

**SIERRA MADRE COMMUNITY
REDEVELOPMENT AGENCY**

SIERRA MADRE, CALIFORNIA

*Component Unit Financial Statements
and Independent Auditors' Reports*

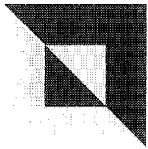
For the year ended June 30, 2006

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

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R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying 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, 2006, 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, 2006, 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.

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In accordance with Government Auditing Standards, we have also issued a report dated July 31, 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.

July 31, 2008
Arcadia, California

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants

REDEVELOPMENT AGENCY OF THE CITY OF SIERRA MADRE, CALIFORNIA

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

Statement of Net Assets (Liabilities)

June 30, 2006

Assets:

Current assets:

Cash and investments	\$	2,608,744
Cash and investments with fiscal agents		408,208
Receivables:		
Taxes		109,698
Accounts		8,709
Interest		38,670
Notes		24,919
Land held for resale		<u>1,682,998</u>
Total current assets		<u>4,881,946</u>
Total assets		<u>4,881,946</u>

Liabilities:

Current liabilities:

Accounts payable		132,238
Accrued payroll and related liabilities		4,234
Deferred revenue		<u>45,000</u>
Total current liabilities		<u>181,472</u>

Noncurrent liabilities:

Due within one year		195,000
Due in more than one year		<u>3,770,000</u>
Total noncurrent liabilities		<u>3,965,000</u>
Total liabilities		<u>4,146,472</u>

Net assets:

Invested in capital assets, net of related debt

Restricted for:

Debt service		2,848,787
Land held for resale		<u>1,682,998</u>
Total restricted		<u>4,531,785</u>

Unrestricted

		<u>(3,796,311)</u>
Total net assets	\$	<u>735,474</u>

See accompanying Notes to Basic Financial Statements.

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

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

	Program Revenues					
Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total		Total
Functions/programs						
Governmental activities:						
General government	\$ 1,170,975	\$ 31,100	\$ -	\$ -	\$ 31,100	\$ (1,139,875)
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interest expense	204,580	-	-	-	-	(204,580)
Total governmental activities	1,375,555	31,100	-	-	31,100	(1,344,455)
 General revenues and transfers:						
Taxes						1,145,271
Investment income						153,429
Grants and contributions not restricted to specific programs						-
Total general revenues and transfers						1,298,700
 Change in net assets						(45,755)
Net assets - beginning of year, as restated						781,229
Net assets - end of year						\$ 735,474

See accompanying Notes to Basic Financial Statements.

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

Balance Sheet

Governmental Funds

June 30, 2006

	CRA - Capital Project Funds			Total
	Debt Service	Non-Housing	Low & Moderate Housing	
ASSETS				
Cash and investments	\$ 2,326,829	\$ 281,915	\$ -	\$ 2,608,744
Cash and investments with fiscal agents	408,208	-	-	408,208
Receivables, net:				
Taxes	109,698	-	-	109,698
Accounts	8,709	-	-	8,709
Interest	-	22,982	15,688	38,670
Notes	-	24,919	-	24,919
Land held for resale	-	-	1,682,998	1,682,998
Advances to other funds	-	-	-	-
Total assets	<u>\$ 2,853,444</u>	<u>\$ 329,816</u>	<u>\$ 1,698,686</u>	<u>\$ 4,881,946</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	4,657	51,632	75,949	132,238
Accrued payroll and related liabilities	-	2,814	1,420	4,234
Due to other funds	-	-	-	-
Deposits and retentions	-	-	-	-
Compensated absences	-	-	-	-
Deferred revenue	-	-	45,000	45,000
Total liabilities	<u>4,657</u>	<u>54,446</u>	<u>122,369</u>	<u>181,472</u>
Fund balances:				
Reserved for:				
Debt service	2,848,787	-	-	2,848,787
Land held for resale	-	-	1,576,317	1,576,317
Unreserved	-	275,370	-	275,370
Total fund balances	<u>2,848,787</u>	<u>275,370</u>	<u>1,576,317</u>	<u>4,700,474</u>
Total liabilities and fund balances	<u>\$ 2,853,444</u>	<u>\$ 329,816</u>	<u>\$ 1,698,686</u>	<u>\$ 4,881,946</u>

See accompanying Notes to Basic Financial Statements.

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

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

June 30, 2006

<u>Total Fund Balances Governmental Funds</u>	\$ 4,700,474
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	<u>(3,965,000)</u>
<u>Statement of Net Assets</u>	<u>\$ 735,474</u>

See accompanying Notes to Basic Financial Statements.

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year Ended June 30, 2006

	CRA - Debt Service	CRA - Capital Projects		Total Governmental Funds
		Non-Housing	Low & Moderate Housing	
Revenues:				
Taxes	\$ 916,217	\$ -	\$ 229,054	\$ 1,145,271
Use of money and property	-	91,184	62,245	153,429
Miscellaneous	-	27,700	3,400	31,100
Total revenues	<u>916,217</u>	<u>118,884</u>	<u>294,699</u>	<u>1,329,800</u>
Expenditures:				
Current:				
General government	89,768	687,021	361,668	1,138,457
Debt service:				
Principal	195,000	-	-	195,000
Interest	204,580	-	-	204,580
Capital outlay	-	32,518	-	32,518
Total expenditures	<u>489,348</u>	<u>719,539</u>	<u>361,668</u>	<u>1,570,555</u>
Excess (deficiency) of revenues over (under) expenditures	426,869	(600,655)	(66,969)	(240,755)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	426,869	(600,655)	(66,969)	(240,755)
Fund balances:				
Beginning of year	<u>2,421,918</u>	<u>876,025</u>	<u>1,643,286</u>	<u>4,941,229</u>
End of year	<u>\$ 2,848,787</u>	<u>\$ 275,370</u>	<u>\$ 1,576,317</u>	<u>\$ 4,700,474</u>

See accompanying Notes to Basic Financial Statements.

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

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

June 30, 2006

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$ (240,755)
<i>Amounts reported for governmental activities in the Statement of Revenues Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:</i>	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	<u>195,000</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>\$ (45,755)</u>

See accompanying Notes to Basic Financial Statements.

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

Notes to the Basic Financial Statements
June 30, 2006

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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2006 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. CASH AND INVESTMENTS

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

Cash and Investments	\$ 2,608,744
Cash and Investments Held by Fiscal Agent	<u>408,208</u>
TOTAL	<u>\$ 3,016,952</u>

Cash and investments as of June 30, 2006 consisted of the following:

Agency Pooled Amounts	\$ (821,934)
Deposits with fiscal agents	408,208
Investments with LAIF	<u>3,430,678</u>
TOTAL	<u>\$ 3,016,952</u>

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

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Pooled Cash

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 \$(821,934).

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, 2006, the Redevelopment Agency's balance was \$3,430,678.

Investments Authorized by the Entity's Investment Policy

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

Investments Authorized by Debt Agreements

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

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

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

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Concentration of Credit

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

Custodial Credit Risk

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

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

Notes to the Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS (continued)

Investment in State Investment Pool

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

3. LONG-TERM DEBT

A. Governmental Activities:

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2006:

	<u>Outstanding July 1, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2006</u>
Tax Increment Revenue Refunding Bond, Series 1998A	\$4,160,000	\$ -	\$(195,000)	\$3,965,000
Compensated Absences	<u>12,320</u>	<u>-</u>	<u>(12,320)</u>	<u>-</u>
Total	<u>\$4,172,320</u>	<u>\$ -</u>	<u>\$(207,320)</u>	<u>\$3,965,000</u>

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

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

Notes to the Basic Financial Statements
(continued)

3. LONG-TERM DEBT (continued)

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 \$3,965,000 at June 30, 2006.

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 205,000	\$ 191,129	\$ 396,129
2008	215,000	181,521	396,521
2009	225,000	171,288	396,288
2010	235,000	160,125	395,125
2011	245,000	148,125	393,125
2012-2016	1,425,000	539,375	1,964,375
2017-2020	<u>1,415,000</u>	<u>145,625</u>	<u>1,560,625</u>
TOTAL	<u>\$ 3,965,000</u>	<u>\$ 1,537,188</u>	<u>\$ 5,502,188</u>

Accrued Vacation and Sick Pay

The Agency accrues vacation and sick pay for employees that have been earned at June 30, 2006 but has not been taken at that date.

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

Notes to the Basic Financial Statements
(continued)

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.

C. Compliance with Laws and Regulations

The Agency has failed to comply with certain federal, state and bond covenants 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.

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

Notes to the Basic Financial Statements
(continued)

5. NET ASSETS RESTATEMENT

The Agency's beginning fund balances have been restated to reflect the cumulative effect of the implementation of Statement No. 34. Subsequent to 2006 management discovered adjustments were needed to comply with GASB 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, 2006, as restated.

Fund balances as of June 30, 2005, as previously reported	\$ 833,946
Additions	-
Reductions	52,717
Fund balances as of June 30, 2006, as restated	<u>\$ 781,229</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIERRA MADRE, CALIFORNIA

Debt Service

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ -	\$ -	\$ 916,217	\$ 916,217
Charges for services	-	-	-	-
Intergovernmental	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	916,217	916,217
Expenditures:				
Current:				
General government	214,160	214,160	89,768	124,392
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation, environmental and culture	-	-	-	-
Debt service:				
Principal	195,000	195,000	195,000	-
Interest	185,658	185,658	204,580	(18,922)
Capital outlay	-	-	-	-
Total expenditures	594,818	594,818	489,348	105,470
Excess (deficiency) of revenues over (under) expenditures	(594,818)	(594,818)	426,869	1,021,687
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	(594,818)	(594,818)	426,869	1,021,687
Fund balances:				
Beginning of year	2,421,918	2,421,918	2,421,918	-
End of year	\$ 1,827,100	\$ 1,827,100	\$ 2,848,787	\$ 1,021,687

See accompanying Notes to Basic Financial Statements

CITY OF SIERRA MADRE, CALIFORNIA

Non-Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amount	
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	91,184	91,184
Other	-	-	27,700	27,700
Total revenues	-	-	118,884	118,884
Expenditures:				
Current:				
General government	815,855	815,855	687,021	128,834
Public safety	-	-	-	-
Public works	49,000	49,000	-	49,000
Recreation, environmental and culture	-	-	-	-
Capital outlay	-	-	32,518	(32,518)
Total expenditures	864,855	864,855	719,539	145,316
Excess (deficiency) of revenues over (under) expenditures	(864,855)	(864,855)	(600,655)	264,200
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	(864,855)	(864,855)	(600,655)	264,200
Fund balances:				
Beginning of year	876,025	876,025	876,025	-
End of year	\$ 11,170	\$ 11,170	\$ 275,370	\$ 264,200

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ -	\$ -	\$ 229,054	\$ 229,054
Charges for services	-	-	-	-
Intergovernmental	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	62,245	62,245
Other	-	-	3,400	3,400
Total revenues	<u>-</u>	<u>-</u>	<u>294,699</u>	<u>294,699</u>
Expenditures:				
Current:				
General government	194,399	194,399	361,668	(167,269)
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation, environmental and culture	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>194,399</u>	<u>194,399</u>	<u>361,668</u>	<u>(167,269)</u>
Excess (deficiency) of revenues over (under) expenditures	(194,399)	(194,399)	(66,969)	127,430
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(194,399)	(194,399)	(66,969)	127,430
Fund balances:				
Beginning of year	<u>1,643,286</u>	<u>1,643,286</u>	<u>1,643,286</u>	<u>-</u>
End of year	<u>\$ 1,448,887</u>	<u>\$ 1,448,887</u>	<u>\$ 1,576,317</u>	<u>\$ 127,430</u>

See accompanying Notes to Basic Financial Statements.

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

Notes to Required Supplementary Information

Year Ended June 30, 2006

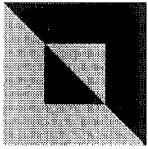
(1) BUDGETS AND BUDGETARY ACCOUNTING

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. 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, 2006 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable) Variance</u>
Low and Mod Housing			
General Government	194,399	361,668	(167,269)
Non Housing			
Capital Outlay	-	32,518	(32,518)



R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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, 2006, and have issued our report thereon dated July 31, 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 '05 or '06.

2. Five Year Implementation Plan

The City does not currently have a 5 year implementation plan
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ARCADIA, CALIFORNIA 91006-3142
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Governmental Auditing Standards noncompliance

06-1 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 2005-2006 audit was completed the required reports could not be filed. It is the highest priority that the Agency files the remaining outstanding 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. However, we noted the following reportable conditions that we believe to be material weaknesses.

06-2 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 March 2008 the bank reconciliations of the Agency's bank accounts had not been reconciled completely. 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.

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.

July 31, 2008
Arcadia, California

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants

