SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY

SIERRA MADRE, CALIFORNIA

Basic Financial Statements and Independent Auditors' Reports

For the year ended June 30, 2009

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June 30, 2009

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Sierra Madre (Agency), a component unit of the City of Sierra Madre, California as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Redevelopment Agency funds to be taken for fiscal year 2010. These amounts are significant to the Agency and may affect its ongoing operations. Certain lawsuits are in process to stop such State actions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in the financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2010, on our consideration of the Agency's internal control over financial reporting and 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 considered in assessing the results of our audit.

The Agency has not presented a management's discussion and analysis, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The budgetary comparison schedules and computation of funds' excess/surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 21, 2010 Arcadia, California R. Edward Beranek

Accountancy Corporation

Certified Public Accountants

Ed Beremer

Statement of Net Assets

June 30, 2009

June 30, 2007	Governmental Activities
Assets:	
Current assets:	
Cash and investments	\$ 2,770,006
Cash and investments with fiscal agents	401,575
Receivables:	
Taxes	33,449
Interest	14,496
Prepaid expenses	300
Land held for resale	1,682,998
Total current assets	4,902,824
Total assets	4,902,824
<u>Liabilities:</u>	
Current liabilities:	
Accounts payable	12,507
Accrued payroll and related liabilities	8,468
Interest payable	53,375
Compensated absences	18,079
Bonds payable - due within one year	235,000
Total current liabilities	327,429
Non-current liabilities:	
Bonds payable - due in more than one year	3,085,000
Total non-current liabilities	3,085,000
Total liabilities	3,412,429
Net assets:	
Restricted for:	
Debt service	2,445,701
Low and moderate housing	2,028,181
Total restricted	4,473,882
Unrestricted	(2,983,487)
Total net assets	\$ 1,490,395

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2009

			R	et (Expense) evenue and anges in Net Assets			
	Expenses	Charges for Current Services	Oper Grant Contril	s and	Capital Grants and Contributions		vernmental Activities
Functions/programs							
Governmental activities: Economic development Interest on long term debt Total governmental activities	\$ 1,035,138 167,567 1,202,705	\$ - - -	\$	- - -	\$ - - -	\$	(1,035,138) (167,567) (1,202,705)
	General revenue	s and transfers:					
	Property taxes						1,410,502
	Investment incom	ie					35,933
	Total	general revenues a	and transfer	rs			1,446,435
	Change in net ass	ets					243,730
	Net assets - begin	ning of year, as re	stated				1,246,665
	Net assets - end o	f year				\$	1,490,395

Balance Sheet

Governmental Funds

June 30, 2009

ASSETS Cash and investments \$ 2,010,677 \$ 414,855 \$ 344,474 \$ 2,770,006 Cash and investments with fiscal agents \$ 2,010,677 \$ 414,855 \$ 344,474 \$ 2,770,006 Cash and investments with fiscal agents \$ 401,575 - 2 - 2 - 401,575 401,575 Receivables, net: Taxes 33,449 - 3 - 2 - 3 - 30 14,496 Interest - 2 - 3 - 300 - 5 - 3 - 30 14,496 Prepaid expenses - 3 - 30 - 2 - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LABILITIES AND FUND BALANCE LAGCounts payable \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 3 - 5,52 3,916 8,468 Total liabilities - 3 - 5,594 5,181 2,097,181 Fund balances: - 2,445,701 - 3 - 5,594 5,181 2,028,181 Low and moderate housing - 2,445,701 - 3 - 2,028,181 2,028,184 4,079,671 - 2,028,181 4,088,184				Capital Project Funds					
Cash and investments \$ 2,010,677 \$ 414,855 \$ 344,474 \$ 2,770,006 Cash and investments with fiscal agents 401,575 - - 401,575 Receivables, net: 33,449 - - 33,449 Interest 33,449 - - 33,449 Interest 8,606 5,890 14,496 Prepaid expenses 300 - 300 Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities \$ - \$ 11,242 \$ 1,265 12,507 Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: - 2,445,701 - - - 2,4		D	ebt Service	No	n-Housing	Lov		Go	vernmental
Cash and investments with fiscal agents 401,575 - - 401,575 Receivables, net: Taxes 33,449 - - 33,449 Interest - 8,606 5,890 14,496 Prepaid expenses - 300 - 300 Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: - 11,242 \$ 1,265 12,507 Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: - 2,445,701 - - 2,445,701 Debt service 2,445,701 - - 2,028,181 Low and moderate housing - 407,967	ASSETS								
Receivables, net: Taxes 33,449 - - 33,449 Interest - 8,606 5,890 14,496 Prepaid expenses - 300 - 300 Land held for resale - - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: - \$ 11,242 \$ 1,265 12,507 Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: - 2,445,701 - - 2,445,701 Debt service 2,445,701 - - 2,028,181 2,028,181 Low and moderate housing - 407,967 - 407,967	Cash and investments	\$	2,010,677	\$	414,855	\$	344,474	\$	2,770,006
Taxes 33,449 - - 33,449 Interest - 8,606 5,890 14,496 Prepaid expenses - 300 - 300 Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: - \$ 11,242 \$ 1,265 12,507 Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: Debt service 2,445,701 - - 2,445,701 Low and moderate housing - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Cash and investments with fiscal agents		401,575		-		-		401,575
Interest - 8,606 5,890 14,496 Prepaid expenses - 300 - 300 Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: - 15,794 5,181 20,975 Fund balances: - 2,445,701 - - 2,445,701 Low and moderate housing - 2,445,701 - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Receivables, net:								
Prepaid expenses - 300 - 300 Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: - \$ 11,242 \$ 1,265 12,507 Accounts payable \$ - \$ 15,794 \$ 3,916 8,468 Accrued payroll and related liabilities - \$ 4,552 3,916 8,468 Total liabilities - \$ 15,794 \$ 5,181 20,975 Fund balances: Reserved for: \$ 2,445,701 - - 2,445,701 Debt service \$ 2,445,701 - - 2,445,701 Low and moderate housing - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Taxes		33,449		-		-		33,449
Land held for resale - - 1,682,998 1,682,998 Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 LIABILITIES AND FUND BALANCE Liabilities: State of the colspan="6">State of the cols	Interest		-		8,606		5,890		14,496
Total assets \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824 \$	Prepaid expenses		-		300		-		300
LIABILITIES AND FUND BALANCE Liabilities:	Land held for resale		-		-		1,682,998		1,682,998
Liabilities: Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: 2,445,701 2,445,701 2,445,701 Low and moderate housing 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Total assets	\$	2,445,701	\$	423,761	\$	2,033,362	\$	4,902,824
Accounts payable \$ - \$ 11,242 \$ 1,265 12,507 Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: 2,445,701 2,445,701 2,445,701 Low and moderate housing 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	LIABILITIES AND FUND BALANCE								
Accrued payroll and related liabilities - 4,552 3,916 8,468 Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: Debt service 2,445,701 - - - 2,445,701 Low and moderate housing - - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Liabilities:								
Total liabilities - 15,794 5,181 20,975 Fund balances: Reserved for: Debt service 2,445,701 - - - 2,445,701 Low and moderate housing - - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Accounts payable	\$	-	\$	11,242	\$	1,265		12,507
Fund balances: Reserved for: Debt service 2,445,701 2,445,701 Low and moderate housing 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Accrued payroll and related liabilities		-		4,552		3,916		8,468
Reserved for: Debt service 2,445,701 - - 2,445,701 Low and moderate housing - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Total liabilities		-		15,794		5,181		20,975
Debt service 2,445,701 - - 2,445,701 Low and moderate housing - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Fund balances:								
Low and moderate housing - - 2,028,181 2,028,181 Unreserved - 407,967 - 407,967	Reserved for:								
Unreserved - 407,967 - 407,967	Debt service		2,445,701		-		-		2,445,701
	Low and moderate housing		-		-		2,028,181		2,028,181
Total fund balances 2 445 701 407 967 2 028 181 4 881 849	Unreserved		-		407,967		-		407,967
2,TT3,701 T07,707 2,020,101 4,001,047	Total fund balances		2,445,701		407,967		2,028,181		4,881,849
Total liabilities and fund balances \$ 2,445,701 \$ 423,761 \$ 2,033,362 \$ 4,902,824	Total liabilities and fund balances	\$	2,445,701	\$	423,761	\$	2,033,362	\$	4,902,824

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

June 30, 2009

Total Fund Balances Governmental Funds	\$ 4,881,849
Amounts reported for governmental activities in the statement of net assets are different because:	
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)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund:	
Bonds payable - due within one year	(235,000)
Bonds payable - due in more than one year	(3,085,000)
The liabilities for compensated absences were not due and payable in the current period.	
Therefore, they were not reported in the Governmental Funds Balance Sheet.	 (18,079)
Statement of Net Assets	\$ 1,490,395

Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

			Capital Projects					
	Debt Service		Non-Housing		Low & Moderate Housing		Total Governmental Funds	
Revenues:								
Taxes	\$	1,410,502	\$	-	\$	-	\$	1,410,502
Use of money and property		35,933		-				35,933
Total revenues		1,446,435		-		-		1,446,435
Expenditures:								
Current:								
Economic development		228,503		630,837		172,184		1,031,524
Debt service:								
Principal		225,000		-		-		225,000
Interest		171,288		-		-	171,288	
Capital outlay		-		550		-		550
Total expenditures		624,791		631,387		172,184		1,428,362
Excess (deficiency) of revenues								
over (under) expenditures		821,644		(631,387)		(172,184)		18,073
Other financing sources (uses):								
Transfers in		-		1,219,010		732,918		1,951,928
Transfer out		(1,951,928)		-		-		(1,951,928)
Total other financing sources (uses)		(1,951,928)		1,219,010		732,918		
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other								
financing uses		(1,130,284)		587,623		560,734		18,073
Fund balances:								
Beginning of year		3,575,985		(179,656)		1,467,447		4,863,776
End of year	\$	2,445,701	\$	407,967	\$	2,028,181	\$	4,881,849

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

June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 18,073
Amounts reported for governmental activities in the Statement of Revenues,	
Expenditures and Changes in Fund Balances to Changes in Net Assets	
are different because:	
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. There-	
fore, 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 Government Wide Statement of Net Assets.	225,000
Governmental funds do not report the long-term portion of compensated absences,	
while the Statement of Activities records such liabilities. Thus, the amount recorded	
is the change in liability for the year.	 (3,067)
Change in Net Assets of Governmental Activities	\$ 243,730

Notes to the Basic Financial Statements June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

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

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the difference in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major funds.

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

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

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

C. Cash, Cash Equivalents and Investments:

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

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotation are readily available.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

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

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

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

D. Cash and Investments with Fiscal Agents

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

E. Land Held for Resale:

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

F. Property Tax:

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

The following dates relate to property tax levies and collections:

Lien Date January 1 Levy Date July 1

Due Dates November 1 and February 1
Delinquent Dates December 10 and April 10

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Interest Payable:

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

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

H. Compensated Absences:

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

I. Reservations and Designations of Fund Balances:

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

J. Use of Restricted/Unrestricted Net Assets:

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

Government-Wide

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

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

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

K. Budgetary Policy and Control:

Budget amounts are reported as originally adopted and as further amended by the Agency Board. The differences between budgetary basis and GAAP fund balances as of June 30, 2009 were not material.

L. Use of Estimates:

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

2. CASH AND INVESTMENTS

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

2,770,006
 401,575
\$ 3,171,581
\$

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

Agency Pooled Amounts	(1,110,906)
Deposits with Fiscal Agents	401,575
Investments with LAIF	 3,880,912
Total	\$ 3,171,581

Notes to the Basic Financial Statements (continued)

2. CASH AND INVESTMENTS (continued)

Pooled Cash with the City of Sierra Madre

Investments in the City of Sierra Madre cash pool cannot be assigned a credit risk category because the Agency does not own specific securities. However, the City's investment policies and practices with regard to the credit and market risks have been determined acceptable to the Agency's investment policies. Pooled advances from the City of Sierra Madre amounted to \$(1,110,906).

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 Redevelopment Agency's balance was \$3,880,912.

<u>Investments Authorized by the Entity's Investment Policy</u>

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

Investments Authorized by Debt Agreements

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

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

Notes to the Basic Financial Statements (continued)

2. CASH AND INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Concentration of Credit

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-seller) to a transaction, a government will not be able to recover the value of its investment. This does not apply to the Agency since custodial credit risk is not applicable to LAIF or bond trustee accounts.

Notes to the Basic Financial Statements (continued)

2. CASH AND INVESTMENTS (continued)

Investment in State Investment Pool

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

3. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2009:

C	utstanding				O	utstanding
Ju	ıly 1, 2008	Additi	ons	Payments	Jui	ne 30, 2009
\$	3,545,000	\$	-	\$ (225,000)	\$	3,320,000
		Outstanding July 1, 2008 \$ 3,545,000	July 1, 2008 Addition	July 1, 2008 Additions	July 1, 2008 Additions Payments	July 1, 2008 Additions Payments Jun

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

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

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

Notes to the Basic Financial Statements (continued)

3. LONG-TERM DEBT (continued)

The outstanding balance of the Tax Increment Revenue Refunding Bonds, Series 1998A was \$3,320,000 at June 30, 2009. Annual debt service requirements on these bonds are as follows:

Year Ending			
<u>June 30,</u>	Principal	<u>Interest</u>	Total
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	\$ 3,320,000	\$ 993,250	\$ 4,313,250

4. COMMITMENTS AND CONTINGENCIES

A. Grant Audits:

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

B. Litigation:

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

Notes to the Basic Financial Statements (continued)

5. 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, 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:	
Net assets as of June 30, 2008, as previously reported	\$ 1,332,131
Reductions	(85,466)
Net assets as of June 30, 2008, as restated	\$ 1,246,665
Governmental Fund Financial Statements:	
Fund balances as of June 30, 2008, as previously reported	\$ 4,949,242
Reductions:	 (85,466)

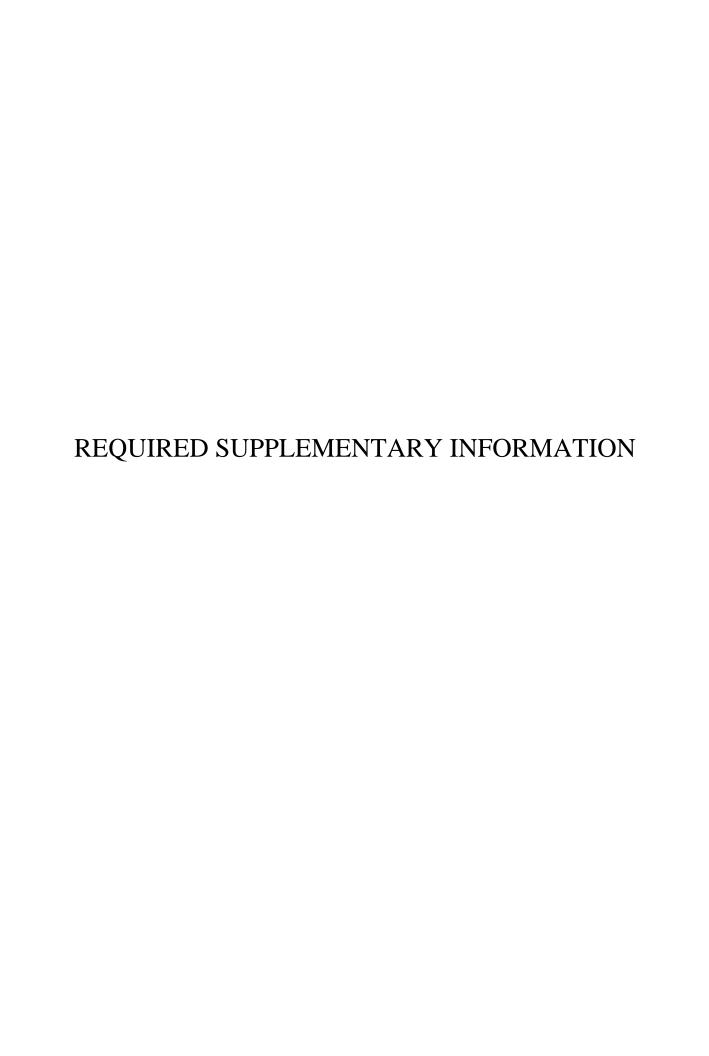
6. SUBSEQUENT EVENT

State of California Condition

Fund balances as of June 30, 2008, as restated

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 Agency. This property tax amount of \$654,098 is significant to the Agency. The 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.

4,863,776



Debt Service

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

	Budgeted Amounts							
	Original Final		Final	Actual Amount		Variance with Final Budget Positive (Negative)		
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:								
Economic development		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)

Non-Housing

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

	Budgete	d Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)	
Revenues:	Φ 12.502	4. 12.502	Φ.	Φ (12.500)	
Use of money and property	\$ 12,592	\$ 12,592	\$ -	\$ (12,592)	
Other	3,000	3,000		(3,000)	
Total revenues	15,592	15,592		(15,592)	
Expenditures:					
Current:					
Economic development	971,786	971,786	630,837	340,949	
Capital outlay	400,000	400,000	550	399,450	
Total expenditures	1,371,786	1,371,786	631,387	740,399	
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)			1,219,010	1,219,010	
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	(179,656)	(179,656)	(179,656)		
End of year	\$ (1,535,850)	\$ (1,535,850)	\$ 407,967	\$ 1,943,817	

Low & Moderate Housing

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

	Budgeted Amounts							
		Original		Final	Act	tual Amount	Fin	riance with aal Budget Positive Vegative)
Revenues:								
Total revenues	\$	-	\$	-	\$	-	\$	-
Expenditures:								
Current:								
Economic development		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		<u>-</u> _				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		_
Deginning of year		1,707,777		1,707,777		1,707,777		
End of year	\$	1,281,307	\$	1,281,307	\$	2,028,181	\$	746,874

Notes to Required Supplementary Information

Year Ended June 30, 2009

(1) BUDGETS AND BUDGETARY ACCOUNTING

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

(2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

	Budget	<u>Actual</u>	Variance
Debt Service:			
Economic Development	105,290	228,503	(123,213)
Principal	-	225,000	(225,000)
Interest	-	171,288	(171,288)



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

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

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Sierra Madre, a component unit of the City of Sierra Madre, California as of and for the year ended June 30, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more then a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

150 North Santa Anita Avenue Sutte 725 Arcadia, California 91006-3142 Telephone: 626 / 445.1600 Fax: 626 / 446.1890 Website: www.rebcpas.com A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

State Controller Noncompliance:

1. Five Year Implementation Plan

The City does not currently have a 5 year implementation plan.

Management Response

The City is currently completing the Housing Element and General Plan Upgrades which are key components of the CRA Five Year Plan. The City expects to present the five year plan to the City Council March 2010 for adoption.

2. Audited Financial Statements

The Agency has not complied with California State Controller's requirements by not filing its audited financial statements in a timely manner.

Management Response

Management is working to prepare and file such audits to fulfill such regulatory requirements.

The Agency response to the findings identified in our audit is described above. We did not audit the Agency response and accordingly, we express no opinion on it.

This report is intended for the information of the Agency Board, management, and the State Controller's Office. However, this report is a matter of public record and its distribution is not limited.

January 21, 2010 Arcadia, California E. Sward Beranek

R. Edward Beranek

Accountancy Corporation

Certified Public Accountants