

CITY OF SIERRA MADRE

SIERRA MADRE, CALIFORNIA



Basic Financial Statements and Required Supplementary Information

with

Independent Auditor's Report

June 30, 2005

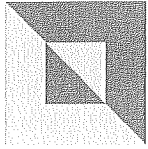
*Prepared by the City of Sierra Madre, California
Administrative Services Department:*

CITY OF SIERRA MADRE, CALIFORNIA

June 30, 2005

TABLE OF CONTENTS

<i>Independent Auditors' Report</i>	1
<i>Basic Financial Statements</i>	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities and Changes in Net Assets	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet—Governmental Funds	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
Proprietary Funds	
Statement of Net Assets	9
Statement of Revenues, Expenditures, and Changes in Net Assets	10
Statement of Cash Flows	11
Fiduciary Funds	
Statement of Net Assets	12
Notes to the Basic Financial Statements	13
<i>Required Supplementary Information</i>	
<u>Schedules of Revenues, Expenditures, and Changes in Fund Balances</u>	
<u>Budget and Actual</u>	
General Fund	
Debt Service Fund	39
Capital Projects Funds	40
Non-Housing	
Low and Moderate Housing	41
Special Revenue Funds	42
Grants	
Notes to Required Supplementary Information	43
	44



R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sierra Madre (City), California as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

As described in Note 1 to the basic financial statement, the City adopted the remaining requirement of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, for its capital assets and compensated absences.

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The City has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The information identified in the accompanying table of contents as *Required Supplementary Information* is not a required part of the basic financial statements but is supplementary information, required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

July 18, 2007
Arcadia, California

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 9,031,216	\$ 673,278	\$ 9,704,494
Cash and investments with fiscal agents	403,622	7,452,112	7,855,734
Receivables:			
Taxes	425,895	-	425,895
Accounts	318,132	4,660	322,793
Notes	26,847	-	26,847
Other	1,955,679	515,263	2,470,942
Internal balances	(1,912,992)	1,912,992	-
Prepaid expenses	412,878	10,646	423,523
Land held for resale	1,682,998		1,682,998
Capital assets, net of accumulated depreciation	195,503,526	16,886,831	212,390,357
Total current assets	<u>207,847,801</u>	<u>27,455,782</u>	<u>235,303,583</u>
Noncurrent assets:			
Deferred charges	-	449,688	449,688
Total assets	<u>207,847,801</u>	<u>27,905,470</u>	<u>235,753,272</u>
Liabilities:			
Current liabilities:			
Accounts payable	416,983	167,170	584,155
Accrued payroll and related liabilities	60,864	75,519	136,384
Interest payable	33,355	99,598	132,953
Deposits and retentions	126,282	64,069	190,351
Deferred revenue	77,700	110,814	188,514
Compensated absences	49,444	57,469	106,912
Claims payable	197,000	-	197,000
Total current liabilities	<u>961,628</u>	<u>574,639</u>	<u>1,536,268</u>
Noncurrent liabilities:			
Due within one year	233,552	255,000	488,552
Due in more than one year	4,074,470	11,645,000	15,719,470
Total noncurrent liabilities	<u>4,308,022</u>	<u>11,900,000</u>	<u>16,208,022</u>
Total liabilities	<u>5,269,650</u>	<u>12,474,639</u>	<u>17,744,290</u>
Net assets:			
Invested in capital assets, net of related debt			
Restricted for:	191,195,504		191,195,504
Capital projects	2,494,185		2,494,185
Debt service	2,421,918	-	2,421,918
Land held for resale	1,682,998	16,886,831	18,569,829
Total restricted	<u>6,599,101</u>	<u>16,886,831</u>	<u>23,485,932</u>
Unrestricted	4,783,546	(1,456,001)	3,327,545
Total net assets	<u>\$ 202,578,151</u>	<u>\$ 15,430,830</u>	<u>\$ 218,008,981</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Functions/programs								
Governmental activities:								
General government	\$ 4,381,275	\$ 3,063,056	\$ 222,698	\$ -	\$ 3,285,754	\$ (1,095,521)	\$ -	\$ (1,095,521)
Public safety	2,874,442	482,007	127,190	-	609,197	(2,265,244)	-	(2,265,244)
Public works	2,036,344	289,601	226,256	-	515,857	(1,520,488)	-	(1,520,488)
Development	-	488,959	-	-	488,959	488,959	-	488,959
Culture and recreation	954,350	26,907	899,499	-	926,406	(27,944)	-	(27,944)
Interest expense	426,849	-	-	-	-	(426,849)	-	(426,849)
Total governmental activities	<u>10,673,260</u>	<u>4,350,530</u>	<u>1,475,643</u>	<u>-</u>	<u>5,826,173</u>	<u>(4,847,087)</u>	<u>-</u>	<u>(4,847,087)</u>
Business-type activities:								
Water	2,610,644	5,002,084	-	233,760	5,235,843	-	2,625,199	2,625,199
Recreation services	383,831	188,714	-	-	188,714	-	(195,117)	(195,117)
Strike team	24,161	138,049	-	-	138,049	-	113,888	113,888
Filming	41,681	21,862	-	-	21,862	-	(19,819)	(19,819)
Total business-type activities	<u>3,060,317</u>	<u>5,350,709</u>	<u>-</u>	<u>233,760</u>	<u>5,584,468</u>	<u>-</u>	<u>2,524,152</u>	<u>2,524,152</u>
Total primary government	<u>\$ 13,733,577</u>	<u>\$ 9,701,239</u>	<u>\$ 1,475,643</u>	<u>\$ 233,760</u>	<u>\$ 11,410,641</u>	<u>(4,847,087)</u>	<u>2,524,152</u>	<u>(2,322,935)</u>
General revenues and transfers:								
Taxes						5,569,513	-	5,569,513
Investment income						166,781	-	166,781
Grants and contributions not restricted to specific programs						940,192	-	940,192
Total general revenues and transfers						<u>6,676,486</u>	<u>-</u>	<u>6,676,486</u>
Change in net assets						1,829,399	2,524,152	4,353,551
Net assets - beginning of year, as restated						200,748,752	12,906,678	213,655,430
Net assets - end of year						<u>\$ 202,578,151</u>	<u>\$ 15,430,830</u>	<u>\$ 218,008,981</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Balance Sheet

Governmental Funds

June 30, 2005

	Major Funds					Other Governmental Funds	Total Governmental Funds
	CRA Debt Service Funds		CRA - Capital Project Funds		Special Revenue		
	General	Debt Service	Non-Housing	Low & Moderate Housing	Grants		
ASSETS							
Cash and investments	\$ 3,915,361	\$ -	\$ 1,737,183	\$ 1,240,390	\$ 16,208	\$ 806,964	\$ 7,716,106
Cash and investments with fiscal agents	-	403,622	-	-	-	-	403,622
Receivables, net:							
Taxes	387,453	4,656	-	-	-	33,786	425,895
Accounts	113,834	25,808	-	-	2,722	175,675	318,039
Interest	(3,583)	-	-	-	-	107	(3,476)
Notes	-	-	26,847	-	-	-	26,847
Other	23,305	-	-	-	1,897,825	38,024	1,959,154
Due from other funds	8,020,902	3,811,391	6,183,152	436,924	887,031	4,240,333	23,579,733
Prepaid expenses	3,420	-	-	-	-	735	4,155
Land held for resale	-	-	-	1,682,998	-	-	1,682,998
Other Assets	338,669	-	-	-	-	-	338,669
Total assets	\$ 12,799,361	\$ 4,245,477	\$ 7,947,182	\$ 3,360,312	\$ 2,803,786	\$ 5,295,624	\$ 36,451,742
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	19,673	-	46,221	235	(3,949)	247,382	309,562
Due to other funds	10,861,651	1,823,559	6,997,236	1,663,391	2,287,701	2,511,744	26,145,282
Deposits and retentions	71,841	-	-	3,400	41,731	9,311	126,283
Compensated absences	-	-	-	-	-	4,997	4,997
Deferred revenue	-	-	27,700	50,000	-	-	77,700
Total liabilities	10,953,165	1,823,559	7,071,157	1,717,026	2,325,483	2,773,434	26,663,824
Fund balances:							
Reserved for:							
Debt service	-	2,421,918	-	-	-	-	2,421,918
Land held for resale	-	-	-	1,682,998	-	-	1,682,998
Unreserved	1,846,196	-	876,025	(39,712)	478,303	2,522,190	5,683,002
Total fund balances	1,846,196	2,421,918	876,025	1,643,286	478,303	2,522,190	9,787,918
Total liabilities and fund balances	\$ 12,799,361	\$ 4,245,477	\$ 7,947,182	\$ 3,360,312	\$ 2,803,786	\$ 5,295,624	\$ 36,451,742

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

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

June 30, 2005

<u>Total Fund Balances Governmental Funds and Internal Service Funds</u>	9,787,918
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Internal service funds are used by management to charge the cost of vehicles, facilities management and water. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	192,978,446
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	(5,118,159)
Capital leases provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	(810,137)
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.	5,773,438
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.	
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.	<u>(33,355)</u>
<u>Statement of Net Assets</u>	<u><u>202,578,151</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year Ended June 30, 2005

	General	CRA - Debt Service	CRA - Capital Projects		Special Revenue		Total Governmental Funds
			Non-Housing	Low & Moderate Housing	Grants	Other Governmental Funds	
Revenues:							
Taxes	\$ 4,133,309	\$ 1,185,307	\$ -	\$ -	\$ -	\$ 250,898	\$ 5,569,514
Charges for services	283,320	-	-	-	-	1,079,676	1,362,996
Intergovernmental	701,530	-	-	-	1,253,433	239,732	2,194,695
Licenses and permits	82,096	-	-	-	-	335,069	417,165
Fines and forfeitures	96,579	-	-	-	-	135,664	232,243
Investment income	85,018	1,209	53,303	27,235	-	16	166,781
Miscellaneous	39,885	-	-	-	-	114,463	154,348
Total revenues	5,421,737	1,186,516	53,303	27,235	1,253,433	2,155,518	10,097,742
Expenditures:							
Current:							
General government	1,386,003	146,078	616,680	146,937	45,374	74,644	2,415,716
Public safety	2,517,790	-	-	-	105,056	251,596	2,874,442
Public works	55,299	-	-	-	331,071	1,649,974	2,036,344
Culture and recreation	454,364	-	-	-	100,602	399,384	954,350
Debt service:							
Principal	-	185,000	-	-	-	-	185,000
Interest	-	208,494	-	-	-	-	208,494
Capital outlay	908,164	-	20,856	-	71,390	137,662	1,138,072
Total expenditures	5,321,620	539,572	637,536	146,937	653,493	2,513,260	9,812,418
Excess (deficiency) of revenues over (under) expenditures	100,117	646,944	(584,233)	(119,702)	599,940	(357,742)	285,324
Other financing sources (uses):							
Transfers in	2,858	-	-	-	-	-	2,858
Transfer out	-	-	-	-	-	-	-
Total other financing sources (uses)	2,858	-	-	-	-	-	2,858
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	102,976	646,944	(584,233)	(119,702)	599,940	(357,742)	288,183
Fund balances:							
Beginning of year	1,743,220	1,774,974	1,460,258	1,762,988	(121,637)	2,879,933	9,499,736
End of year	\$ 1,846,196	\$ 2,421,918	\$ 876,025	\$ 1,643,286	\$ 478,303	\$ 2,522,191	\$ 9,787,919

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

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

June 30, 2005

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$ 288,183
<i>Amounts reported for governmental activities in the Statement of Revenues Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:</i>	
Internal service funds are used by management to charge the cost of vehicles, facilities management and water. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	966,474
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 7).	386,363
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 of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	36,735
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.	
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.	<u>(33,355)</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>1,829,399</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Proprietary Funds

June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
ASSETS				
Current assets:				
Cash and investments	\$ 625,401	\$ 47,877	\$ 673,278	\$ 1,315,111
Cash and investments with fiscal agents	7,452,112	-	7,452,112	-
Receivables:				
Accounts	289	4,372	4,661	95
Other	515,263	-	515,263	-
Due from other funds	3,386,046	280,863	3,666,909	2,017,029
Prepaid expenses	10,646	-	10,646	408,723
Total current assets	<u>11,989,757</u>	<u>333,112</u>	<u>12,322,869</u>	<u>3,740,956</u>
Noncurrent assets:				
Capital assets	<u>16,886,831</u>	<u>-</u>	<u>16,886,831</u>	<u>191,066,760</u>
Total capital assets	16,886,831	-	16,886,831	191,066,760
Defererd charges	<u>449,688</u>	<u>-</u>	<u>449,688</u>	<u>-</u>
Total assets	<u>29,326,276</u>	<u>333,112</u>	<u>29,659,388</u>	<u>194,807,716</u>
LIABILITIES				
Current liabilities:				
Accounts payable	158,221	8,949	167,170	106,776
Accrued payroll and related liabilities	63,468	12,052	75,520	61,300
Interest payable	99,598	-	99,598	-
Due to other funds	1,406,057	347,860	1,753,917	1,419,747
Deposits and retentions	43,382	20,687	64,069	-
Deferred revenues	-	110,814	110,814	-
Compensated absences	50,700	6,769	57,469	44,447
Claims payable	-	-	-	197,000
Total current liabilities	<u>1,821,426</u>	<u>507,131</u>	<u>2,328,557</u>	<u>1,829,271</u>
Noncurrent liabilities:				
Due within one year	255,000	-	255,000	-
Due in more than one year	<u>11,645,000</u>	<u>-</u>	<u>11,645,000</u>	<u>-</u>
Total noncurrent liabilities	<u>11,900,000</u>	<u>-</u>	<u>11,900,000</u>	<u>-</u>
Total liabilities	<u>13,721,426</u>	<u>507,131</u>	<u>14,228,557</u>	<u>1,829,271</u>
NET ASSETS				
Invested in capital assets, net of related debt				191,066,760
Unrestricted	<u>(1,281,981)</u>	<u>(174,019)</u>	<u>(1,456,000)</u>	<u>1,911,686</u>
Total net assets	<u>\$ 15,604,850</u>	<u>\$ (174,019)</u>	<u>\$ 15,430,831</u>	<u>\$ 192,978,446</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA
Statement of Revenues, Expenditures, and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Other Enterprise Funds</u>	<u>Total</u>	
Operating Revenues:				
Charges for services	\$ 1,800,533	\$ 348,625	\$ 2,149,158	\$ 2,161,408
Miscellaneous	3,201,550	-	3,201,550	243,509
Total operating revenues	<u>5,002,083</u>	<u>348,625</u>	<u>5,350,708</u>	<u>2,404,917</u>
Operating Expenses:				
Cost of sales and services	1,211,782	352,832	1,564,614	1,251,965
General and administrative	437,798	96,841	534,639	186,479
Amortization	28,983	-	28,983	-
Total operating expenses	<u>1,678,563</u>	<u>449,673</u>	<u>2,128,236</u>	<u>1,438,444</u>
Operating income (loss)	3,323,520	(101,048)	3,222,472	966,474
Nonoperating revenues (expenses):				
Federal grants	233,760	-	233,760	-
Investment income	-	-	-	-
Water capital improvements	(233,760)	-	(233,760)	-
Interest expense	(597,573)	-	(597,573)	-
Total nonoperating revenues (expenses)	<u>(597,573)</u>	<u>-</u>	<u>(597,573)</u>	<u>-</u>
Income (loss) before transfers	2,725,947	(101,048)	2,624,899	966,474
Capital contributions	(373,752)	-	(373,752)	-
Transfers in	-	-	-	-
Transfers out	(3,028,938)	-	(3,028,938)	-
Change in net assets	<u>(676,743)</u>	<u>(101,048)</u>	<u>(777,791)</u>	<u>966,474</u>
Net Assets:				
Beginning of year	16,281,592	(72,972)	16,208,620	192,011,972
End of year	<u>\$ 15,604,849</u>	<u>\$ (174,020)</u>	<u>\$ 15,430,829</u>	<u>\$ 192,978,446</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,663,058	\$ 2,095,910
Payments to suppliers	(266,968)	(1,244,675)
Payments to employees	(575,870)	(151,112)
Other receipts (payments)		243,509
Net cash provided by operating activities	<u>820,220</u>	<u>943,632</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and transfers to other funds	(3,028,938)	-
Receipts from federal grants	233,760	-
Net cash provided by financing activities	<u>(2,795,179)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		-
Principal paid on capital debt	(255,000)	-
Interest paid on capital debt	(597,573)	-
Net cash (used) by capital and related financing activities	<u>(852,573)</u>	<u>-</u>
CASH FLOWS FORM INVESTING ACTIVITIES		
Interest and dividends	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net (decrease) in cash and cash equivalents	<u>-</u>	<u>-</u>
Balances - Beginning of the year	<u>10,952,920</u>	<u>371,479</u>
Balances - end of the year	<u>\$ 8,125,389</u>	<u>\$ 1,315,111</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 3,222,472	\$ 966,474
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	25,668	-
Change in assets and liabilities:		
Receivables, net	(486,101)	(3,238)
Due from other funds	-	(225,707)
Prepaid expenses	(17,166)	194,926
Deferred charges	(29,788)	-
Accounts payable	(300,365)	(13,097)
Accrued payroll and related liabilities	17,152	(23,933)
Interest payable	-	-
Due to other funds	(1,717,002)	4,385
Deposits and retentions	36,236	-
Deferred revenues	94,719	-
Claims payable	-	-
Bonds payable (current)	-	-
Bonds payable (long term)	-	-
Compensated absences	(25,607)	45,822
Net cash provided by operating activities	<u>\$ 820,220</u>	<u>\$ 943,632</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Fiduciary Funds

Year Ended June 30, 2005

ASSETS	<u>Agency Funds</u>
Cash and investments	\$ 155,198
Accounts receivable	3,016
Prepaid expenses	2,103
Due from other funds	<u>55,567</u>
Total assets	<u><u>\$ 215,884</u></u>
LIABILITIES	
Accounts payable	\$ 27,897
Deposits and retentions	<u>187,987</u>
Total liabilities	<u><u>\$ 215,884</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Reporting Entity

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

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and

CITY OF SIERRA MADRE, CALIFORNIA

Notes to the Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Blended Component Units:

The Sierra Madre Community Redevelopment Agency (Agency):

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

The Sierra Madre Public Financing Authority (Authority):

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

Organizations Other Than Component Units:

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

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

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

Governmental Fund Financial Statements

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

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to resources, the deferred revenue is removed and revenue is recognized.

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

Proprietary Fund Financial Statements

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

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

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

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

C. Cash, Cash Equivalents and Investments:

The City pools its available cash for investment purposes. The City has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent, as well as short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotation are readily available or exceed cost. However, if the liquidity needs of the City were to require that investments be sold at a loss subsequent to year-end, the decline in value would be recorded as a loss at year-end.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

D. Land Held for Resale:

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

E. Prepaid Expenses:

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

F. Inventories:

Inventories of water meters and fittings are recorded in the Water Enterprise Fund, and are stated at the lower of average cost or market value.

G. 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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Depreciation expense is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Fire hydrants	50 years
Park Structures	25 years
Wells	50 years
Manholes	60 years
Reservoirs	75 years
Meters	30 years
Sewer Pipelines	60 years
Water Pipelines	50 years
Spreading Basins	50 years
Pump Stations	60 years
Pressure Reducing Systems	40 years
Buildings	50 years
Infrastructure:	
Streets	30-50 years
Bridges	40 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB No. 34, the City has included all capital assets as of July 1, 2004 in its statement of net assets.

I. Claims Payable:

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 an expenditure in the current year to the extent that it is paid during the year. Accrued vacation and compensatory time relating to governmental funds is only included as a liability in the Statement of Net Assets as those amounts are payable from future resources and within the respective balance sheets for amounts relating to proprietary funds types.

K. 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 interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

L. 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.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Use of Restricted/Unrestricted Net Assets:

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

Government-Wide

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

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

Fund Financial Statements

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

N. Use of Estimates:

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

2. CASH AND INVESTMENTS

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

Cash and Investments	
Government-Wide	\$ 9,699,493
Fiduciary	155,198
Cash and Investments Held by Fiscal Agent	
Government-Wide	7,855,734
Fiduciary	<u> -</u>
TOTAL	<u>\$ 17,710,425</u>

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

City Pooled Amounts	\$ 219,593
Deposits with fiscal agents	7,855,734
Investments with LAIF	<u>9,635,098</u>
TOTAL	<u>\$ 17,710,425</u>

Pooled Cash

Investments in the City of Sierra Madre cash pool cannot be assigned a credit risk category because the City does not own specific securities. However, the City's investment policies and practices with regard to the credit and market risks have been determined acceptable to the City's investment policies. City Pooled amounts to the City of Sierra Madre amounted to \$219,593.

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 City's balance was \$9,635,098.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

2. CASH AND INVESTMENTS (continued)

Investments Authorized by the Entity's Investment Policy

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

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

2. CASH AND INVESTMENTS (continued)

Concentration of Credit

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

Custodial Credit Risk

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

Investment in State Investment Pool

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

3. INTERFUND TRANSACTIONS

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

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	<u>\$ 8,020,902</u>	<u>\$ 13,462,582</u>
Special Revenue Funds:		
Sewer and Storm Drain	2,960,660	338,716
Grants 893,270	1,521,304	
Environmental	524,566	403,774
Gas Tax/Congestion Management	123,202	509,366
Fire Supp. CAP Acquisitions	1,788	-
Transportation Development Act	3,722	33,056
Air Quality Control	40,157	5,045
Prop. A 75,776	96,549	
Asset Seizure	25,883	-
Public Safety Augmentation	55,534	44,566
Senior Services	601	1,252
Prop. C 102,835	8,469	
Traffic Safety	-	5,383
Library Gifts and Memorial	146,273	19,028
Community Arts Commission	980	-
Donations – Recreation	15,693	-
Dog Park	1,487	-
Council Chamber Improvements	50,000	-
Special Benefit Assessment District	31,818	14,847
Emergency Medical Response	62,495	15,431
Total Special Revenue Funds	<u>5,116,740</u>	<u>3,016,786</u>
Debt Service Funds:		
Community Redevelopment Agency	3,811,391	1,005,289
Citywide	10,624	-
Total Debt Service Funds	<u>3,822,015</u>	<u>1,005,289</u>
Capital Projects Funds:		
Community Redevelopment Agency	6,620,076	8,660,627
Total Capital Projects Funds	<u>6,620,076</u>	<u>8,660,627</u>
Total Governmental Funds	<u>23,579,733</u>	<u>26,145,284</u>
Enterprise Funds:		
Water 3,386,046	1,406,057	
Strike Team	541	20,519
Filming 67,848	88,583	
Recreation Services	212,474	239,047
Total Enterprise Funds	<u>3,666,909</u>	<u>1,754,206</u>
Internal Service Funds:		
Asset Maintenance	823,207	702,124
Administration	709,087	478,748
Self Insurance	484,734	238,875
Total Internal Service Funds	<u>2,017,028</u>	<u>1,419,747</u>
Agency Funds:		
Deposit Trust	54,684	-
FSA	882	-
Total Agency Funds	<u>55,566</u>	<u>-</u>
Total – All Funds	<u>\$ 29,319,236</u>	<u>\$ 29,319,236</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

4. FUND BALANCE DEFICITS

The following is a listing of the fund balance deficits at June 30, 2005:

Special Revenue Funds:

Emergency Medical Services	\$ (54,252)
Bikeway Sidewalk	(21,331)
Proposition A	(51,611)
Senior Delivered Meals	(217)
Lighting District Zone A	(276)
Lighting District Zone B	(8,505)
Parking District 1	(5,398)
Sewer Assessment District	(4,869)
Public Library Foundation Grant	(14,173)
State COPS SLESF Joint Cities	(37,574)

Enterprise Funds:

Daycare Services	(27,492)
Aquatics	(144,730)
Special Events	(23,776)
Recreation Classes	(1,584)
Filming Services Movie/OES	(18,372)

Internal Services:

Facilities Management	(22,679)
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- a. The Emergency Medical Services fund has a net asset deficit of \$54,252 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- b. The Bikeway Sidewalk fund has a net asset deficit of \$21,331 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- c. The Proposition A fund has a net asset deficit of 51,611 and is balanced with grant revenues received in the following year.
- d. The Senior delivered meals fund has a net asset deficit of \$217 and is balanced with grant revenues received in the following year.
- e. The Lighting District Zone A fund has a net asset deficit of \$276 and is balanced with transfers from Internal Service funds.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

4. FUND BALANCE DEFICITS (continued)

- f. The Lighting District Zone B fund has a net deficit of \$8,505 and is balanced in FY 2005-06 with transfers from Internal Service funds.
- g. Parking District 1 fund has a net deficit of \$5,398 and is balanced in FY 2005-06 with transfers from Internal Service funds.
- h. Sewer Assessment District fund has a net deficit of \$4,869 and is balanced in FY 2005-06 with transfers from Internal Service funds.
- i. The Publication Library Foundation Grant fund has a net asset deficit of \$14,173. and is balanced with grant revenues received in the following year.
- j. The State COPS SLESF Joint Cities fund has a net deficit of \$37,574 and is balanced with grant revenues received in the following year.
- k. The Daycare Services fund has a net deficit of \$27,492 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- l. The Aquatics fund has a net deficit of 144,730 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- m. The Special Events fund has a net deficit of 23,776 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- n. The Recreation Classes fund has a net deficit of 1,584 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- o. The Filming Services Movie/OES fund has a net deficit of 18,372 and is balanced in FY 2005-06 with revenue transfers from the General Fund.
- p. The Facilities Management fund has a net deficit of 22,679 is balanced with transfers from Internal Service Funds.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

5. DEFERRED CHARGES

The Authority incurred bond issuance costs of in connection with the issuance of the Sierra Madre Financing Authority (Authority) Water Revenue Refunding Bonds, Series 1998A and the Water Revenue Parity Bonds, Series 2003. The issuance costs are being amortized over the life of the Bonds, using the effective interest method. The following is a summary of bond issuance costs at June 30, 2005:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
1998 Bonds	\$ 12,894	\$ -	\$ 12,894	\$ -
2003 Bonds	<u>465,778</u>	<u>-</u>	<u>16,090</u>	<u>449,688</u>
	<u>\$ 478,672</u>	<u>\$ -</u>	<u>\$ 28,984</u>	<u>\$ 449,688</u>

6. INFRASTRUCTURE AND FIXED ASSETS

	<u>Business-Type</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>	<u>Total</u>
Non-Depreciable Assets:			
Land	\$ 163,190,616	\$ -	\$ 163,190,616
Trees	<u>1,032,936</u>	<u>-</u>	<u>1,032,936</u>
Subtotal Non-Depreciable Assets	<u>164,223,552</u>	<u>-</u>	<u>164,223,552</u>
Depreciable Assets:			
Buildings and Improvements	13,328,953	-	13,328,953
Vehicles and Equipment	11,111,742	-	11,111,742
Infrastructure	<u>37,498,761</u>	<u>7,498,759</u>	<u>44,997,520</u>
Subtotal Depreciable Assets	<u>61,939,456</u>	<u>7,498,759</u>	<u>69,438,215</u>
Total Capital Assets	<u>226,163,008</u>	<u>7,498,759</u>	<u>233,661,767</u>
Less Accumulated Depreciation	<u>(18,209,417)</u>	<u>(3,061,993)</u>	<u>(21,271,410)</u>
Total Net Capital Assets	<u>\$ 207,953,591</u>	<u>\$ 4,436,766</u>	<u>\$ 212,390,357</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

6. INFRASTRUCTURE AND FIXED ASSETS(continued)

Governmental Activities

	Balance July 1, 2004	* Adjustments	Balance July 1, 2004 as Adjusted	Additions	Deletions	Balance June 30, 2005
Depreciable assets:						
Infrastructure	\$ -	7,498,759	7,498,759	-	-	7,498,759
Less Accumulated Depreciation	-	(3,061,993)	(3,061,993)	-	-	(3,061,993)
Total capital assets, net	-	4,436,766	4,436,766	-	-	4,436,766

Business-Type Activities

	Balance July 1, 2004	Adjustments	Balance July 1, 2004 as Adjusted	Additions	Deletions	Balance June 30, 2005
Non-Depreciable assets:						
Land	\$ -	164,223,552	164,223,552	-	-	164,223,552
Trees	-	1,032,936	1,032,936	-	-	1,032,936
Subtotal Non-Depreciable Assets	-	164,223,552	164,223,552	-	-	164,223,552
Depreciable assets:						
Buildings and Improvements	-	13,328,953	13,328,953	-	-	13,328,953
Vehicle and Equipment	-	11,111,742	11,111,742	-	-	11,111,742
Infrastructure	-	37,498,761	37,498,761	-	-	37,498,761
Subtotal – Depreciable Assets	-	61,939,456	61,939,456	-	-	61,939,456
Total Capital Assets	-	226,163,008	226,163,008	-	-	226,163,008
Less Accumulated Depreciation	-	(18,209,417)	(18,209,417)	-	-	(18,209,417)
Total Net Capital Assets	\$ -	207,953,591	207,953,591	-	-	207,953,591

* In accordance with the requirements of GASB 34 the city recorded its capital assets and related depreciation as of July 1, 2004

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

7. LONG-TERM DEBT

A. Governmental Activities:

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

	<u>Outstanding</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding</u> <u>June 30, 2005</u>
Tax Increment Revenue Refunding Bond, Series 1998A	\$4,345,000	\$ -	\$(185,000)	\$4,160,000
Capital Leases	<u>184,757</u>	<u>-</u>	<u>(36,735)</u>	<u>148,022</u>
Total	<u>\$4,529,757</u>	<u>\$ -</u>	<u>\$(221,735)</u>	<u>\$4,308,022</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 (Agency) 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 as of November 1, 1999. The interest paid Tax Increment Revenue Refunding Bonds is payable semi-annually on each May 1 and November 1, as of November 1, 1998. The Bonds are special obligations of the Authority secured by and payable solely as of the tax rate of the Tax Increment Revenue Refunding Bonds 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.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

7. LONG-TERM DEBT(continued)

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

Capital Leases

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	<u>1,730,000</u>	<u>267,500</u>	<u>1,997,500</u>
TOTAL	<u>\$ 4,160,000</u>	<u>\$ 1,737,319</u>	<u>\$ 5,897,319</u>

The city has entered into various lease purchase agreements for equipment. These leases have been classified as capital leases.

Accrued Vacation and Sick Pay

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

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

7. LONG-TERM DEBT(continued)

B. Business-type activities:

The following is a summary of long-term debt transactions of Enterprise Funds for the City of Sierra Madre for the year ended June 30, 2005:

	<u>Outstanding</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding</u> <u>June 30, 2005</u>
Water Revenue Refunding Bonds, Series 1998A	\$ 5,405,000	\$ -	\$(255,000)	\$ 5,150,000
Water Revenue Parity Bonds, Series 2003	<u>6,750,000</u>	<u>-</u>	<u>-</u>	<u>6,750,000</u>
Total	<u>\$12,155,000</u>	<u>\$ -</u>	<u>\$(255,000)</u>	<u>\$11,900,000</u>

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

In May 1998, the City entered into an installment agreement with a component unit of the City, The Sierra Madre Financing Authority to issue bonds totaling \$6,740,000. The purpose of the Water Revenue Refunding Bonds was to assist the City in prepayment of its City Loan Agreement, dated November 1, 1988, by and between the City and the Authority.

The Water Revenue Refunding Bonds mature annually through November 1, 2018 in amounts ranging from \$200,000 to \$495,000 as of November 1, 1998. The interest on the bonds is payable semi-annually on each May 1 and November 1, as of November 1, 1998. The interest rates of the bonds range from 3.65% to 5.00%. The bonds are secured by and payable solely from revenues of the City's Water Enterprise Fund.

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
2006	\$ 270,000	\$ 246,688	\$ 516,688
2007	280,000	234,310	514,310
2008	290,000	221,270	511,270
2009	300,000	207,550	507,550
2010	320,000	100,250	420,250
2011-2015	1,850,000	746,500	2,596,500
2016-2018	<u>1,840,000</u>	<u>235,750</u>	<u>2,075,750</u>
TOTAL	<u>\$ 5,150,000</u>	<u>\$ 1,992,318</u>	<u>\$ 7,142,318</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

7. LONG-TERM DEBT(continued)

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

In August 2003, the City entered into an installment agreement with a component unit of the City, The Sierra Madre Financing Authority to issue bonds totaling \$6,750,000. The purpose of the Water Revenue Refunding Bonds was to finance certain improvements to the water production, treatment and distribution system of the City.

The bonds mature annually as of November 1, 2019 through 2033 in amounts ranging from \$310,000 to \$625,000. The interest on the bonds is payable semi-annually on each May 1 and November 1, as of November 1, 1998. The interest rates of the bonds range from 5.14%to 5.25 %. The bonds are secured by and payable solely from revenues of the City’s Water Enterprise Fund. The bonds are subject to special mandatory redemption, mandatory sinking fund redemption and redemption from optional prepayment of installment payments prior to maturity.

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ -	\$ 339,345	\$ 339,345
2007	-	339,345	339,345
2008	-	339,345	339,345
2009	-	339,345	339,345
2010	-	339,345	339,345
2011-2015	-	339,345	339,345
2016-2020	310,000	339,345	649,345
2021-2025	1,800,000	1,448,225	3,248,225
2026-2030	2,315,000	948,975	3,263,975
2031-2033	<u>2,325,000</u>	<u>301,635</u>	<u>2,626,635</u>
TOTAL	<u>\$ 6,750,000</u>	<u>\$ 5,074,250</u>	<u>\$ 11,824,250</u>

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

8. SELF-INSURANCE JOINT POWERS AUTHORITY

The City is a member of the Public Entity Risk Management Authority (Authority). A brief summary of the City's coverage and the Authority and its relationship follows:

A. Description of Joint Powers Authority:

The Authority is composed of approximately 93 cities and is organized under a Joint Powers agreement pursuant to California Government Code section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each member government has an elected official as its representative of the Board of Directors. The Board operates through a 9-member Executive Committee.

B. Self-Insurance Programs of the Authority:

Under the Authority liability program, each member pays an annual assessment to the Authority for coverage and administration costs. In addition, each member pays a \$50,000 self insured retention for each claim settled. If a claim exceeds \$50,000, the next \$125,000 is paid out of the non-risk sharing provision fund, which the City must repay with interest to the Authority. Coverage in excess of the deductible and non-risk sharing provision up to \$10,000,000 per claim is provided by the Authority and its excess insurance carrier.

C. Adequacy of Protection:

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

Year Ended <u>June 30</u>	Claims Payable <u>July 1</u>	Claims and Changes in <u>Estimates</u>	Fiscal Year Payments and Decreases <u>In Estimates</u>	Claims Claims Payable <u>June 30</u>
2003	\$ 230,000	\$ -	\$ (182,900)	\$ 47,100
2004	47,100	149,900	-	197,000
2005	197,000	-	-	197,000

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

9. DEFERRED COMPENSATION PLAN

The City has made available to its employees a deferred compensation plan, whereby employees authorize the City to withhold funds from salaries to be invested in individual investment accounts. Funds may be withdrawn by participants upon termination of employment or retirement. The City makes no contributions under the plan. The amount held by trustees for the employees at June 30, 2005 was \$1,145,433 and in accordance with GASB 32 is not recorded in the books of the City.

10. RETIREMENT PLAN

Plan Description: PERS Defined Benefit Pension Plan

The City of Sierra Madre contributes to the California Public Employees Retirement System (PERS), an agency multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 7% of their covered salary except for safety employees who are required to contribute 9% for safety of their annual covered salary. The City makes the contributions required of all City employees on their behalf and for their account. The City is also required to contribute at an actuarially determined rate; the current rate is 0% for both regular and safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2005, the City's annual pension cost of \$22,468 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, ranging from 3.25% to 14.45% depending on age, service, and type of employment; and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or surplus) is

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

10. RETIREMENT PLAN (continued)

being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2005 was 22 years for regular employees and 32 for safety employees for prior and current service unfunded liability.

Three-Year Trend Information for PERS (\$ Amount in Thousands)

<u>Year Ending June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	44,029	100%	--
2003	20,245	100%	--
2004	22,468	100%	--

Plan's Risk Pool Funding Progress for PERS (\$ Amount in Thousands)
(Most Recent Information Available)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Entry Age (B)</u>	<u>Unfunded Liability AAL/ (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll [(B-A)/C]</u>
6/30/01: Misc.	\$7,956	\$7,096	\$ (860)	112.1%	\$825	(104.2%)
6/30/02: Misc.	\$7,454	\$7,841	\$387	95.1%	\$830	46.5%
6/30/03: Misc.	\$7,525	\$8,723	\$1,198	86.3%	\$909	131.8%

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements (continued)

11. COMMITMENTS AND CONTINGENCIES

A. Grant Audits:

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

B. Litigation:

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

C. Compliance with Laws and Regulations

The City has 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.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Basic Financial Statements
(continued)

12. NET ASSETS RESTATEMENT

The City'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, 2004, as previously reported, to fund balances as of June 20, 2005, as restated.

	<u>Government</u>	<u>Proprietary</u>
Fund balances as of June 30, 2004, as previously reported	\$ 4,885,386	\$ 865,617
Additions:		
Prior Period Adjustments to adopt GASB 34	210,349	
Record Capital Assets to adopt GASB 34	197,482,416	16,868,830
Reductions:		
Compensated Absences Accounting Change		2,303,617
Fund balances as of June 30, 2005, as restated	<u>\$ 202,578,151</u>	<u>\$ 15,430,830</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIERRA MADRE, CALIFORNIA

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2005

	Budgeted Amounts			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	-	-	27,235	27,235
Other	-	-	-	-
Total revenues	-	-	27,235	27,235
Expenditures:				
Current:				
General government	236,648	236,648	146,937	89,711
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation, environmental and culture	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	236,648	236,648	146,937	89,711
Excess (deficiency) of revenues over (under) expenditures	(236,648)	(236,648)	(119,702)	116,946
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	(236,648)	(236,648)	(119,702)	116,946
Fund balances:				
Beginning of year	1,762,988	1,762,988	1,762,988	-
End of year	\$ 1,526,340	\$ 1,526,340	\$ 1,643,286	\$ 116,946

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Grants

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Intergovernmental	651,675	651,675	1,253,433	601,758
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	100	100	-	(100)
Other	-	-	-	-
Total revenues	651,775	651,775	1,253,433	601,658
Expenditures:				
Current:				
General government	-	-	45,374	(45,374)
Public safety	121,863	121,863	105,056	16,807
Public works	88,281	88,281	331,071	(242,790)
Recreation, environmental and culture	13,908	13,908	100,602	(86,694)
Capital outlay	60,475	60,475	71,390	(10,915)
Total expenditures	284,527	284,527	653,493	(368,966)
Excess (deficiency) of revenues over (under) expenditures	367,248	367,248	599,940	232,692
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	367,248	367,248	599,940	232,692
Fund balances:				
Beginning of year	(121,637)	(121,637)	(121,637)	-
End of year	\$ 245,611	\$ 245,611	\$ 478,303	\$ 232,692

See accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Notes to Required Supplementary Information

Year Ended June 30, 2005

(1) BUDGETS AND BUDGETARY ACCOUNTING

The City adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The City Manager or 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 City Council. Prior year appropriations lapse unless they are approved for carryover into the following fiscal year. Expenditures may not legally exceed appropriations at the program level. Reserves for encumbrances are not recorded by the City of Sierra Madre.

(2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures for the year ended June 30, 2005 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	(Unfavorable) <u>Variance</u>
General Fund:			
General Government	1,025,031	1,386,003	(360,972)
Public Safety	2,466,503	2,592,761	(126,258)
Capital Outlay	481,475	908,164	(426,689)
Debt Service:			
General Government	121,794	146,078	(24,284)
Non-Housing:			
General Government	446,147	633,748	(187,601)
Capital Outlay	-	20,856	(20,856)
Grants:			
General Government	-	45,374	(45,374)
Public Works	88,281	328,224	(239,943)
Recreation, Environmental, And Culture	13,908	101,331	(87,423)
Capital Outlay	60,475	71,390	(10,915)