SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY

SIERRA MADRE, CALIFORNIA

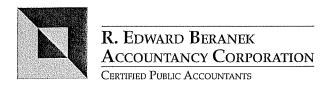
Component Unit Financial Statements and Independent Auditors' Reports

For the year ended June 30, 2005

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements 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, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the management of the Redevelopment Agency of the City of Sierra Madre, California. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Redevelopment Agency of the City of Sierra Madre, California as of June 30, 2005, and the results of its operations and the changes in fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 21, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

January 21, 2008 Arcadia, California R. Edward Beranek

Accountancy Corporation

Certified Public Accountants

(A Component Unit of the City of Sierra Madre, California)

Statement of Net Assets (Liabilities)

June 30, 2005

Assets:	
Current assets:	
Cash and investments	\$ 2,977,572
Cash and investments with fiscal agents	403,622
Receivables:	
Taxes	4,656
Accounts	25,807
Notes Land held for resale	26,847 1,682,008
	1,682,998
Total current assets	5,121,502
Total assets	\$ 5,121,502
<u>Liabilities:</u>	
Current liabilities:	
Accounts payable	\$ 27,350
Accrued payroll and related liabilities	6,786
Deposits and retentions	3,400
Compensated absences	12,320
Deferred revenue	77,700
Total current liabilities	127,556
Noncurrent liabilities:	
Due within one year	185,000
Due in more than one year	3,975,000
Total noncurrent liabilities	4,160,000
Total liabilities	4,287,556
Net assets:	
Invested in capital assets, net of related debt	
Restricted for:	
Debt service	2,421,918
Land held for resale	1,682,998
Total restricted	4,104,916
Unrestricted	(3,270,970)
Total net assets	\$ 833,946

(A Component Unit of the City of Sierra Madre, California)

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

	Program Revenues					<u>-</u>
	Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Total
Functions/programs						
Governmental activities: General government Public safety Public works	\$ 909,695	\$ - -	\$ - - -	\$ - - -	\$ - -	\$ (909,695)
Development	-	-	-	-	-	-
Culture and recreation Interest expense	273,494	-	-	-	-	(273,494)
Total governmental activities	1,183,189	=				(1,183,189)
			d to specific prograi d transfers	ms		1,185,307 81,747 - 1,267,054
	Change in net asser	ts				83,865
	Net assets - beginn	ing of year, as rest	ated			750,082
	Net assets - end of	year				\$ 833,946

(A Component Unit of the City of Sierra Madre, California)

Balance Sheet

Governmental Funds

June 30, 2005

	CRA - Capital Project Funds			
. 2022	Debt Service	Non-Housing	Low & Moderate Housing	Total
ASSETS	Ф	Φ 1.727.102	Φ 1.240.200	Φ 2.077.572
Cash and investments	\$ -	\$ 1,737,183	\$ 1,240,390	\$ 2,977,572
Cash and investments with fiscal agents	403,622	-	-	403,622
Receivables, net:	1.656			1.656
Taxes	4,656	-	-	4,656
Accounts	25,807	26.040	-	25,807
Notes	2 011 201	26,848	126.024	26,848
Due from other funds	3,811,391	6,183,153	436,924	10,431,468
Due to the City of Sierra Madre		-	1 (92 000	1 (02 000
Land held for resale Advances to other funds	-	-	1,682,998	1,682,998
Advances to other runds		-		
Total assets	\$ 4,245,477	\$ 7,947,184	\$ 3,360,312	\$ 15,552,971
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	-	27,115	235	27,350
Accrued payroll and related liabilities	-	6,786	-	6,786
Due to other funds	1,823,559	6,997,236	1,663,391	10,484,186
Deposits and retentions	-	-	3,400	3,400
Compensated absences	-	12,320	-	12,320
Deferred revenue		27,700	50,000	77,700
Total liabilities	1,823,559	7,071,158	1,717,026	10,611,742
Fund balances:				
Reserved for:				
Debt service	2,421,918	-	-	2,421,918
Land held for resale	-	-	1,682,998	1,682,998
Unreserved		876,026	(39,713)	836,313
Total fund balances	2,421,918	876,026	1,643,285	4,941,229
Total liabilities and fund balances	\$ 4,245,477	\$ 7,947,184	\$ 3,360,311	\$ 15,552,971

(A Component Unit of the City of Sierra Madre, California)

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

June 30, 2005

<u>Total Fund Balances Governmental Funds</u>	\$ 4,941,229
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond proceeds provide current financial resources to Governmental Funds, but	
issuing debt increases long-term liabilities in the Statement of Net Assets.	(4,160,000)
Capital leases provide current financial resources to Governmental Funds, but	
issuing debt increases long-term liabilities in the Statement of Net Assets.	(127,556)
Accrual of other items	
The reduction in the long term liability for compensated absences is not accrued in the	
Governmental Funds, but is recorded in the Statement of Net Assets.	180,967
Taxes receivable are recorded on the modified accrual basis in the Governmental Funds, but	
are recorded in the Statement of Net Assets on the accrual basis.	2,706
Accrued interest payable on long-term debt is recorded as paid in the Governmental	
Funds, but recorded on the accrual basis in the Statement of Net Assets.	 (3,400)
Statement of Net Assets	\$ 833,946

(A Component Unit of the City of Sierra Madre, California)

Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year Ended June 30, 2005

		CRA - Capit	al Projects	
	CRA - Debt Service	Non-Housing	Low & Moderate Housing	Total Governmental Funds
Revenues:	A 405.005			
Taxes	\$ 1,185,307	\$ -	\$ -	\$ 1,185,307
Investment income Miscellaneous	1,209	53,303	27,235	81,747
Total revenues	1,186,515	53,303	27,235	1,267,054
Total revenues	1,180,313	33,303	21,233	1,207,034
Expenditures:				
Current:				
General government	146,078	616,679	146,938	909,695
Debt service:				
Principal	185,000	-	-	185,000
Interest	208,494	-	-	208,494
Capital outlay	-	20,856	-	20,856
Total expenditures	539,572	637,535	146,938	1,324,045
Excess (deficiency) of revenues				
over (under) expenditures	646,944	(584,232)	(119,703)	(56,991)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfer out	<u> </u>			
Total other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other				
financing uses	646,943	(584,232)	(119,703)	(56,991)
Fund balances:				
Beginning of year	1,774,975	1,460,258	1,762,988	4,998,220
End of year	\$ 2,421,917	\$ 876,026	\$ 1,643,285	\$ 4,941,229

(A Component Unit of the City of Sierra Madre, California)

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

June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	(56,991)
Amounts reported for governmental activities in the Statement of Revenues Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:	
Capital outlay expenditures are recorded in the Governmental Fund statements. In the	
government wide statement they are capitalizable (however the City did not capitalize the amounts see note 5).	167,870
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	185,000
repayment reduces long-term habilities in the Statement of Net Assets.	165,000
Repayment of capital leases is an expenditure in the governmental funds, but the	
repayment reduces long-term liabilities in the Statement of Net Assets.	12,320
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	
decrease in the liability for the year.	(180,967)
Property tax revenue is recorded on the modified accrual basis based on information received	
60 days after year end. The Statement of Activities records the amounts, including collection	
costs, on the full accrual basis.	2,706
Change in accrued interest expense on long-term debt is recorded as	
an expense in the Statement of Activities, but is not recorded in the	
governmental funds.	 (3,400)
Change in Net Assets of Governmental Activities	\$ 83,865

Notes to the Basic Financial Statements June 30, 2005

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, except as described in Note 5. 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.

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.

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)

These basic 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 are 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 except those representing balances by the Agency, which are presented as internal balances and eliminated in the total primary government column.

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 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 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, sales tax, franchise taxes, intergovernmental revenues and other taxes. 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)

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.

C. Cash, Cash Equivalents and Investments:

The Agency pools its available cash for investment purposes. The Agency 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 Agency'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 Agency 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.

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'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.

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Agency's current operations.

E. Prepaid Expenses:

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

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. Claims Payable:

The Agency 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.

Notes to the Basic Financial Statements (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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 included as a liability in the General Long-Term Debt Account Group as those amounts are payable from future resources and within the respective balance sheets for amounts relating to proprietary funds types.

I. 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.

J. 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.

K. 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.

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

L. 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, 2004 were not material.

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.

2. IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In July 2003, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
- Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus
- Statement No. 38, Certain Financial Statement Note Disclosures

GASB Statement No. 34 is a new financial reporting requirement for local governments in the United States. The Agency has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.

Notes to the Basic Financial Statements (Continued)

2. IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS (continued)

GASB Statement No. 37 address selected issues and amends GASB Statement No. 21, Accounting for Escheat Property, and No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction – Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance – related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

3. CASH AND INVESTMENTS

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

Cash and Investments	\$	2,977,572
Cash and Investments Held		
by Fiscal Agent		403,622
TOTAL	<u>\$</u>	3,614,643

Cash and investments as of June 30, 2005 consisted of the following:

Agency Pooled Amounts	\$ (104,897)
Deposits with fiscal agents	403,622
Investments with LAIF	 3,315,918
TOTAL	\$ 3,614,643

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 Agency's investment policies. City Pooled amounts from the City of Sierra Madre amounted to \$(104,897).

Notes to the Basic Financial Statements (continued)

3. CASH AND INVESTMENTS (continued)

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, 2005, the Redevelopment Agency's balance was \$3,315,918.

Investments Authorized by the Entity's Investment Policy

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

<u>Investments Authorized by Debt Agreements</u>

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.**

Authorized Investment Type	Maximum Maturity
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.

Notes to the Basic Financial Statements (continued)

3. CASH AND INVESTMENTS (continued)

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.

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.

Notes to the Basic Financial Statements (Continued)

4. INTERFUND TRANSACTIONS

The following is a summary of the interfund receivables to and payables at June 30, 2005:

	Due From Other Funds	Due To Other Funds
Debt Service Funds: Community Redevelopment Agency	3,811,391	1,823,559
Capital Projects Funds: Non-Housing Low and Moderate Housing	6,183,152 436,924	6,997,236 1,663,391
Total	<u>\$ 10,431,467</u>	<u>\$ 10,484,186</u>

5. LONG-TERM DEBT

A. Governmental Activities:

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2005:

	Outstanding July 1, 2004	Additions	Payments	Outstanding June 30, 2005
Tax Increment Revenue	<u>sury 1, 2001</u>	raditions	<u>r uyments</u>	<u>sane 30, 2003</u>
Refunding Bond, Series 1998A	\$4,345,000	\$ -	\$(185,000)	\$4,160,000
Compensated Absences	<u>15,026</u>		(2,706)	12,320
Total	\$4,360,02 <u>6</u>	\$ -	\$ (187,706)	\$4,172,320

Notes to the Basic Financial Statements (Continued)

5. 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 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 the 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 each 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 ranges 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.

The outstanding balance of the Tax Increment Revenue Refunding Bonds was \$4,525,000 at June 30, 2005.

The annual debt service requirements on the Tax Increment Revenue Refunding Bonds are as follows:

Year Ending					Total
<u>June 30</u>	<u>P</u>	<u>rincipal</u>	<u>Interest</u>		Debt Service
2006	\$	195,000	\$ 200,131	\$	395,131
2007		205,000	191,129		396,129
2008		215,000	181,521		396,521
2009		225,000	171,288		396,288
2010		235,000	83,000		318,000
2011-2015		1,355,000	642,750		1,997,750
2016-2019		1,730,000	 267,500		1,997,500
TOTAL	\$	4,160,000	\$ 1,737,319	<u>\$</u>	5,897,319

Accrued Vacation and Sick Pay

The Agency accrues vacation and sick pay for employees that have been earned at June 30, 2005 but has not been taken at that date.

Notes to the Basic Financial Statements (Continued)

6. 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.

C. Compliance with Laws and Regulations

The Agency has failed to comply with certain federal, state and bond convents by not filing its audited statements as required by law, regulation or bond covenant in a timely manner. Management is working to have prepared and filed such audits to fulfill such regulatory requirements.

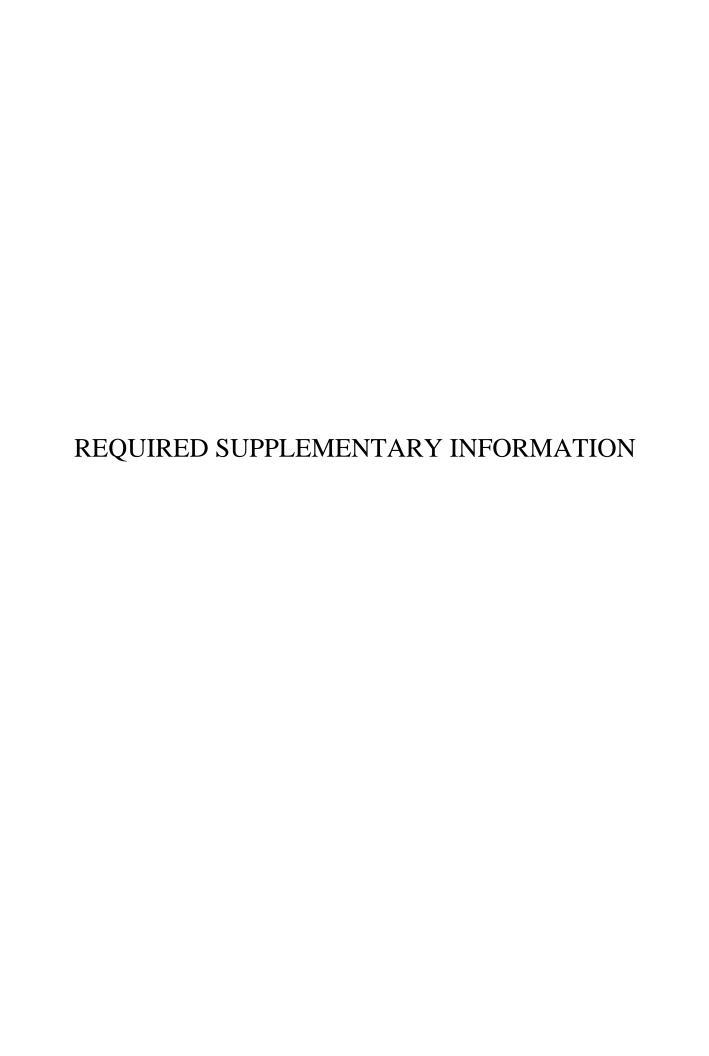
Notes to the Basic Financial Statements (Continued)

7. NET ASSETS RESTATEMENT

The Agency's beginning fund balances have been restated to reflect the cumulative effect of the implementation of Statement No. 34. The following table provides a reconciliation of the fund balances as of June 30, 2005, as previously reported, to fund balances as of June 30, 2004, as restated.

The following transactions were recorded to adjust the beginning balances to correct for amounts that applied to June 30, 2004 but were not booked at that date:

Net Assets as of June 30, 2004, as previously Reported	\$ 1,429,234
Reductions Prior period adjustments to record other items	679,152
Net Assets as of June 30, 2005, as restated	<u>\$ 750,082</u>



Debt Service

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2005

		Budgeted	Amou	ints				
	Or	iginal		Final	Act	ual Amount	Fin	riance with aal Budget Positive Vegative)
Revenues:	_		_		_		_	
Taxes	\$	985,500	\$	985,500	\$	1,185,307	\$	199,807
Charges for services		-		-		-		-
Intergovernmental		-		-		-		-
Licenses and permits		-		-		-		-
Fines and forfeitures		2,000		2,000		1,209		(791)
Use of money and property Other		2,000		2,000		1,209		(791)
Total revenues	-	987,500	-	987,500		1,186,515	-	199,015
Total revenues		767,300	-	767,500	-	1,100,313		177,013
Expenditures:								
Current:								
General government		121,794		121,794		146,078		(24,284)
Public safety		-		-		-		-
Public works		-		-		-		-
Recreation, environmental and culture		-		-		-		-
Debt service:								
Principal		185,000		185,000		185,000		-
Interest		508,494		508,494		208,494		300,000
Capital outlay								
Total expenditures		815,288		815,288		539,572	-	275,716
Excess (deficiency) of revenues								
over (under) expenditures		172,212		172,212		646,944		474,732
Other financing sources (uses):								
Transfers in		-		-		_		-
Transfer out		-		-				-
Total other financing sources (uses)								
Excess (deficiency) of revenues and								
other financing sources over								
(under) expenditures and other								
financing uses		172,212		172,212		646,943		474,731
Fund balances:								
Beginning of year		1,774,975		1,774,975		1,774,975		-
End of year	\$	1,947,187	\$	1,947,187	\$	2,421,917	\$	474,731

Non-Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2005

	Budgeted			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:	¢.	¢.	¢.	¢.
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	80,000	80,000	53,303	(26,697)
Other	416,100	416,100	33,303	(416,100)
Total revenues	496,100	496,100	53,303	(442,797)
Total revenues	490,100	490,100		(442,797)
Expenditures:				
Current:				
General government	446,147	446,147	616,679	(170,532)
Public safety	-	-	· -	-
Public works	-	-	_	-
Recreation, environmental and culture	-	-	_	-
Capital outlay			20,856	(20,856)
Total expenditures	446,147	446,147	637,535	(191,388)
Excess (deficiency) of revenues over (under) expenditures	49,953	49,953	(584,232)	(634,185)
Other financing sources (uses):				
Transfers in Transfer out	3,000	3,000		(3,000)
Total other financing sources (uses)	3,000	3,000		(3,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other				
financing uses	52,953	52,953	(584,232)	(637,185)
Fund balances:				
Beginning of year	1,460,258	1,460,258	1,460,258	
End of year	\$ 1,513,211	\$ 1,513,211	\$ 876,026	\$ (637,185)

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2005

	Budgeted			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:	¢.	¢.	¢.	Ф
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	27,235	27,235
Other	-	-	21,233	21,233
Total revenues			27,235	27,235
Expenditures:				
Current:		*****		
General government	236,648	236,648	146,938	89,710
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation, environmental and culture	-	-	-	-
Capital outlay		<u> </u>		
Total expenditures	236,648	236,648	146,938	89,710
Excess (deficiency) of revenues over (under) expenditures	(236,648)	(236,648)	(119,703)	116,945
Other financing sources (uses): Transfers in	-	-		-
Transfer out				
Total other financing sources (uses)	<u> </u>	-		
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other				
financing uses	(236,648)	(236,648)	(119,703)	116,945
Fund balances:				
Beginning of year	1,762,988	1,762,988	1,762,988	
End of year	\$ 1,526,340	\$ 1,526,340	\$ 1,643,285	\$ 116,945

Notes to Required Supplementary Information

Year Ended June 30, 2005

(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 his 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. Additional appropriations in the amount of \$171,000 were made 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, 2005 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	(Unfavorable) <u>Variance</u>
Non-Housing:			
General Government	446,147	616,680	(170,533)



Report on Compliance and on Internal Control Over Financial Reporting 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 basic financial statements of the Redevelopment Agency of the City of Sierra Madre, as of and for the year ended June 30, 2005, and have issued our report thereon dated January 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Redevelopment Agency's general purpose 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 instances of noncompliance that are required to be reported under Government Auditing Standards.

State Controller noncompliance items

1. Financial Disclosure:

- 1. The city did not file a blight progress report, loan report or property report
- 2. State controllers report has not been filed for 04 or 05

2. Five year implementation plan

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

150 North Santa Anita Avenue Suite 725 Arcadia, California 91006-3142 Telephone: 626 / 445.1600 Fax: 626 / 446.1890 Website: www.rebcpas.com

Governmental Auditing Standards noncompliance

04-1 Reports to External Government Agencies

Criteria

Federal, state and county governments need information reported to them by Cities.

Condition

The Agency is required to file reports to the county, state and federal governments

Context and effect

We observed that reports that are required to be filed with federal and state agencies have not been filed as required by various statutes and laws.

Recommendation

Agency management should have a checklist of required reports. There should be a Policy and Procedure so that the Agency Manager is updated in advance when required reports can not be filed on a timely basis.

Management Response

The above mentioned deficiency occurred in 2004 and 2005. Unfortunately until the 2003-2004 audit was completed the required reports could not be filed. It is the highest priority that the Agency file the remaining outstand reports and then remain in regular reporting mode, on a timely basis moving forward.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Redevelopment Agency of the City of Sierra Madre's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following <u>reportable conditions</u> that we believe to be material weaknesses.

04-2. Bank Reconciliations

Criteria

Bank accounts should be reconciled to the general ledger on a monthly basis

Condition

Internal control requires timely bank reconciliations.

Context and effect

When we arrived in November 2005 the bank reconciliations of the Agency's bank accounts had not been reconciled since June 2003. We were informed by staff that the reconciliations have not been conducted on a timely basis because of lack of qualifications and insufficient personnel in the Finance staff, which underwent significant budget cuts in the early 2000's. Such lack of bank reconciliations delayed the timeliness of the audits.

Recommendation

Management and the Agency Board must review the staffing level of the Finance Department to see that basic accounting records are maintained. It may involve a shifting of staff priorities or the employment of new qualified staff.

Management Response

The prior Administrative Services Director took the above position. The general management position is that the Agency approved a full time position in 2005-2006 and with the addition of the new position the bank reconciliations will be conducted on a timely basis.

04-3 Computer Records - Finance

Criteria

Computer records should be secured.

Condition

Data was lost because of weak security and inadequate back up procedures.

Context and effect

The previous Administrative Services Director took records off site which were not backed up, to which she had sole access to or had passwords that were not kept in a central oversight location. When she left the Agency it became difficult to reconstruct or locate certain accounting records. Additionally the financial computer data for the year ended June 30, 2003 was corrupted and there was not an adequate backup.

Management Response

With respect to the 2004 financial data, management was not aware that the data was not properly preserved. With the departure of the Administrative Services Director the contract computer services administrator to improve the Agency's Computer security and back ups.

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

January 21, 2008 Arcadia, California R. Edward Beranek

Accountancy Corporation

Certified Public Accountants