analysis focuses on the City's net assets (Table 1) and the changes in net assets (Table 2) as a result of the City's activities. Comparative total data for the prior year has been presented. An analysis of the significant increases/decreases from the prior year is provided after each table.

Net Assets: Net Assets, the difference between a government's assets and its liabilities, may serve over time as one potential useful indicator of a government's financial position (Table 1). Net assets includes the City's capital assets, cash balances, amounts receivable from other entities, and other similar resources offset by payments due to vendors, interest payable, long-term debt, and other similar obligations. In the case of the City, total assets (of which 90% represents capital assets of the City, including infrastructure) exceeded total liabilities by \$220,967,851 at the close of the most recent fiscal year. This year, City's net assets, including both the governmental activities and business-type activities, increased by \$1,393,000; however, \$230,000 was a result of a restatement in fund balance from a reallocation of interest income in the prior year.

TABLE 1

NET ASSETS
(In Thousands)

As of June 30, 2009

	GOVERNMENTAL ACTIVITIES		BUSINESS- TYPE ACTIVITIES		TOTAL	
	2008	2009	2008	2009	2008	2009
<u>Assets:</u>						
Current and Other Assets	\$12,359	\$15,261	\$7,516	\$6,794	\$19,875	\$22,055
Non-Current Assets	\$ 1,683	\$ 1,683	\$ 392	\$ 366	\$ 2,075	\$ 2,049
Capital Assets	\$188,972	\$187,749	\$27,650	\$28,744	\$216,623	\$216,493
TOTAL ASSETS	\$203,014	\$204,693	\$35,558	\$35,904	\$238,573	\$240,597
<u>Liabilities</u>						
Current and Other Liabilities	\$ 1,977	\$ 3,505	\$ 1,474	\$ 1,142	\$ 3,451	\$ 4,647
Non-Current Liabilities	\$ 3,330	\$ 3,085	\$12,217	\$11,897	\$ 15,547	\$ 14,982
TOTAL LIABILITIES	\$ 5,307	\$ 6,590	\$13,691	\$13,039	\$ 18,998	\$ 19,629
<u>Net Assets:</u>						
Invested in Capital Assets, Net of Related Debt	\$188,972	\$187,749	\$15,133	\$16,527	\$204,106	\$204,276
Restricted						
Debt Service	\$ 3,178	\$ 2,446	\$ -		\$ 3,178	\$ 2,446
Low & Mod. Housing	\$ 1,658	\$ 2,028	\$ -		\$ 1,658	\$ 2,028
Total Restricted	\$ 4,861	\$ 4,474	\$ -	\$ -	\$ 4,861	\$ 4,474
Unrestricted	\$ 3,874	\$ 5,880	\$ 6,734	\$ 6,338	\$ 10,608	\$ 12,218
TOTALNETASSETS	\$197,707	\$198,104	\$21,867	\$22,865	\$219,575	\$220,969

Statement of Activities and Changes in Net Assets: Program expenses by function, general revenues by major source, excess and/or deficiency of revenues over expenses before contributions to fund principal, special, and extraordinary items, changes in and total net assets are presented in the Statement of Activities (Table 2). Total revenues decreased by 4.68% and total expenses decreased by 11.36%.

These decreases are primarily a reflection of the completion of a five year water well and reservoir replacement project that increased the water infrastructure by \$20,000,000. The City had funding from local and federal grants as well as City contributions funded by revenue bonds and interest free loans. The Business Type funds' revenues decreased by \$4,209,000 (or 43%), because the City did the first of two capital draws from the bond proceeds as installment payments to the reservoir construction in FY 2007-08. The final capital draw occurred in FY 2009-10 at the close of the project in July 2009. The Business Type Funds expenses decreased by \$6,306,000 (or 59%), as compared to FY 2007-08; again, because the capital projects were coming to an end.

The Governmental funds increased revenues by \$3,083,000 (or 22%) in FY 2008-09 and increased expenses by \$3,534,000 (or 26%). Half of this change is attributable to the one-time grant funding of the FMAG and outgoing costs of the Santa Anita Fire. The other half of this change is increased cost in Public Safety and increased Property tax and Utility User Tax (UUT).

TABLE 2
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(In Thousands)
As of June 30, 2009

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2008	2009	2008	2009	2008	2009
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 5,487	\$ 5,521	\$ 6,322	\$ 4,412	\$11,809	\$ 9,933
Operating Grants and Contributions	\$ 1,444	\$ 2,921	\$ -	\$ -	\$ 1,444	\$ 2,921
Capital Grants and Contributions	\$ 429	\$ 122	\$ -	\$ -	\$ 429	\$ 122
General Revenues						
Taxes	\$ 6,493	\$ 8,199	\$ -	\$ -	\$ 6,493	\$ 8,199
Investment Income	\$ 521	\$ 335	\$ 222	\$ 211	\$ 743	\$ 546
Capital Contributions	\$ -	\$ 169	\$ 3,141	\$ 1,044	\$ 3,141	\$ 1,213
TOTAL REVENUES	\$ 14,374	\$ 17,267	\$ 9,685	\$ 5,667	\$24,059	\$ 22,934

Expenses:

General Government	\$ 6,612	\$ 7,851			\$ 6,612	\$ 7,851
Public Safety	\$ 3,938	\$ 6,698			\$ 3,938	\$ 6,698
Public Works	\$ 917	\$ 806			\$ 917	\$ 806
Development	\$ -	\$ 431			\$ -	\$ 431
Culture and Recreation	\$ 2,007	\$ 1,232			\$ 2,007	\$ 1,232
Interest Expense	\$ 178	\$ 168			\$ 178	\$ 168
Water			\$ 9,519	\$ 3,138	\$ 9,519	\$ 3,138
Sewer			\$ 627	\$ 652	\$ 627	\$ 652
Recreation Services			\$ 414	\$ 445	\$ 414	\$ 445
Strike Team			\$ 137	\$ 195	\$ 137	\$ 195
Filming			\$ 66	\$ 27	\$ 66	\$ 27
TOTAL EXPENSES	<u>\$ 13,652</u>	<u>\$ 17,186</u>	<u>\$10,763</u>	<u>\$ 4,457</u>	<u>\$24,415</u>	<u>\$ 21,643</u>

Increase/(Decrease) in Net Assets

before Transfers	\$ 722	\$ 81	\$(1,078)	\$ 1,210	\$ (356)	\$ 1,291
Transfers	<u>\$ (96)</u>	<u>\$ 94</u>	<u>\$ 96</u>	<u>\$ (94)</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Changes in Net Assets</u>	<u>\$ 626</u>	<u>\$ 175</u>	<u>\$ (982)</u>	<u>\$ 1,116</u>	<u>\$ (356)</u>	<u>\$ 1,291</u>
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Net Assets-beginning of year, as restated	\$ 197,082	\$ 197,929	\$22,849	\$21,749	\$219,931	\$219,678
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<u>Net Assets-end of year</u>	<u>\$ 197,708</u>	<u>\$198,104</u>	<u>\$21,867</u>	<u>\$22,865</u>	<u>\$219,575</u>	<u>\$220,969</u>
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Governmental Activities: The following (Table 3) presents the cost of each of the City’s six largest programs – general government, public safety, public works, community development, culture and recreation, and interest on long-term debt – as well as, each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City’s taxpayers by each of these functions.

TABLE 3

GOVERNMENTAL ACTIVITIES
(In Thousands)

As of June 30, 2009

	Total Cost of Services	Net Cost of Services
General Government	\$ 7,623	\$ (1,908)
Public Safety	\$ 6,698	\$ (4,282)
Public Works	\$ 806	\$ (790)
Development	\$ 431	\$ (139)
Culture and Recreation	\$ 1,232	\$ (1,107)
Interest Expense	\$ 168	\$ (168)
Total Gov't Activities	\$ 16,958	\$ (8,394)

THE CITY’S FUNDS

Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The following financial analysis is performed only for the governmental (Table 4) and proprietary funds (Table 5). The fiduciary funds are excluded from this analysis as they do not represent resources available to the City.

Governmental Funds: Based upon the audited *Statement of Revenues, Expenditures and Changes in Fund Balance*, the General Fund is anticipated to have an increase of \$135,000 in FY 2008-09. The Undesignated Fund Balance is \$3,454,249 which is 47% of Operating Revenues. The General Fund revenues increased by \$545,000, or 8%, primarily from increase in Property Tax and UUT; expenditures increased by \$432,000 primarily from Public Safety increases (see the Economic Condition and Budget Outlook for more details); transfers increased by \$710,000 for the one-time transfer for the Santa Anita Fire and Mudslides; the total expenditures and transfers increased \$1,142,000, or 19%.

TABLE 4

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE

(In Thousands)

	As of June 30, 2009					
	REVENUES		EXPENDITURES and TRANSFERS		TOTAL	
	2008	2009	2008	2009	2008	2009
General Fund	\$ 6,811	\$ 7,356	\$ 6,078	\$ 7,220	\$ 733	\$ 136
CRA Funds	\$ 1,587	\$ 1,446	\$ 1,328	\$ 1,428	\$ 259	\$ 18
FMAG	\$ -	\$ 1,526	\$ -	\$ 1,523	\$ -	\$ 3
Grants	\$ 644	\$ 749	\$ 604	\$ 732	\$ 40	\$ 17
Other Government Funds	\$ 1,817	\$ 2,214	\$ 2,076	\$ 1,859	\$(259)	\$ 355
TOTAL	\$10,859	\$13,291	\$ 10,086	\$ 12,762	\$ 773	\$ 529

At the close of FY 2007-08, Administrative Services requested three reserves from fund balance. City Council approved \$1,000,000 for the Santa Anita Fire and Mudslides. At the close of FY 2008-09, the City's match for the cost of the Santa Anita Fire and Mudslides is approximately to \$710,000; and staff has recommended designating \$290,000 pending future needs. Staff has also recommended the carryover of \$200,000 designated for the City's Housing Element and General Plan update started but not completed in FY 2008-09. The final component that adjusted the Fund Balance at the close of FY 2007-08 was reallocation of Interest Revenues recorded in the General Fund. In this area, the estimation of \$600,000 was too high and the actual adjustment was \$341,000. This amount was treated as Prior Period Adjustment to the FY 2008-09 Beginning Fund Balance.

<u>Adjustments to General Fund Reserves for the Year Ending June 30, 2009</u>	
General Fund Reserves as of 6/30/2008	\$ 4,141,994
Interest to other funds (Prior Period Adjustment)	(333,459)
Increase/(Decrease) to Net Assets before Carryover Request	<u>135,714</u>
General Fund Reserves as of 6/30/2009	\$ 3,944,249
Designated Reserves: Carry Over (HE & GP)	(200,000)
Designated Reserves: Mud Costs (Potential Liability)	<u>(290,000)</u>
Adjusted General Fund Undesignated Reserves	<u><u>\$ 3,454,249</u></u>

Business-Type Funds: As shown in the *Statement of Activities and Changes in Net Assets*, the amounts paid by users of the systems were \$4.412 million. The cost of all business-type activities including net transfers out this year were \$3.827 million, and non-operating expenses net of capital grants and capital expenses was \$374,000; thus net assets were increased by \$1,115,000. Internal Services funds decreased net assets by \$748,000.

TABLE 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
(In Thousands)

	As of June 30, 2009					
	REVENUES		EXPENDITURES and TRANSFERS		TOTAL CHANGE in NET ASSETS	
	2008	2009	2008	2009	2008	2009
Water	\$ 5,032	\$ 4,264	\$ 5,828	\$ 3,138	\$ (796)	\$ 126
Sewer	\$ 1,587	\$ 743	\$ 1,328	\$ 652	\$ 259	\$ 91
Other Enterprises	\$ 644	\$ 659	\$ 604	\$ 667	\$ 40	\$ (8)
TOTAL	<u>\$ 7,263</u>	<u>\$ 5,666</u>	<u>\$ 7,760</u>	<u>\$ 4,457</u>	<u>\$ (497)</u>	<u>\$ 1,209</u>
Governmental Activities- Internal Service Funds	\$ 4,641	\$ 3,974	\$ 5,008	\$ 4,737	\$ (367)	\$ (763)

Capital Assets and Debt Administration

Capital Assets

By the close of FY 2008-09, the City has added \$1.1 million to the Capital Assets Current Value. The City has completed two building improvements; one was the addition of a CNG (Compressed Natural Gas) fueling station at the City Yard; and one was the improvements to City Hall basement creating a working EOC (Emergency Operation Center). City total current value in buildings decreased by \$1,174,602 for the sale of the nursery school building located next to Sierra Vista Park. The property was sold to the Sierra Madre Nursery School, the sole users of the property for the last 50 years. The most significant accomplishment is in the replacement of wells and reservoirs to the City's Water Infrastructure. Started in 2004, the City's Water Fund has spent \$20 million in improvements and replacement of the City's water system. The City used a combination of Federal and Local Grants as well as bond and interest free loan financing to pay for these improvements. Finally, the City has vehicle purchases of \$253,000; the City will surplus the existing vehicles in FY 2009-10. Details of the City's Infrastructure Schedule are found in Note 6 of the Notes to the Financial Statements (pages 42 and 43).

New Vehicle Purchases for 07-08	\$ 252,826
Net Change in Water Infrastructure	\$ 1,791,455
Net Change in Building Improvements (CNG Station)	\$ 151,053
Net Change in Building Improvements (EOC Basement)	\$ 109,108
Sale of Nursery School Property	\$ (1,174,602)
Net Change in Capital Assets Current Value	<u>\$ 1,129,841</u>

The City's Budget for FY 2009-10 includes carryover of approximately \$150,000 in fleet replacement as well as \$1.6 million in both new and replacement equipment budgeted through a master lease financing. The City has secured financing for the equipment.

Debt Administration

At the end of the current fiscal year, the City had total long-term debt outstanding of \$3,320,000 for the CRA and \$12,216,875 for the Water Fund. Additional information on the City's long-term debt can be found in Note 7 of the Notes to the Financial Statements (page 43 through 47).

Economic Condition and Budget Outlook

The City of Sierra Madre with a population of approximately 11,000 is a unique village located in Los Angeles County at the base of the San Gabriel Valley Mountains. Sierra Madre is a residential community, proud of being the Village of the Foothills. Its small size and quiet neighborhoods lends itself to the small town atmosphere the residents are proud to maintain.

The City is a full service municipality operating with a \$20 million budget that funds 75 full-time employees assigned to eight operating departments. Government services are primarily funded by property taxes, local taxes, and user fees. The local economy consists primarily of professional service providers and specialty retail shops and restaurants.

In the FY 2007-09 Biennial Budget Transmittal Letter, the City had concerns about the forecast of revenues over the next five years. Staff's projected that the City's operational costs would continue to increase at a higher rate than the City's increase in revenues. Simply stated, revenues were not projected to keep pace with even inflationary growth in expenditures, even if services remain unchanged. Historically, since 2002, Consumer Price Index (CPI) had risen 3.5% to 4.5% each year, but California local governments' revenue trend was only 1% to 1.5% growth. (Statistics provided by *US Department of Labor*.) Sierra Madre was experiencing these same dichotomies of scale; meaning our operational costs continued to rise, yet City revenue growth was almost flat.

However, starting in late 2008, for the first time since the depression, *US Department of Labor* has reported repeated quarters of negative or flat CPI. The impact on Sierra Madre's revenues has been relatively low as Sales Tax makes up less than 5% of the General Fund revenues; and in fact, Sales Tax continued to grow at a modest 5% year over year in Sierra Madre. In the next two years, the City has assumed a loss in the budget for Sales Tax to reflect similar projected losses in surrounding cities, understanding that this is only a \$20,000 loss.

During the housing boom of 2001-2006, the City's Property Tax was growing at 10-12% each year, but economic indicators were already beginning to show that FY 2007-09 growth would be slowing. For 2007-08, county wide assessed valuation increased by 8%. The County growth for 2008-09 was approximately 3%. For FY 2008-09, The City saw an increase of 2.5% over FY 2007-08. The slowdown in the housing market will continue to be felt in the next three years as growth continues to decrease.

Fiscal Year 2008-09 was originally projected as a deficit year with economic challenges facing the City. The most pressing was the concerns about meeting increases in salary costs for the Police Officer employees and the continued support of Paramedic services in Sierra Madre. The City Council commissioned an Ad-Hoc committee whose focus was to recommend a revenue source to fund a potential \$500,000 a year deficit (compounded) that would grow to an almost \$1.6 million deficit by FY 2010-11. As the General Fund budget was only \$6.5 million, the potential shortfall would have severely impacted City services.

In April 2008, the residents passed an increase to the Utility User Tax (Measure U) placed on the ballot by the City Council to address the General Fund Public Safety budget needs. The first rate increase took effect on July 1, 2008 which increased the tax from 6% to 8% and added Sewer, Trash and Digital Television. (The residential tax impact was estimated to be a 3% increase in UUT from FY 2007-08 to FY 2008-09 due to the new utilities.) Actual revenues for the UUT were \$1.8 million. This was a \$700 thousand increase over the prior year revenues of \$1.1 million. Staff had originally projected \$1.5 million (a \$400,000 increase) would come from the increase in the Utility User Tax; however, staff had chosen to keep the inflationary factor flat in the assumption.

The second factor that provided the increase was the clean-up language on the telephone technology. The City received approximately \$150,000 in one-time payments from Cell Phone providers for taxes owed under the current ordinance.

In conjunction with the increase of Utility User Tax, the General Fund increased its appropriations for Public Safety, particularly in the Police Department budget and Fire Department budget. The Police Department, which makes up close to 50% of the City's General Fund expenditures, increased by \$524,000. The City's General Fund subsidy for the Fire's Paramedic Services Department was \$224,000 and will increase to \$400,000 in FY2009-10.

The Development Services Fund's revenues are generated primarily through the collection of development fees and permits. There is a direct correlation between a strong economy and housing market and strong revenues in Development Services. With the housing and economic market recession, Development Services' revenues generated from fees and permits have continued to decrease. To date, the revenues are \$85,000 lower than FY 2007-08 and \$225,000 lower than FY 2006-07 during the height of the housing market. Unfortunately, even at higher revenue levels, Development Services fees and permits were not covering the cost to perform the overall department services. It is anticipated that the General Fund will subsidize the Development Services fund \$150,000-\$200,000 each fiscal year.

The Water and Sewer Funds primary revenues are generated by utility services provided to the 4400 residential, multi-residential and commercial customers in Sierra Madre. The rates in water and sewer have a flat fee based upon these three categories. Additionally, the water rates' base fee takes into consideration the meter size of each customer. Water consumption is also charged at a current rate of \$1.79 per unit (748 gallons/100 cubic feet). Customers are billed bi-monthly. Currently, the City is undergoing a fee study for the Water and Sewer Fund for a possible rate increase effective July 1, 2010. With City Council approval of the fee study, a Proposition 218 vote will be required to increase the utility rates.

At the close of FY 2008-09, the Water Fund has completed \$20,000,000 in capital upgrades to water infrastructure that began in FY 2003-04. During this period, the Water Fund saw one time revenue increases from Federal Grants, San Gabriel Valley Municipal Water District Grants and Loans, and cash reserves from 1998 and 2003 Revenue Bonds.

The Sierra Madre Community Redevelopment Agency (CRA) was adopted by Ordinance No. 918, approving and adopting the Redevelopment Plan for the Sierra Madre Boulevard Redevelopment Project on August 13, 1974; and adopted Ordinance No 1106, approving and adopting the First Amendment to the Redevelopment Plan for the Sierra Madre Boulevard Redevelopment Project on October 1, 2001, pursuant to redevelopment law of the State of California commencing with Health and Safety Code Section 33000. Its purpose is to prepare and carry out plans for the rehabilitation, improvement and development of blighted areas within the project area of the Agency. The City Council serves as the Agency's Board Members. As such, it is deemed to be financially accountable. Therefore, all Agency financial activities are blended with the City's financial statements. Also, pursuant to redevelopment law of the State of California, the

CRA is subject to a separate Compliance Audit and Report that may be reviewed as supplement to this report.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Sierra Madre's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the City of Sierra Madre, 232 West Sierra Madre Boulevard, Sierra Madre, California, 91024.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

June 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 11,675,515	\$ 5,138,654	\$ 16,814,169
Cash and investments with fiscal agents	401,575	1,197,079	1,598,654
Receivables:			
Taxes	556,609	-	556,609
Accounts	246,025	458,028	704,053
Interest	47,183	-	47,183
Grants	2,082,764	-	2,082,764
Prepaid expenses	251,178	288	251,466
Total current assets	<u>15,260,849</u>	<u>6,794,049</u>	<u>22,054,898</u>
Noncurrent assets:			
Deferred charges	-	366,463	366,463
Land held for resale	1,682,998	-	1,682,998
Capital assets:			
Non-depreciable	163,482,160	1,483,250	164,965,410
Depreciable, net	24,267,334	27,260,590	51,527,924
Total capital assets	<u>187,749,494</u>	<u>28,743,840</u>	<u>216,493,334</u>
Total assets	<u>\$ 204,693,341</u>	<u>\$ 35,904,352</u>	<u>\$ 240,597,693</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 2,289,305	\$ 99,064	\$ 2,388,369
Accrued payroll and related liabilities	168,140	40,554	208,694
Interest payable	53,375	177,282	230,657
Deposits and retentions	6,000	312,334	318,334
Deferred revenue	-	37,936	37,936
Compensated absences	555,856	155,247	711,103
Claims payable	197,000	-	197,000
Bonds payable - due within one year	235,000	320,000	555,000
Total current liabilities	<u>3,504,676</u>	<u>1,142,417</u>	<u>4,647,093</u>
Noncurrent liabilities:			
Loan payable	-	1,456,875	1,456,875
Bonds payable - due in more than one year	3,085,000	10,440,000	13,525,000
Total noncurrent liabilities	<u>3,085,000</u>	<u>11,896,875</u>	<u>14,981,875</u>
Total liabilities	<u>6,589,676</u>	<u>13,039,292</u>	<u>19,628,968</u>
Net assets:			
Invested in capital assets, net of related debt	187,749,494	16,526,965	204,276,459
Restricted for:			
Debt service	2,445,701	-	2,445,701
Low and moderate housing	2,028,181	-	2,028,181
Total restricted	<u>4,473,882</u>	<u>-</u>	<u>4,473,882</u>
Unrestricted	5,880,289	6,338,095	12,218,384
Total net assets	<u>\$ 198,103,665</u>	<u>\$ 22,865,060</u>	<u>\$ 220,968,725</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues	Governmental Activities	Business-Type Activities	Total
Functions/programs								
Governmental activities:								
General government	\$ 7,851,142	\$ 4,802,562	\$ 912,179	\$ -	\$ 5,714,741	\$ (2,136,401)	\$ -	\$ (2,136,401)
Public safety	6,698,070	378,330	1,930,647	106,739	2,415,716	(4,282,354)	-	(4,282,354)
Public works	805,897	786	15,242	-	16,028	(789,869)	-	(789,869)
Development	431,174	292,132	-	-	292,132	(139,042)	-	(139,042)
Culture and recreation	1,231,928	47,606	62,746	15,000	125,352	(1,106,576)	-	(1,106,576)
Interest expense	167,567	-	-	-	-	(167,567)	-	(167,567)
Total governmental activities	17,185,778	5,521,416	2,920,814	121,739	8,563,969	(8,621,809)	-	(8,621,809)
Business-type activities:								
Water	3,137,904	3,037,500	-	1,043,645	4,081,145	-	943,241	943,241
Sewer	651,945	721,684	-	-	721,684	-	69,739	69,739
Recreation services	445,244	303,029	-	-	303,029	-	(142,215)	(142,215)
Strike team	195,286	341,770	-	-	341,770	-	146,484	146,484
Filming	26,561	8,323	-	-	8,323	-	(18,238)	(18,238)
Total business-type activities	4,456,940	4,412,306	-	1,043,645	5,455,951	-	999,011	999,011
Total primary government	\$ 21,642,718	\$ 9,933,722	\$ 2,920,814	\$ 1,165,384	\$ 14,019,920	(8,621,809)	999,011	(7,622,798)
General revenues and transfers:								
Taxes						8,198,847	-	8,198,847
Investment income						334,793	210,854	545,647
Capital contributions						168,991	-	168,991
Transfers						94,135	(94,135)	0
Total general revenues and transfers						8,796,766	116,719	8,913,485
Change in net assets						174,957	1,115,730	1,290,687
Net assets - beginning of year, as restated						197,928,708	21,749,330	219,678,038
Net assets - end of year						\$ 198,103,665	\$ 22,865,060	\$ 220,968,725

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Balance Sheet

Governmental Funds

June 30, 2009

	Major Funds							Total Governmental Funds
	Capital Projects Funds				Special Revenue Funds			
	General	CRA Debt Service	CRA Non- Housing	CRA Low & Moderate Housing	FMAG - Santa Anita Fire Grant	Grant Funds	Other Governmental Funds	
ASSETS								
Cash and investments	\$ 2,460,525	\$ 2,010,677	\$ 414,855	\$ 344,474	\$ 330,474	\$ 686	\$ 1,641,995	\$ 7,203,686
Cash and investments with fiscal agents	-	401,575	-	-	-	-	-	401,575
Receivables, net:								
Taxes	501,249	33,449	-	-	-	599	21,312	556,609
Accounts	182,088	-	-	-	25,000	-	34,442	241,530
Interest	32,687	-	8,606	5,890	-	-	-	47,183
Grants	6,220	-	-	-	1,419,870	628,660	28,014	2,082,764
Due from other funds	996,186	-	-	-	-	-	-	996,186
Prepaid expenses	1,339	-	300	-	-	217	3,610	5,466
Land held for resale	-	-	-	1,682,998	-	-	-	1,682,998
Total assets	<u>\$ 4,180,294</u>	<u>\$ 2,445,701</u>	<u>\$ 423,761</u>	<u>\$ 2,033,362</u>	<u>\$ 1,775,344</u>	<u>\$ 630,162</u>	<u>\$ 1,729,373</u>	<u>\$ 13,217,997</u>
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 114,577	\$ -	\$ 11,242	\$ 1,265	\$ 1,771,624	\$ 36,348	\$ 72,378	\$ 2,007,434
Accrued payroll and related liabilities	115,468	-	4,552	3,916	-	-	23,214	147,150
Due to other funds	-	-	-	-	-	996,186	-	996,186
Deposits and retentions	6,000	-	-	-	-	-	-	6,000
Total liabilities	<u>236,045</u>	<u>-</u>	<u>15,794</u>	<u>5,181</u>	<u>1,771,624</u>	<u>1,032,534</u>	<u>95,592</u>	<u>3,156,770</u>
Fund balances:								
Reserved for:								
Debt service	-	2,445,701	-	-	-	-	-	2,445,701
Low and moderate housing	-	-	-	2,028,181	-	-	-	2,028,181
Unreserved, undesignated	3,454,249	-	407,967	-	3,720	(402,372)	1,633,781	5,097,345
Unreserved, designated for:								
Housing/general plan update	200,000	-	-	-	-	-	-	200,000
Emergency contingency (Santa Anita fire/mudslide costs)	290,000	-	-	-	-	-	-	290,000
Total fund balances	<u>3,944,249</u>	<u>2,445,701</u>	<u>407,967</u>	<u>2,028,181</u>	<u>3,720</u>	<u>(402,372)</u>	<u>1,633,781</u>	<u>10,061,227</u>
Total liabilities and fund balances	<u>\$ 4,180,294</u>	<u>\$ 2,445,701</u>	<u>\$ 423,761</u>	<u>\$ 2,033,362</u>	<u>\$ 1,775,344</u>	<u>\$ 630,162</u>	<u>\$ 1,729,373</u>	<u>\$ 13,217,997</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

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

June 30, 2009

<u>Total Fund Balances Governmental Funds</u>	\$ 10,061,227
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Internal service funds are used by management to charge the cost of vehicles, facilities management and water. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	191,881,146
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.	(53,375)
Bonds payable were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet	(3,320,000)
Accrual of other items: The liability for compensated absences is not accrued in the Governmental Funds, but is recorded in the Statement of Net Assets.	<u>(465,333)</u>
<u>Statement of Net Assets</u>	<u>\$ 198,103,665</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year Ended June 30, 2009

	Major Funds							Total Governmental Funds
	Capital Projects Funds				Special Revenue Funds			
	General	CRA Debt Service	CRA Non-Housing	CRA Low & Moderate Housing	FMAG - Santa Anita Fire Grant	Grant Funds	Other Governmental Funds	
Revenues:								
Taxes	\$ 6,337,382	\$ 1,410,502	\$ -	\$ -	\$ -	\$ -	\$ 450,963	\$ 8,198,847
Charges for services	86,778	-	-	-	-	-	459,190	545,968
Intergovernmental	26,874	-	-	-	1,522,565	638,398	854,715	3,042,552
Licenses and permits	605,012	-	-	-	-	-	242,965	847,977
Fines and forfeitures	189,677	-	-	-	-	-	-	189,677
Use of money and property	110,687	35,933	-	-	3,719	110,512	17,888	278,739
Miscellaneous	-	-	-	-	-	-	188,538	188,538
Total revenues	<u>7,356,410</u>	<u>1,446,435</u>	<u>-</u>	<u>-</u>	<u>1,526,284</u>	<u>748,910</u>	<u>2,214,259</u>	<u>13,292,298</u>
Expenditures:								
Current:								
General government	1,506,805	228,503	630,837	172,184	-	-	126,198	2,664,527
Public safety	3,500,861	-	-	-	2,203,335	246,869	747,005	6,698,070
Public works	208,986	-	-	-	-	-	596,911	805,897
Development	-	-	-	-	-	-	431,174	431,174
Culture and recreation	999,700	-	-	-	-	1,978	230,250	1,231,928
Debt service:								
Principal	-	225,000	-	-	-	-	-	225,000
Interest	-	171,288	-	-	-	-	-	171,288
Capital outlay	30,667	-	550	-	29,616	331,036	223,495	615,364
Total expenditures	<u>6,247,019</u>	<u>624,791</u>	<u>631,387</u>	<u>172,184</u>	<u>2,232,951</u>	<u>579,883</u>	<u>2,355,033</u>	<u>12,843,248</u>
Excess (deficiency) of revenues over (under) expenditures	1,109,391	821,644	(631,387)	(172,184)	(706,667)	169,027	(140,774)	449,050
Other financing sources (uses):								
Transfers in	314,783	-	1,219,010	732,918	710,387	229,008	663,507	3,869,613
Transfer out	(1,288,460)	(1,951,928)	-	-	-	(381,473)	(167,625)	(3,789,486)
Total other financing sources (uses)	<u>(973,677)</u>	<u>(1,951,928)</u>	<u>1,219,010</u>	<u>732,918</u>	<u>710,387</u>	<u>(152,465)</u>	<u>495,882</u>	<u>80,127</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	135,714	(1,130,284)	587,623	560,734	3,720	16,562	355,108	529,177
Fund balances:								
Beginning of year, as restated	<u>3,808,535</u>	<u>3,575,985</u>	<u>(179,656)</u>	<u>1,467,447</u>	<u>-</u>	<u>(418,934)</u>	<u>1,278,673</u>	<u>9,532,050</u>
End of year	<u>\$ 3,944,249</u>	<u>\$ 2,445,701</u>	<u>\$ 407,967</u>	<u>\$ 2,028,181</u>	<u>\$ 3,720</u>	<u>\$ (402,372)</u>	<u>\$ 1,633,781</u>	<u>\$ 10,061,227</u>

See Accompanying Notes to Basic Financial Statements

CITY OF SIERRA MADRE, CALIFORNIA

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

June 30, 2009

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$ 529,177
<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>	
Internal service funds are used by management to charge the cost of vehicles, depreciation, facilities management and water. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(748,269)
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.	3,721
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	225,000
Payment of capital leases is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets	34,562
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 the liability for the year.	<u>130,766</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>\$ 174,957</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Proprietary Funds

June 30, 2009

	Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Other Enterprise Funds	Total	
ASSETS					
Current assets:					
Cash and investments	\$ 3,113,020	\$ 1,881,534	\$ 144,100	\$ 5,138,654	\$ 4,471,829
Cash and investments with fiscal agents	1,197,079	-	-	1,197,079	-
Receivables:					
Accounts	370,612	29,717	57,699	458,028	4,495
Prepaid expenses	288	-	-	288	245,712
Total current assets	<u>4,680,999</u>	<u>1,911,251</u>	<u>201,799</u>	<u>6,794,049</u>	<u>4,722,036</u>
Noncurrent assets:					
Deferred charges	366,463	-	-	366,463	-
Capital assets					
Non-depreciable	1,483,250	-	-	1,483,250	163,482,160
Depreciable, net	23,128,643	4,131,947	-	27,260,590	24,267,334
Total capital assets	<u>24,611,893</u>	<u>4,131,947</u>	<u>-</u>	<u>28,743,840</u>	<u>187,749,494</u>
Total assets	<u>\$ 29,659,355</u>	<u>\$ 6,043,198</u>	<u>\$ 201,799</u>	<u>\$ 35,904,352</u>	<u>\$ 192,471,530</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 79,459	\$ 7,133	\$ 12,472	\$ 99,064	\$ 281,871
Accrued payroll and related liabilities	14,917	7,117	18,520	40,554	20,990
Interest payable	177,282	-	-	177,282	-
Deposits and retentions	236,262	-	76,072	312,334	-
Deferred revenues	-	-	37,936	37,936	-
Compensated absences	68,677	31,904	54,666	155,247	90,523
Claims payable	-	-	-	-	197,000
Bonds payable - due within one year	320,000	-	-	320,000	-
Total current liabilities	<u>896,597</u>	<u>46,154</u>	<u>199,666</u>	<u>1,142,417</u>	<u>590,384</u>
Noncurrent liabilities:					
Loan payable	1,456,875	-	-	1,456,875	-
Bonds payable - due in more than one year	10,440,000	-	-	10,440,000	-
Total noncurrent liabilities	<u>11,896,875</u>	<u>-</u>	<u>-</u>	<u>11,896,875</u>	<u>-</u>
Total liabilities	<u>12,793,472</u>	<u>46,154</u>	<u>199,666</u>	<u>13,039,292</u>	<u>590,384</u>
NET ASSETS					
Invested in capital assets, net of related debt	12,395,018	4,131,947	-	16,526,965	187,749,494
Unrestricted	4,470,865	1,865,097	2,133	6,338,095	4,131,652
Total net assets	<u>\$ 16,865,883</u>	<u>\$ 5,997,044</u>	<u>\$ 2,133</u>	<u>\$ 22,865,060</u>	<u>\$ 191,881,146</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Revenues, Expenditures, and Changes in Net Assets

Proprietary Funds

Year Ended June 30, 2009

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise Funds</u>		
Operating revenues:					
Charges for services	\$ 3,026,858	\$ 721,684	\$ 649,806	\$ 4,398,348	\$ 3,746,257
Licenses and permits	-	-	3,316	3,316	-
Miscellaneous	10,642	-	-	10,642	3,000
Total operating revenues	<u>3,037,500</u>	<u>721,684</u>	<u>653,122</u>	<u>4,412,306</u>	<u>3,749,257</u>
Operating expenses:					
Cost of sales and services	1,336,451	-	635,167	1,971,618	83,123
General and administrative	686,334	-	31,925	718,259	3,177,916
Public works	-	501,646	-	501,646	-
Depreciation	573,240	150,299	-	723,539	1,475,540
Total operating expenses	<u>2,596,025</u>	<u>651,945</u>	<u>667,092</u>	<u>3,915,062</u>	<u>4,736,579</u>
Operating income (loss)	441,475	69,739	(13,970)	497,244	(987,322)
Non-operating revenues (expenses):					
Federal grants	1,043,645	-	-	1,043,645	-
Investment income	183,169	21,173	6,512	210,854	56,054
Interest expense	(541,878)	-	-	(541,878)	-
Total non-operating revenues (expenses)	<u>684,936</u>	<u>21,173</u>	<u>6,512</u>	<u>712,621</u>	<u>56,054</u>
Income (loss) before transfers	1,126,411	90,912	(7,458)	1,209,865	(931,268)
Capital contributions	-	-	-	-	168,991
Transfers in	-	-	135,148	135,148	359,053
Transfers out	(69,194)	(13,605)	(146,484)	(229,283)	(345,045)
Change in net assets	1,057,217	77,307	(18,794)	1,115,730	(748,269)
Net assets:					
Beginning of year, as restated	<u>15,808,666</u>	<u>5,919,737</u>	<u>20,927</u>	<u>21,749,330</u>	<u>192,629,415</u>
End of year	<u>\$ 16,865,883</u>	<u>\$ 5,997,044</u>	<u>\$ 2,133</u>	<u>\$ 22,865,060</u>	<u>\$ 191,881,146</u>

See Accompanying Notes to Basic Financial Statement

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2009

	Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Receipts from customers	\$ 4,421,206	\$ 3,743,211
Payments to suppliers	(2,336,548)	(25,866)
Payments to employees	(729,422)	(3,198,127)
Other receipts (payments)	(441,046)	(14,727)
Prior period adjustments for interest allocation	(118,161)	373,644
Net cash provided by operating activities	796,029	878,135
Cash flows from non-capital financing activities:		
Operating subsidies and transfers to other funds	(94,135)	14,008
Net cash (used by) provided by financing activities	(94,135)	14,008
Cash flows from capital and related financing activities:		
Receipts from federal grants	1,043,645	-
Capital contributions	-	168,991
Purchases of capital assets	(1,817,074)	(252,827)
Principal paid on capital debt	(300,000)	-
Interest paid on capital debt	(541,878)	-
Net cash (used by) capital and related financing activities	(1,615,307)	(83,836)
Cash flows from investing activities:		
Interest and dividends	210,854	56,054
Net cash provided by investing activities	210,854	56,054
Net (decrease) increase in cash flows	(702,559)	864,361
Cash and cash equivalents - beginning of the year	7,038,292	3,607,468
Cash and cash equivalents - end of the year	\$ 6,335,733	\$ 4,471,829
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 497,244	\$ (987,322)
provided by operating activities:		
Amortization	723,539	1,475,540
Prior period adjustments for interest allocation	(118,161)	373,644
Change in assets and liabilities:		
Receivables, net	19,543	(3,046)
Prepaid expenses	-	(17,727)
Deferred charges	25,620	-
Accounts payable	(364,930)	57,257
Accrued payroll and related liabilities	(4,011)	6,200
Interest payable	(5,016)	-
Deposits and retentions	38,095	-
Deferred revenues	(8,742)	-
Compensated absences	(7,152)	(26,411)
Net cash provided by operating activities	\$ 796,029	\$ 878,135

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Fiduciary Funds

Year Ended June 30, 2009

ASSETS	<u>Agency Funds</u>
Cash and investments	\$ 499,122
Cash and investments with fiscal agents	77,011
Accounts receivable	3,016
Total assets	<u><u>\$ 579,149</u></u>
LIABILITIES	
Accounts payable	\$ 175,549
Deposits and retentions	403,600
Total liabilities	<u><u>\$ 579,149</u></u>

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements

June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sierra Madre, California (the “City”), was incorporated on February 2, 1907. The City operates under a Council-Manager form of government. The City’s major operations include police protection, fire suppression and prevention, emergency medical response, recreation programs, senior services, local transportation, teen activities, planning and permit processing, water utility, public library, redevelopment, streets, parks, and pool maintenance, sewer and storm drain maintenance, and general government and administrative services.

The basic financial statements of the City 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 City’s accounting policies are described below.

A. Financial Reporting Entity

The reporting entity, “City of Sierra Madre”, is comprised of the various funds of the City of Sierra Madre (City), the Sierra Madre Community Redevelopment (Agency), and the Sierra Madre Public Finance Authority (Authority). As required by generally accepted accounting principles in the United States of America, these financial statements present the City of Sierra Madre (the primary government) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City. These entities are legally separate from each other. However, the City of Sierra Madre elected officials have a continuing oversight responsibility over the Agency and Authority.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit’s balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit’s governing body is substantially the same as the City’s or the component unit provides services almost entirely to the City.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Blended Component Units:

The Sierra Madre Community Redevelopment Agency (Agency):

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 Sierra Madre Public Financing Authority (Authority):

The Authority is a joint powers authority organized pursuant to Government Code Section 6500 of the State of California. The Authority exists pursuant to a Joint Exercise of Powers Agreement dated November 1972, between the City and the Agency. Its purpose is facilitating the issuance of debt instruments, loans, and other financing to the City or Agency for the construction of public improvements. It has no separate existence and has acted as a conduit between the issuer (the Agency and/or the City) and the underwriters.

Organizations Other Than Component Units:

Other governmental agencies, such as the County of Los Angeles, the Pasadena Unified School District, etc., provide services within the City. However, each of these agencies is governed by an independently elected governing board. Accordingly, their financial information is not included within the scope of this financial report, because the City Council does not have a continuing oversight responsibility over them, nor are their financial operations closely related thereto.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets 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 are reported as program revenues for the City 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 except those representing internal balances of the City, which are presented as internal balances and eliminated in the total primary government column. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in total net assets.

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 City has presented all major funds that met the applicable criteria.

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 those 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 City are property tax, sales tax, franchise taxes, 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 resources, the deferred revenue is removed and revenue is recognized.

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.

Proprietary Fund Financial Statements

Proprietary fund financial statement include a Statement of Net Assets, A Statement of Revenues Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for the major proprietary fund and the non-major funds aggregated

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increase (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are recognized when they are earned; expenses are recognized when they are incurred. Unbilled service receivables are recorded as accounts receivable and as revenue when earned.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For proprietary type activities, the City has elected to apply all applicable Government Accounting Standards Board (GASB) pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

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 non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Cash, Cash Equivalents and Investments:

The City pools its available cash for investment purposes. The City has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent, as well as 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. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

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 quotation are readily available or exceed cost. However, if the liquidity needs of the City were to require that investments be sold at a loss subsequent to year-end, the decline in value would be recorded as a loss at year-end.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 Disclosures (an amendment of GASB No. 3), certain disclosure requirements, if applicable, are provided for deposit and investment risk in the following areas:

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

D. 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 are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance the City's current operations.

E. Prepaid Expenses:

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Property Tax:

Property tax in California is levied in accordance with Article 13B of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to State law to the appropriate units of local government. Property tax revenue is recognized in the fiscal year for which taxes have been levied, provided that the revenue is collected in the current period or will be collected within 60 days thereafter.

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

G. Capital Assets

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB No. 34, the City has included all capital assets as of June 30, 2009 in its statement of net assets.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. The City's capitalization policy is \$5,000 and above for fixed assets; \$10,000 and above for building improvements; \$20,000 and above for buildings; and \$50,000 and above for infrastructure assets. Capital assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Fire hydrants	50 years
Park Structures	25 years
Wells	50 years
Manholes	60 years
Reservoirs	75 years
Meters	30 years
Sewer Pipelines	60 years

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Water Pipelines	50 years
Spreading Basins	50 years
Pump Stations	60 years
Pressure Reducing Systems	40 years
Buildings	50 years
Infrastructure:	
Streets	30-50 years
Bridges	40 years

H. Claims Payable:

The City records liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" (IBNR) claims. There is no fixed payment schedule to pay these liabilities.

I. Compensated Absences:

All vested vacation and compensatory leave time is recognized as an expense and as a liability in the proprietary type funds 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. Accrued vacation and compensatory time relating to governmental funds is only included as a liability in the Statement of Net Assets as those amounts are payable from future resources and within the respective balance sheets for amounts relating to proprietary funds types.

J. Deferred Charges:

For governmental fund types, 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, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

For proprietary fund types, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using an effective interested method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. 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.

L. Use of Restricted/Unrestricted Net Assets:

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

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.

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.

M. 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.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

2. CASH AND INVESTMENTS

Cash and investments as reported in the accompanying balance sheet as of June 30, 2009 are as follows:

Cash and Investments:	
Government-Wide	\$ 16,814,169
Fiduciary	499,122
Cash and Investments Held	
by Fiscal Agent:	
Government-Wide	1,598,654
Fiduciary	77,011
Total	<u>\$ 18,988,956</u>

Cash and investments as of June 30, 2009 consisted of the following:

Agency Pooled Amounts	\$ 4,604,978
Deposits with Fiscal Agents	1,675,665
Investments with LAIF	12,708,313
Total	<u>\$ 18,988,956</u>

Pooled Cash

Investments in the City of Sierra Madre cash pool cannot be assigned a credit risk category because the City 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 City's investment policies. City Pooled amounts to the City of Sierra Madre amounted to \$4,604,978.

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, 2009, the City's balance was \$12,708,313.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

2. CASH AND INVESTMENTS (continued)

Investments Authorized by the Entity's Investment Policy

The City's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The City'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 City'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

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.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements

June 30, 2009

(Continued)

2. CASH AND INVESTMENTS (continued)

Concentration of Credit

The investment policy of the City 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 City 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 City since custodial credit risk is not applicable to LAIF or bond trustee accounts.

Investment in State Investment Pool

The City 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 City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City'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. INTERFUND TRANSACTIONS

At June 30, 2009, the City had the following transfers in/out which arise in the normal course of operations:

	<u>Transfers In</u>
	Business-Type
<u>Transfers Out</u>	Activities
Governmental Activities	\$ 94,135

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

4. FUND BALANCE DEFICITS

The following is a listing of the fund balance deficits at June 30, 2009:

Special Revenue Funds:	
Open Space	(487,327)
Lighting District - Zone B	(2,494)

A. Open Space Fund has a negative fund balance of (\$487,327) resulting from the recent purchase of Goldberg Park. The Fund has a Due To the General Fund liability and the liability will be repaid from the sale of the Nursery School mortgage.

B. Lighting District – Zone B has a negative fund balance of (\$2,494) that will be corrected with a transfer from the Facilities Internal Service Fund in FY 2009-10.

5. DEFERRED CHARGES

The Authority incurred bond issuance costs of in connection with the issuance of the Sierra Madre Financing Authority (Authority) Water Revenue Refunding Bonds, Series 1998A and the Water Revenue Parity Bonds, Series 2003. The issuance costs are being amortized over the life of the Bonds, using the effective interest method. The following is a summary of bond issuance costs at June 30, 2009:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
<i>Water Revenue Parity</i>				
<i>Bonds, Series 2003</i>	\$ 392,084	\$ -	\$ (25,621)	\$ 366,463
Total	<u>\$ 392,084</u>	<u>\$ -</u>	<u>\$ (25,621)</u>	<u>\$ 366,463</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

6. INFRASTRUCTURE AND FIXED ASSETS

At June 30, 2009 the City's capital assets consisted of the following:

	<u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
Non-Depreciable assets:			
Land	\$ 162,275,945	\$ 1,483,250	\$ 163,759,195
Trees	1,206,215	-	1,206,215
Total non-depreciable assets	<u>163,482,160</u>	<u>1,483,250</u>	<u>164,965,410</u>
Depreciable assets:			
Structures and improvements	11,297,991	821,290	12,119,281
Machinery and equipment	2,229,167	8,154,747	10,383,914
Infrastructure	23,057,000	33,620,379	56,677,379
Total depreciable assets	<u>36,584,158</u>	<u>42,596,416</u>	<u>79,180,574</u>
Total capital assets	<u>200,066,318</u>	<u>44,079,666</u>	<u>244,145,984</u>
Less accumulated depreciation	<u>12,316,824</u>	<u>15,335,826</u>	<u>27,652,650</u>
Total net capital assets	<u>\$ 187,749,494</u>	<u>\$ 28,743,840</u>	<u>\$ 216,493,334</u>

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Non-Depreciable assets:				
Land	\$ 162,275,945	\$ -	\$ -	\$ 162,275,945
Trees	1,206,215	-	-	1,206,215
Total non-depreciable assets	<u>163,482,160</u>	<u>-</u>	<u>-</u>	<u>163,482,160</u>
Depreciable assets:				
Structures and improvements	12,212,432	260,161	1,174,602	11,297,991
Machinery and equipment	1,976,340	252,827	-	2,229,167
Infrastructure	23,057,000	-	-	23,057,000
Total depreciable assets	<u>37,245,772</u>	<u>512,988</u>	<u>1,174,602</u>	<u>36,584,158</u>
Total capital assets	<u>200,727,932</u>	<u>512,988</u>	<u>1,174,602</u>	<u>200,066,318</u>
Less accumulated depreciation	<u>11,755,724</u>	<u>1,207,131</u>	<u>646,031</u>	<u>12,316,824</u>
Total net capital assets	<u>\$ 188,972,208</u>	<u>\$ (694,143)</u>	<u>\$ 528,571</u>	<u>\$ 187,749,494</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

6. INFRASTRUCTURE AND FIXED ASSETS (continued)

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Non-Depreciable assets:				
Land	\$ 1,483,250	\$ -	\$ -	\$ 1,483,250
Total non-depreciable assets	<u>1,483,250</u>	<u>-</u>	<u>-</u>	<u>1,483,250</u>
Depreciable assets:				
Structures and improvements	821,290	-	-	821,290
Machinery and equipment	8,154,747	-	-	8,154,747
Infrastructure	31,828,923	1,791,456		33,620,379
Total depreciable assets	<u>40,804,960</u>	<u>1,791,456</u>	<u>-</u>	<u>42,596,416</u>
Total capital assets	<u>42,288,210</u>	<u>1,791,456</u>	<u>-</u>	<u>44,079,666</u>
Less accumulated depreciation	<u>14,637,906</u>	<u>697,920</u>	<u>-</u>	<u>15,335,826</u>
Total net capital assets	<u>\$ 27,650,304</u>	<u>\$ 1,093,536</u>	<u>\$ -</u>	<u>\$ 28,743,840</u>

7. LONG-TERM DEBT

A. Governmental Activities:

The following is a summary of the long-term debt transaction for the City of Sierra Madre for the year ended June 30, 2009:

	Outstanding June 30, 2008	Additions	Deletions	Outstanding June 30, 2009
<i>Tax Increment Revenue Refunding Bond Series 1998A</i>	\$ 3,545,000	\$ -	\$ (225,000)	\$ 3,320,000
Total	<u>\$ 3,545,000</u>	<u>\$ -</u>	<u>\$ (225,000)</u>	<u>\$ 3,320,000</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

7. LONG-TERM DEBT (continued)

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

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

The outstanding balance of the Tax Increment Revenue Refunding Bonds, Series 1998A was \$3,320,000 at June 30, 2009. 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>
2010		235,000	160,125	395,125
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
2015-2019		1,650,000	308,750	1,958,750
2020		380,000	9,500	389,500
Total		<u>\$ 3,320,000</u>	<u>\$ 993,250</u>	<u>\$ 4,313,250</u>

B. Business-type activities:

The following is a summary of long-term debt transactions of Enterprise Funds for the City of Sierra Madre for the year ended June 30, 2009.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

7. LONG-TERM DEBT (continued)

	<u>Outstanding July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding July 1, 2009</u>
<i>Water Revenue Refunding Bonds, Series 1998A</i>	\$ 4,310,000	\$ -	\$ (300,000)	\$ 4,010,000
<i>Water Revenue Parity Bonds, Series 2003</i>	6,750,000	-	-	6,750,000
<i>Loan Payable to San Gabriel Valley Municipal Water District</i>	1,456,875	-	-	1,456,875
Total	<u>\$ 12,516,875</u>	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ 12,216,875</u>

Sierra Madre Water Revenue Refunding Bonds, Series 1998A—Original issue \$6,740,000:

In May 1998, the City entered into an installment agreement with a component unit of the City, the Sierra Madre Financing Authority, to issue bonds totaling \$6,740,000. The purpose of the Water Revenue Refunding Bonds was to assist the City in prepayment of its City Loan Agreement, dated November 1, 1988, by and between the City and the Authority. These bonds mature annually through November 1, 2018 in amounts ranging from \$200,000 to \$495,000 as of November 1, 1999. The interest on the bonds is payable semi-annually on each May 1 and November 1, as of November 1, 1998. The interest rates of the bonds range from 3.65% to 5.00%. The bonds are secured by and payable solely from revenues of the City's Water Enterprise Fund.

The outstanding balance of the Water Revenue Refunding Bonds, Series 1998A was \$4,010,000 at June 30, 2009. Annual payments on these bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	320,000	192,500	512,500
2011	335,000	176,125	511,125
2012	350,000	159,000	509,000
2013	370,000	141,000	511,000
2014	390,000	122,000	512,000
2015-2019	2,245,000	291,875	2,536,875
Total	<u>\$ 4,010,000</u>	<u>\$ 1,082,500</u>	<u>\$ 5,092,500</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements

June 30, 2009

(Continued)

7. LONG-TERM DEBT (continued)

Sierra Madre Water Revenue Parity Bonds, Series 2003 –Original issue \$6,750,000:

In August 2003, the City entered into an installment agreement with a component unit of the City, the Sierra Madre Financing Authority, to issue bonds totaling \$6,750,000. The purpose of the Water Revenue Refunding Bonds was to finance certain improvements to the water production, treatment and distribution system of the City. These bonds mature annually through November 1, 2018 in amounts ranging from \$310,000 to \$625,000. The interest on the bonds is payable semi-annually on each May 1 and November 1, as of November 1, 2003. The interest rates of the bonds range from 5.14% to 5.25 %. The bonds are secured by and payable solely from revenues of the City’s Water Enterprise Fund. The bonds are subject to special mandatory redemption, mandatory sinking fund redemption and redemption from optional prepayment of installment payments prior to maturity.

The outstanding balance of the Water Revenue Parity Bonds, Series 2003 was \$6,750,000 at June 30, 2009. Annual payments on these bonds are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2010	-	339,345	339,345
2011	-	339,345	339,345
2012	-	339,345	339,345
2013	-	339,345	339,345
2014	-	339,345	339,345
2015-2019	-	1,696,725	1,696,725
2020-2024	1,715,000	1,491,100	3,206,100
2025-2029	2,200,000	1,003,975	3,203,975
2030-2034	<u>2,835,000</u>	<u>373,433</u>	<u>3,208,433</u>
Total	<u>\$ 6,750,000</u>	<u>\$ 6,261,958</u>	<u>\$ 13,011,958</u>

Loan Payable to San Gabriel Valley Municipal Water District - \$1,456,875:

The City has identified equipment needed to help assure a reliable water supply, by replacing its Miramonte Reservoir and Booster Station (“Reservoir Project”). Therefore, the City entered into a loan agreement with the San Gabriel Valley Municipal Water District to fund a portion of the reservoir cost in the amount of \$1,456,875. Proceeds of the loan are disbursed to the City during the duration of the Reservoir Project on a reimbursement basis. Payments are due in annual installments of \$145,687.50 for ten years.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

7. LONG-TERM DEBT (continued)

Notice of Completion was March 15, 2009 and was approved by City Council on April 28, 2009. The SGVMW has extended the first payment terms until July 1, 2011, pending the approval of new water rates.

8. SELF-INSURANCE JOINT POWERS AUTHORITY

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

B. Self-Insurance Programs of the Authority

General Liability: Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$2,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$2,000,000 to \$50,000,000 are paid under reinsurance and excess insurance policies (4b) subject to a \$3,000,000 annual aggregate deductible (4c) and a quota-sharing agreement whereby the Authority is financially responsible for 40% of losses occurring within the \$2,000,000 to \$10,000,000 layer. The costs associated with 4a-c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence. Costs of covered claims for subsidence losses are paid by excess insurance with the following sub-limits per member: \$25,000,000 per occurrence with a \$15,000,000 annual aggregate.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

8. SELF-INSURANCE JOINT POWERS AUTHORITY (continued)

Workers' Compensation: The City also participates in the workers' compensation pool administered by the Authority. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued.

A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000; (3) losses from \$100,000 to \$2,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

Employer's Liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 are pooled among members.

C. Purchased Insurance

Environmental Insurance: The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Sierra Madre. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50,000,000 for the 3-year period from July 1, 2008 through July 1, 2011. Each member of the Authority has a \$10,000,000 limit during the 3-year term of the policy.

Property Insurance: The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the Authority. The City's property currently has all-risk property insurance protection in the amount of \$42,193,960. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

8. SELF-INSURANCE JOINT POWERS AUTHORITY (continued)

Crime Insurance: The City purchases crime insurance coverage in the amount of \$1,000,000 with \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Special Event Tenant User Liability Insurance: The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on City property. The insurance premium is paid by the tenant user and is paid to the City of Sierra Madre according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

D. Adequacy of Protection

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Payments and Decreases in Estimates	Claims Payable June 30
2007	\$ 197,000	\$ -	\$ -	\$ 197,000
2008	197,000	-	-	197,000
2009	197,000	-	-	197,000

9. DEFERRED COMPENSATION PLAN

The City has made available to its employees a deferred compensation plan, whereby employees authorize the City to withhold funds from salaries to be invested in individual investment accounts. Funds may be withdrawn by participants upon termination of employment or retirement. The City makes no contributions under the plan. The amount held by trustees for the employees at June 30, 2009 was \$1,139,010 and in accordance with GASB 32 is not recorded in the books of the City.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

10. RETIREMENT PLAN

Plan Description: PERS Defined Benefit Pension Plan

The City of Sierra Madre contributes to the California Public Employees Retirement System (PERS), an agency 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 its executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% of their covered salary except for safety employees who are required to contribute 9% for safety of their annual covered salary. The City makes the contributions required of all City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 15.778% of annual covered payroll for regular employees and 29.491% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2009, the City's annual pension cost of \$1,137,756 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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 annual salary increases that vary by duration of service, ranging from 3.25% to 14.45% 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 3.00%. 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 (smoothed market value).

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

10. RETIREMENT PLAN (continued)

Three-Year Trend Information for PERS (City)

Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	742,374	100%	-
2008	957,809	100%	-
2009	1,137,756	100%	-

Miscellaneous

Pool's Employer Contribution Funding History (\$Amounts in Thousands)
(Most recent Information Available)

Valuation Date	Actuarial Value of Assets (AVA) (A)	Accrued Liabilities (AL) (B)	Unfunded Liabilities (UL) (B-A)	Funded Ratio (AVA/AL) (A/B)	Annual Covered Payroll (C)	UL as a % of Payroll [(B-A)/C]
2006	787,759	912,989	125,230	86.3%	200,320	62.5%
2007	1,149,247	1,315,454	166,207	87.4%	289,090	57.5%
2008	1,337,708	1,537,910	200,202	87.0%	333,308	60.1%

Safety

Pool's Employer Contribution Funding History (\$Amounts in Thousands)
(Most recent Information Available)

Valuation Date	Actuarial Value of Assets (AVA) (A)	Accrued Liabilities (AL) (B)	Unfunded Liabilities (UL) (B-A)	Funded Ratio (AVA/AL) (A/B)	Annual Covered Payroll (C)	UL as a % of Payroll [(B-A)/C]
2006	1,252,059	1,473,285	221,226	85.0%	177,089	124.9%
2007	1,422,143	1,648,160	226,017	86.3%	200,537	112.7%
2008	1,517,610	1,755,559	237,949	86.4%	210,591	113.0%

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

11. COMMITMENTS AND CONTINGENCIES

A. Grant Audits:

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

B. Litigation:

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

C. Compliance with Laws and Regulations:

The City has not complied with California State Controller's requirements by not filing its Community Redevelopment Agency audited financial statements in a timely manner. Management is working to prepare and file the audited financial statements to fulfill such regulatory requirements.

12. NET ASSETS RESTATEMENT

The City Council approved Resolution 09-23 to re-allocate interest earnings previously recorded as revenue in the General Fund, Water Fund and Community Redevelopment Agency Funds to all positive cash funds for the fiscal year ending June 30, 2006; June 30, 2007; and June 30, 2008. In addition, the City made several other adjustments to fund balances subsequent to closing the June 30, 2008 books, therefore resulting in fund balance restatements. The following table provides a reconciliation of the fund balances as of June 30, 2008, as previously reported, to fund balances as of June 30, 2008, as restated.

Government-Wide Financial Statements:

Fund balances as of June 30, 2008, as previously reported	\$ 219,575,038
Additions:	<u>103,000</u>
Fund balances as of June 30, 2008, as restated	<u><u>\$ 219,678,038</u></u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2009
(Continued)

12. NET ASSETS RESTATEMENT (continued)

Governmental Fund Financial Statements:

Fund balances as of June 30, 2008, as previously reported	\$ 9,684,533
Reductions:	<u>(152,483)</u>
Fund balances as of June 30, 2008, as restated	<u>\$ 9,532,050</u>

Proprietary Fund Financial Statements- *Enterprise*:

Fund balances as of June 30, 2008, as previously reported	\$ 21,867,491
Reductions:	<u>(118,161)</u>
Fund balances as of June 30, 2008, as restated	<u>\$ 21,749,330</u>

Proprietary Fund Financial Statements- *Internal Service*:

Fund balances as of June 30, 2008, as previously reported	\$ 192,255,771
Additions:	<u>373,644</u>
Fund balances as of June 30, 2008, as restated	<u>\$ 192,629,415</u>

13. SUBSEQUENT EVENT

State of California Condition

Subsequent to June 30, 2009, the State of California has decided to borrow, to defer certain revenue payments and to take certain funds from local governments including the City. These amounts are significant to the City and are as follows:

8% of Property Taxes - \$331,579
Redevelopment Agency - \$654,098

Property Taxes borrowed by the State for fiscal year 2009-2010 were nearly \$2 billion statewide to help the State's budget shortfall. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property taxes and to pay the full cost of the sale, known as securitization. The City has participated in the securitization program and sold its repayment obligation to California Communities. By participating in the securitization program, the City will receive payments equal to 100% of the tax reduction on January 15, 2010 and May 3, 2010. Redevelopment Agency funds have been estimated for a two year takeaway by the State. This decision is to be litigated by the California Redevelopment Association and other parties with hope that this will be considered unconstitutional as was last year's State proposed takeaway.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIERRA MADRE, CALIFORNIA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amount	
Revenues:				
Taxes	\$ 5,406,354	\$ 5,725,879	\$ 6,337,382	\$ 611,503
Charges for services	196,449	196,449	86,778	(109,671)
Intergovernmental	-	8,000	26,874	18,874
Licenses and permits	244,289	502,989	605,012	102,023
Fines and forfeitures	42,182	42,182	189,677	147,495
Use of money and property	70,000	90,870	110,687	19,817
Other	15,900	15,900	-	(15,900)
Total revenues	5,975,174	6,582,269	7,356,410	774,141
Expenditures:				
Current:				
General government	1,562,400	1,562,400	1,506,805	55,595
Public safety	3,402,551	3,402,551	3,500,861	(98,310)
Public works	264,225	264,225	208,986	55,239
Recreation, environmental and culture	1,275,402	1,275,402	999,700	275,702
Capital outlay	40,075	40,075	30,667	9,408
Total expenditures	6,544,653	6,544,653	6,247,019	297,634
Excess (deficiency) of revenues over (under) expenditures	(569,479)	37,616	1,109,391	1,071,775
Other financing sources (uses):				
Transfers in	127,100	127,100	314,783	187,683
Transfer out	(673,901)	(673,901)	(1,288,460)	(614,559)
Total other financing sources (uses)	(546,801)	(546,801)	(973,677)	(426,876)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,116,280)	(509,185)	135,714	644,899
Fund balances:				
Beginning of year	3,808,535	3,808,535	3,808,535	-
End of year	\$ 2,692,255	\$ 3,299,350	\$ 3,944,249	\$ 644,899

See Accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Debt Service

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amount	
Revenues:				
Taxes	\$ 1,210,375	\$ 1,210,375	\$ 1,410,502	\$ 200,127
Use of money and property	-	-	35,933	35,933
Total revenues	1,210,375	1,210,375	1,446,435	236,060
Expenditures:				
Current:				
General government	105,290	105,290	228,503	(123,213)
Debt service:				
Principal	-	-	225,000	(225,000)
Interest	-	-	171,288	(171,288)
Total expenditures	105,290	105,290	624,791	(519,501)
Excess (deficiency) of revenues over (under) expenditures	1,105,085	1,105,085	821,644	(283,441)
Other financing sources (uses):				
Transfer out	-	-	(1,951,928)	(1,951,928)
Total other financing sources (uses)	-	-	(1,951,928)	(1,951,928)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,105,085	1,105,085	(1,130,284)	(2,235,369)
Fund balances:				
Beginning of year	3,575,985	3,575,985	3,575,985	-
End of year	\$ 4,681,070	\$ 4,681,070	\$ 2,445,701	\$ (2,235,369)

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Non-Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Use of money and property	\$ 12,592	\$ 12,592	\$ -	\$ (12,592)
Other	3,000	3,000	-	(3,000)
Total revenues	<u>15,592</u>	<u>15,592</u>	<u>-</u>	<u>(15,592)</u>
Expenditures:				
Current:				
General government	971,786	971,786	630,837	340,949
Capital outlay	400,000	400,000	550	399,450
Total expenditures	<u>1,371,786</u>	<u>1,371,786</u>	<u>631,387</u>	<u>740,399</u>
Excess (deficiency) of revenues over (under) expenditures	(1,356,194)	(1,356,194)	(631,387)	724,807
Other financing sources (uses):				
Transfers in	-	-	1,219,010	1,219,010
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,219,010</u>	<u>1,219,010</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,356,194)	(1,356,194)	587,623	1,943,817
Fund balances:				
Beginning of year	<u>(179,656)</u>	<u>(179,656)</u>	<u>(179,656)</u>	<u>-</u>
End of year	<u>\$ (1,535,850)</u>	<u>\$ (1,535,850)</u>	<u>\$ 407,967</u>	<u>\$ 1,943,817</u>

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
General government	186,140	186,140	172,184	13,956
Total expenditures	186,140	186,140	172,184	13,956
Excess (deficiency) of revenues over (under) expenditures	(186,140)	(186,140)	(172,184)	13,956
Other financing sources (uses):				
Transfers in	-	-	732,918	732,918
Total other financing sources (uses)	-	-	732,918	732,918
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(186,140)	(186,140)	560,734	746,874
Fund balances:				
Beginning of year	1,467,447	1,467,447	1,467,447	-
End of year	<u>\$ 1,281,307</u>	<u>\$ 1,281,307</u>	<u>\$ 2,028,181</u>	<u>\$ 746,874</u>

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

FMAG - Santa Anita Fire Grant

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

Budgeted Amounts

	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 1,522,565	\$ 1,522,565
Use of money and property	-	-	3,719	3,719
Total revenues	<u>-</u>	<u>-</u>	<u>1,526,284</u>	<u>1,526,284</u>
Expenditures:				
Current:				
Public safety	-	-	2,203,335	(2,203,335)
Capital outlay	-	-	29,616	(29,616)
Total expenditures	<u>-</u>	<u>-</u>	<u>2,232,951</u>	<u>(2,232,952)</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(706,667)	(706,667)
Other financing sources (uses):				
Transfers in	-	-	710,387	710,387
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>710,387</u>	<u>710,387</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	3,720	3,720
Fund balances:				
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,720</u>	<u>\$ 3,720</u>

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Grant Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amount	
Revenues:				
Intergovernmental	\$ 129,535	\$ 129,535	\$ 638,398	\$ 508,863
Use of money and property	55,000	55,000	110,512	55,512
Total revenues	184,535	184,535	748,910	564,375
Expenditures:				
Current:				
Public safety	45,395	45,395	246,869	(201,474)
Public works	845,000	845,000	-	845,000
Recreation, environmental and culture	10,696	10,696	1,978	8,718
Capital outlay	75,367	75,367	331,036	(255,669)
Total expenditures	976,458	976,458	579,883	396,575
Excess (deficiency) of revenues over (under) expenditures	(791,923)	(791,923)	169,027	960,950
Other financing sources (uses):				
Transfers in	-	-	229,008	229,008
Transfer out	(570,000)	(570,000)	(381,473)	188,527
Total other financing sources (uses)	(570,000)	(570,000)	(152,465)	417,535
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,361,923)	(1,361,923)	16,562	1,378,485
Fund balances:				
Beginning of year	(418,934)	(418,934)	(418,934)	-
End of year	\$ (1,780,857)	\$ (1,780,857)	\$ (402,372)	\$ 1,378,485

See Accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Required Supplementary Information

Year Ended June 30, 2009

(1) BUDGETS AND BUDGETARY ACCOUNTING

The City adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The City Manager or a 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 City Council. 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 City of Sierra Madre.

(2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures for the year ended June 30, 2009 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u> <u>Variance</u>
General Fund:			
Public Safety	3,402,551	3,500,861	(98,310)
Debt Service:			
General Government	105,290	228,503	(123,213)
Principal	-	225,000	(225,000)
Interest	-	171,288	(171,288)
FMAG - Santa Anita Fire Grant			
Public Safety	-	2,203,335	(2,203,335)
Capital Outlay	-	29,616	(29,616)
Grants:			
Public Safety	45,395	246,869	(201,474)
Capital Outlay	75,367	331,036	(255,669)