

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY

SIERRA MADRE, CALIFORNIA

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2007

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

TABLE OF CONTENTS

June 30, 2007

Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Assets	3
Statement of Activities and Changes in Net Assets	4
Fund Financial Statements	
Balance Sheet	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	8
Notes to the Basic Financial Statements	9
Required Supplementary Information	
Schedules of Revenues, Expenditures, and Changes in Fund Balances	
Budget and Actual	
Debt Service Fund	21
Capital Projects Funds	
Non-Housing	22
Low and Moderate Housing	23
Notes to Required Supplementary Information	24
Independent Auditors' Report on Internal Control and Compliance for State Controller	25



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, 2007, 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, 2007, 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* issued by the Comptroller General of the United States, we have also issued a report dated January 6, 2009, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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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 6, 2009
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, 2007

Assets:

Current assets:

Cash and investments	\$ 2,607,097
Cash and investments with fiscal agents	406,209
Receivables:	
Taxes	13,252
Interest	46,890
Land held for resale	1,682,998
Total current assets	4,756,446
Total assets	4,756,446

Liabilities:

Current liabilities:

Accounts payable	61,123
Accrued payroll and related liabilities	4,799
Interest payable	60,506
Compensated absences	28,834
Bonds payable	215,000
Total current liabilities	370,262

Noncurrent liabilities:

Bonds payable	3,545,000
Total noncurrent liabilities	3,545,000
Total liabilities	3,915,262

Net assets:

Restricted for:

Debt service	3,451,710
Land held for resale	1,682,998
Total restricted	5,134,708

Unrestricted

	(4,293,524)
Total net assets	\$ 841,184

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, 2007

	Program Revenues				
Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues	Total
Functions/programs					
Governmental activities:					
General government	\$ 1,147,056	\$ -	\$ -	\$ -	\$ (1,147,056)
Interest expense	251,635	-	-	-	(251,635)
Total governmental activities	1,398,691	-	-	-	(1,398,691)
General revenues and transfers:					
Taxes					1,181,808
Investment income					448,968
Total general revenues and transfers					1,630,776
Change in net assets					232,085
Net assets - beginning of year, as restated					609,099
Net assets - end of year					\$ 841,184

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, 2007

	Capital Project Funds			Total
	Debt Service	Non-Housing	Low & Moderate Housing	
ASSETS				
Cash and investments	\$ 2,557,255	\$ -	\$ 49,842	\$ 2,607,097
Cash and investments with fiscal agents	406,209	-	-	406,209
Receivables, net:				
Taxes	13,252	-	-	13,252
Interest	-	27,665	19,225	46,890
Due from other funds	475,285	-	-	475,285
Land held for resale	-	-	1,682,998	1,682,998
Total assets	\$ 3,452,001	\$ 27,665	\$ 1,752,065	\$ 5,231,731
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	291	44,228	16,604	61,123
Accrued payroll and related liabilities	-	2,664	2,135	4,799
Due to other funds	-	475,285	-	475,285
Total liabilities	291	522,177	18,739	541,207
Fund balances:				
Reserved for:				
Debt service	3,451,710	-	-	3,451,710
Land held for resale	-	-	1,682,998	1,682,998
Unreserved	-	(494,512)	50,328	(444,184)
Total fund balances	3,451,710	(494,512)	1,733,326	4,690,524
Total liabilities and fund balances	\$ 3,452,001	\$ 27,665	\$ 1,752,065	\$ 5,231,731

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, 2007

<u>Total Fund Balances Governmental Funds</u>	\$	4,690,524
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet.		(60,506)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.		(3,545,000)
The liabilities for compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.		<u>(28,834)</u>
<u>Statement of Net Assets</u>	\$	<u>841,184</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, 2007

	<u>Capital Projects</u>			<u>Total Governmental Funds</u>
	<u>Debt Service</u>	<u>Non-Housing</u>	<u>Low & Moderate Housing</u>	
Revenues:				
Taxes	\$ 1,181,808	\$ -	\$ -	\$ 1,181,808
Use of money and property	-	394,075	54,893	448,968
Total revenues	<u>1,181,808</u>	<u>394,075</u>	<u>54,893</u>	<u>1,630,776</u>
Expenditures:				
Current:				
General government	56,381	915,735	138,666	1,110,782
Debt service:				
Principal	205,000	-	-	205,000
Interest	191,129	-	-	191,129
Capital outlay	-	7,440	-	7,440
Total expenditures	<u>452,510</u>	<u>923,175</u>	<u>138,666</u>	<u>1,514,351</u>
Excess (deficiency) of revenues over (under) expenditures	729,298	(529,100)	(83,773)	116,425
Other financing sources (uses):				
Transfers in	-	-	240,782	240,782
Transfer out	-	(240,782)	-	(240,782)
Total other financing sources (uses)	<u>-</u>	<u>(240,782)</u>	<u>240,782</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	729,298	(769,882)	157,009	116,425
Fund balances:				
Beginning of year, as restated	<u>2,722,412</u>	<u>275,370</u>	<u>1,576,317</u>	<u>4,574,099</u>
End of year	<u>\$ 3,451,710</u>	<u>\$ (494,512)</u>	<u>\$ 1,733,326</u>	<u>\$ 4,690,524</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, 2007

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$	116,425
 <i>Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:</i>		
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as an expenditure in the governmental funds. The reconciling amount is the change in accrued interest from the prior year.		(60,506)
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.		205,000
Governmental funds do not report the long-term portion of compensated absences, while the Statement of Activities records such liabilities. Thus, the amount recorded is the change in liability for the year.		<u>(28,834)</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>\$</u>	<u>232,085</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, 2007

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.

The principal objectives of the Agency are to improve the commercial environment, provide public improvements, enhance economic conditions, and create employment opportunities.

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

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

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

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

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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:

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

D. Cash and Investments with Fiscal Agents

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

E. Land Held for Resale:

Land Held for Resale in the Capital Projects Fund is an inventory of land purchased by the Agency, which will be sold to developers. The land is recorded at the lower of acquisition cost or market. Fund balances 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:

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

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

Notes to the Basic Financial Statements
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Interest Payable:

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

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

H. 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.

I. Compensated Absences:

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.

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.

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)

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.

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, 2007 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

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

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

Cash and Investments	2,607,097
Cash and Investments Held by Fiscal Agent	406,209
Total	<u>\$ 3,013,306</u>

Cash and investments as of June 30, 2007 consisted of the following:

Agency Pooled Amounts	(823,581)
Deposits with Fiscal Agents	406,209
Investments with LAIF	3,430,678
Total	<u>\$ 3,013,306</u>

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 \$(823,581).

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, 2007, 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.**

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)

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

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.

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)

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 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. FUND BALANCE DEFICIT

The following is a listing of the fund balance deficits at June 30, 2007:

Capital Projects Fund:	
Non Housing	\$ (494,512)

The CRA-Non Housing fund has a net asset deficit of (\$494,512) which is net against the positive net assets of CRA-Debt Services \$3,451,710.

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)

4. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2007:

	Outstanding July 1, 2006	Additions	Payments	Outstanding June 30, 2007
<i>Tax Increment Revenue Refunding Bonds, Series 1998A</i>	\$ 3,965,000	\$ -	\$ (205,000)	\$ 3,760,000

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

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

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

The outstanding balance of the Tax Increment Revenue Refunding Bonds, Series 1998A was \$3,760,000 at June 30, 2007. Annual debt service requirements on these bonds are as follows:

Year Ending	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008		215,000	181,520	396,520
2009		225,000	171,288	396,288
2010		235,000	160,125	395,125
2011		245,000	148,125	393,125
2012		255,000	135,625	390,625
2013-2017		1,500,000	466,250	1,966,250
2018-2020		1,085,000	83,125	1,168,125
Total		\$ 3,760,000	\$ 1,346,058	\$ 5,106,058

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)

4. LONG-TERM DEBT (continued)

Compensated Absences

The Agency accrues vacation and sick pay for employees that have been earned at June 30, 2007, but have not been taken at that date.

5. 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)

6. 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, 2006, as previously reported, to fund balances as of June 30, 2006, as restated.

Basic Financial Statements:

Net assets as of June 30, 2006, as previously reported	\$ 735,474
Additions:	-
Reductions:	(126,375)
Net assets as of June 30, 2006, as restated	<u><u>\$ 609,099</u></u>

Fund Financial Statements:

Fund balance as of June 30, 2006, as previously reported	\$ 2,848,787
Additions:	-
Reductions:	(126,375)
Fund balance as of June 30, 2006, as restated	<u><u>\$ 2,722,412</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Debt Service

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

Year Ended June 30, 2007

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,349,200	\$ 1,397,200	\$ 1,181,808	\$ (215,392)
Use of money and property	2,000	2,000	-	(2,000)
Total revenues	1,351,200	1,399,200	1,181,808	(217,392)
Expenditures:				
Current:				
General government	148,343	148,343	56,381	91,962
Debt service:				
Principal	390,000	390,000	205,000	185,000
Interest	191,129	191,129	191,129	-
Total expenditures	729,472	729,472	452,510	276,962
Excess (deficiency) of revenues over (under) expenditures	621,728	669,728	729,298	59,570
Fund balances:				
Beginning of year	2,722,412	2,722,412	2,722,412	-
End of year	\$ 3,344,140	\$ 3,392,140	\$ 3,451,710	\$ 59,570

See accompanying Notes to Required Supplementary Information

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

Non-Housing

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

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
Revenues:				
Use of money and property	\$ 50,000	\$ 2,000	\$ 394,075	\$ 392,075
Other	3,000	3,000	-	(3,000)
Total revenues	<u>53,000</u>	<u>5,000</u>	<u>394,075</u>	<u>389,075</u>
Expenditures:				
Current:				
General government	738,278	738,278	915,735	(177,457)
Capital outlay	<u>9,281</u>	<u>9,281</u>	<u>7,440</u>	<u>1,841</u>
Total expenditures	<u>747,559</u>	<u>747,559</u>	<u>923,175</u>	<u>(175,614)</u>
Excess (deficiency) of revenues over (under) expenditures	(694,559)	(742,559)	(529,100)	213,459
Other financing sources (uses):				
Transfer out	-	-	(240,782)	(240,782)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(240,782)</u>	<u>(240,782)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(694,559)	(742,559)	(769,882)	(27,323)
Fund balances:				
Beginning of year	<u>275,370</u>	<u>275,370</u>	<u>275,370</u>	<u>-</u>
End of year	<u>\$ (419,189)</u>	<u>\$ (467,189)</u>	<u>\$ (494,512)</u>	<u>\$ (27,323)</u>

See accompanying Notes to Required Supplementary Information.

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

Low & Moderate Housing

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

Year Ended June 30, 2007

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 2,000	\$ 2,000	\$ 54,893	\$ 52,893
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>54,893</u>	<u>52,893</u>
Expenditures:				
Current:				
General government	173,412	173,412	138,666	34,746
Total expenditures	<u>173,412</u>	<u>173,412</u>	<u>138,666</u>	<u>34,746</u>
Excess (deficiency) of revenues over (under) expenditures	(171,412)	(171,412)	(83,773)	87,639
Other financing sources (uses):				
Transfers in	-	-	240,782	240,782
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>240,782</u>	<u>240,782</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(171,412)	(171,412)	157,009	328,421
Fund balances:				
Beginning of year	1,576,317	1,576,317	1,576,317	-
End of year	<u>\$ 1,404,905</u>	<u>\$ 1,404,905</u>	<u>\$ 1,733,326</u>	<u>\$ 328,421</u>

See accompanying Notes to Required Supplementary Information.

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

Notes to Required Supplementary Information

Year Ended June 30, 2007

(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, 2007 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non Housing:			
General Government	738,278	915,735	(177,457)



R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Compliance and Other Matters Based on an Audit
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 financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Sierra Madre, as of and for the year ended June 30, 2007, which collectively comprise the Redevelopment Agency of the City of Sierra Madre's basic financial statements and have issued our report thereon dated January 6, 2009. 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 and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Sierra Madre Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statements amounts. 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 Agency does not currently have a 5 year implementation plan.

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Management Response

In April 2007, voters approved a major planning initiative for the Agency area. Due to the size of the Development Services department and recent changes in personnel, the City has not adopted a new five year implementation plan that would incorporate the new laws. The City anticipates adoption of a new five year plan with the next the City's General Plan update that is taking place in FY 2008-09.

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.

Governmental Auditing Standards Noncompliance

06-1 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

Bank reconciliations were not 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.

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

Management has placed a strong emphasis on establishing policies and procedures that will support the requirements of timely bank reconciliations. The Agency is now current on their bank to book reconciliations.

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 6, 2009
Arcadia, California

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants