CITY OF SIERRA MADRE

SIERRA MADRE, CALIFORNIA

Basic Financial Statements
and Required Supplementary Information

with

Independent Auditors' Report

June 30, 2008

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

CITY OF SIERRA MADRE, CALIFORNIA

June 30, 2008

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R. EDWARD BERANEK
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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, 2008, 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, 2008, 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.

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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.

R. Edward Beranek
Accountancy Corporation
Certified Public Accountants

March 17, 2009
Arcadia, California

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and investments	$ 10,204,932	$ 2,633,046	$ 12,837,978
Cash and investments with fiscal agents	402,866	4,405,246	4,808,112
Receivables:			
Taxes	510,057	-	510,057
Accounts	237,816	477,571	715,387
Interest	100,079	-	100,079
Grants	669,139	-	669,139
Prepaid expenses	234,317	288	234,605
Total current assets	12,359,206	7,516,151	19,875,357
Noncurrent assets:			
Deferred charges	-	392,084	392,084
Land held for resale	1,682,998	-	1,682,998
Capital assets:			
Non-depreciable	163,482,160	1,483,250	164,965,410
Depreciable, net	25,490,048	26,167,054	51,657,102
Total capital assets	188,972,208	27,650,304	216,622,512
Total assets	$ 203,014,412	$ 35,558,539	$ 238,572,951
Liabilities:			
Current liabilities:			
Accounts payable	$ 658,872	$ 463,994	$ 1,122,866
Accrued payroll and related liabilities	95,302	44,565	139,867
Interest payable	57,096	182,298	239,394
Deposits and retentions	6,000	274,239	280,239
Deferred revenue	-	46,678	46,678
Leases payable	34,562	-	34,562
Compensated absences	713,033	162,399	875,432
Claims payable	197,000	-	197,000
Bonds payable	215,000	300,000	515,000
Total current liabilities	1,976,865	1,474,173	3,451,038
Noncurrent liabilities:			
Loan payable	-	1,456,875	1,456,875
Bonds payable	3,330,000	10,760,000	14,090,000
Total noncurrent liabilities	3,330,000	12,216,875	15,546,875
Total liabilities	5,306,865	13,691,048	18,997,913
Net assets:			
Invested in capital assets, net of related debt	188,972,208	15,133,429	204,105,637
Restricted for:			
Debt service	3,178,349	-	3,178,349
Land held for resale	1,682,998	-	1,682,998
Total restricted	4,861,347	-	4,861,347
Unrestricted	3,873,992	6,734,062	10,608,054
Total net assets	$ 197,707,547	$ 21,867,491	$ 219,575,038

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, 2008

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues	Governmental Activities	Business-Type Activities	Total
Functions/programs								
Governmental activities:								
General government	$ 6,611,903	$ 4,673,832	$ 48,990	$ -	$ 4,722,822	$ (1,889,081)	$ -	$ (1,889,081)
Public safety	3,938,272	368,212	1,255,462	223,383	1,847,057	(2,091,215)	-	(2,091,215)
Public works	917,320	7,240	80,129	-	87,369	(829,951)	-	(829,951)
Development	-	377,210	-	-	377,210	377,210	-	377,210
Culture and recreation	2,006,435	59,944	59,859	205,325	325,128	(1,681,307)	-	(1,681,307)
Interest expense	178,109	-	-	-	-	(178,109)	-	(178,109)
Total governmental activities	13,652,039	5,486,438	1,444,440	428,708	7,359,586	(6,292,453)	-	(6,292,453)
Business-type activities:								
Water	9,519,066	5,031,771	-	-	5,031,771	-	(4,487,295)	(4,487,295)
Sewer	627,238	725,985	-	-	725,985	-	98,747	98,747
Recreation services	414,058	274,544	-	-	274,544	-	(139,514)	(139,514)
Strike team	136,705	229,856	-	-	229,856	-	93,151	93,151
Filming	65,954	60,066	-	-	60,066	-	(5,888)	(5,888)
Total business-type activities	10,763,021	6,322,222	-	-	6,322,222	-	(4,440,799)	(4,440,799)
Total primary government	$ 24,415,060	$ 11,808,660	$ 1,444,440	$ 428,708	$ 13,681,808	(6,292,453)	(4,440,799)	(10,733,252)
General revenues and transfers:								
Taxes						6,493,372	-	6,493,372
Investment income						521,398	222,005	743,403
Capital contributions						-	3,140,885	3,140,885
Transfers						(96,533)	96,533	-
Total general revenues and transfers						6,918,237	3,459,423	10,377,660
Change in net assets						625,784	(981,376)	(355,592)
Net assets - beginning of year, as restated						197,081,763	22,848,867	219,930,630
Net assets - end of year						$ 197,707,547	$ 21,867,491	$ 219,575,038

See Accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Balance Sheet

Governmental Funds

June 30, 2008

	Major Funds						
			Capital Projects Funds				
	General	CRA Debt Service	CRA Non-Housing	CRA Low & Moderate Housing	Grant Funds	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	$ 2,704,384	$2,754,755	$ 101,720	$ -	$ 87,874	$ 948,731	$ 6,597,464
Cash and investments with fiscal agents	-	402,866	-	-	-	-	402,866
Receivables, net:							
Taxes	415,665	26,438	-	-	-	67,954	510,057
Accounts	187,299	-	-	-	-	49,068	236,367
Interest	70,923	-	17,202	11,954	-	-	100,079
Grants	13,338	-	-	-	652,787	3,014	669,139
Due from other funds	947,855	-	34,978	-	-	-	982,833
Prepaid expenses	2,722	-	-	-	-	3,610	6,332
Land held for resale	-	-	-	1,682,998	-	-	1,682,998
Total assets	$ 4,342,186	$3,184,059	$ 153,900	$ 1,694,952	$ 740,661	$ 1,072,377	$ 11,188,135
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	$ 130,742	$ 5,710	$ 39,090	$ -	$ 216,100	$ 42,616	$ 434,258
Accrued payroll and related liabilities	63,450	-	2,154	1,737	-	13,170	80,511
Due to other funds	-	-	-	34,978	947,855	-	982,833
Deposits and retentions	6,000	-	-	-	-	-	6,000
Total liabilities	200,192	5,710	41,244	36,715	1,163,955	55,786	1,503,602
Fund balances:							
Reserved for:							
Debt service	-	3,178,349	-	-	-	-	3,178,349
Land held for resale	-	-	-	1,682,998	-	-	1,682,998
Unreserved, undesignated	3,841,994	-	112,656	(24,761)	(423,294)	1,016,591	4,523,186
Unreserved, designated for:							
Carryovers to 2008-2009	300,000	-	-	-	-	-	300,000
Total fund balances	4,141,994	3,178,349	112,656	1,658,237	(423,294)	1,016,591	9,684,533
Total liabilities and fund balances	$ 4,342,186	$3,184,059	$ 153,900	$ 1,694,952	$ 740,661	$ 1,072,377	$ 11,188,135

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, 2008

Total Fund Balances Governmental Funds	$	9,684,533
Amounts reported for governmental activities in the statement of net assets are different because:		
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.		192,255,771
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.		(57,096)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet:		
Leases payable		(34,562)
Bonds payable		(3,545,000)
Accrual of other items:		
The liability for compensated absences is not accrued in the Governmental Funds, but is recorded in the Statement of Net Assets.		(596,099)
Statement of Net Assets	$	197,707,547

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, 2008

	Major Funds						
			Capital Projects Funds				
	General	CRA Debt Service	CRA Non-Housing	CRA Low & Moderate Housing	Grant Funds	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	$ 4,634,477	$ 1,387,201	$ -	$ -	$ -	$ 471,694	$ 6,493,372
Charges for services	97,945	-	-	-	-	480,849	578,794
Intergovernmental	888,693	-	-	-	644,073	340,380	1,873,146
Licenses and permits	660,667	-	-	-	-	327,046	987,713
Fines and forfeitures	137,339	-	-	-	-	42,573	179,912
Investment income	325,471	15,866	106,400	73,661	-	-	521,398
Miscellaneous	66,426	-	3,991	-	-	154,251	224,668
Total revenues	6,811,018	1,403,067	110,391	73,661	644,073	1,816,793	10,859,003
Expenditures:							
Current:							
General government	1,354,423	133,243	649,888	148,750	3,551	117,271	2,407,126
Public safety	3,000,088	-	-	-	282,086	656,098	3,938,272
Public works	236,489	-	-	-	-	680,831	917,320
Culture and recreation	1,022,698	-	-	-	3,306	980,431	2,006,435
Debt service:							
Principal	-	215,000	-	-	-	-	215,000
Interest	-	181,520	-	-	-	-	181,520
Capital outlay	39,946	-	-	-	32,969	349,038	421,953
Total expenditures	5,653,644	529,763	649,888	148,750	321,912	2,783,669	10,087,626
Excess (deficiency) of revenues over (under) expenditures	1,157,374	873,304	(539,497)	(75,089)	322,161	(966,876)	771,377
Other financing sources (uses):							
Transfers in	245,676	-	1,146,665	-	272,419	1,102,397	2,767,157
Transfer out	(669,341)	(1,146,665)	-	-	(554,875)	(394,448)	(2,765,329)
Total other financing sources (uses)	(423,665)	(1,146,665)	1,146,665	-	(282,456)	707,949	1,828
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	733,709	(273,361)	607,168	(75,089)	39,705	(258,927)	773,205
Fund balances:							
Beginning of year, as restated	3,408,285	3,451,710	(494,512)	1,733,326	(462,999)	1,275,518	8,911,328
End of year	$ 4,141,994	$ 3,178,349	$ 112,656	$ 1,658,237	$ (423,294)	$ 1,016,591	$ 9,684,533

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, 2008

Net Change in Fund Balances - Total Governmental Funds	$	773,205
Amounts reported for governmental activities in the Statement of Revenues Expenditures and Changes in Fund Balances to Changes in Net Assets are different because:		
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.		(367,136)
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.		3,411
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		215,000
Payment of capital leases is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets		34,562
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 the liability for the year.		(33,258)
Change in Net Assets of Governmental Activities	$	625,784

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Proprietary Funds

June 30, 2008

	Enterprise Funds				
	Water	Sewer	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
ASSETS					
Current assets:					
Cash and investments	$ 991,287	$ 1,490,697	$ 151,062	$ 2,633,046	$ 3,607,468
Cash and investments with fiscal agents	4,405,246	-	-	4,405,246	-
Receivables:					
Accounts	411,580	30,761	35,230	477,571	1,449
Prepaid expenses	288	-	-	288	227,985
Total current assets	5,808,401	1,521,458	186,292	7,516,151	3,836,902
Noncurrent assets:					
Deferred charges	392,084	-	-	392,084	-
Capital assets					
Non-depreciable	1,483,250	-	-	1,483,250	163,482,160
Depreciable, net	21,884,808	4,282,246	-	26,167,054	25,490,048
Total capital assets	23,368,058	4,282,246	-	27,650,304	188,972,208
Total assets	$ 29,568,543	$ 5,803,704	$ 186,292	$ 35,558,539	$ 192,809,110
LIABILITIES					
Current liabilities:					
Accounts payable	$ 442,799	$ 8,045	$ 13,150	$ 463,994	$ 224,614
Accrued payroll and related liabilities	10,411	4,500	29,654	44,565	14,791
Interest payable	182,298	-	-	182,298	-
Deposits and retentions	203,066	-	71,173	274,239	-
Deferred revenues	-	-	46,678	46,678	-
Compensated absences	101,703	43,824	16,872	162,399	116,934
Claims payable	-	-	-	-	197,000
Bonds payable	300,000	-	-	300,000	-
Total current liabilities	1,240,277	56,369	177,527	1,474,173	553,339
Noncurrent liabilities:					
Loan payable	1,456,875	-	-	1,456,875	-
Bonds payable	10,760,000	-	-	10,760,000	-
Total noncurrent liabilities	12,216,875	-	-	12,216,875	-
Total liabilities	13,457,152	56,369	177,527	13,691,048	553,339
NET ASSETS					
Invested in capital assets, net of related debt	10,851,183	4,282,246	-	15,133,429	188,972,208
Unrestricted	5,260,208	1,465,089	8,765	6,734,062	3,283,563
Total net assets	$ 16,111,391	$ 5,747,335	$ 8,765	$ 21,867,491	$ 192,255,771

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, 2008

	Enterprise Funds				
	Water	Sewer	Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
Operating revenues:					
Charges for services	$ 5,015,338	$ 725,985	$ 550,904	$ 6,292,227	$ 3,390,342
Licenses and permits	-	-	13,562	13,562	-
Miscellaneous	16,433	-	-	16,433	125,011
Total operating revenues	5,031,771	725,985	564,466	6,322,222	3,515,353
Operating expenses:					
Cost of sales and services	1,707,787	-	587,024	2,294,811	54,794
General and administrative	665,517	-	29,692	695,209	2,838,583
Public works	582	473,014	-	473,596	-
Amortization	3,454,150	125,661	-	3,579,811	2,017,071
Total operating expenses	5,828,036	598,675	616,716	7,043,427	4,910,448
Operating income (loss)	(796,265)	127,310	(52,250)	(721,205)	(1,395,095)
Non-operating revenues (expenses):					
Investment income	215,505	-	6,500	222,005	-
Capital improvements	(3,134,989)	(28,563)	-	(3,163,552)	1,126,320
Interest expense	(556,042)	-	-	(556,042)	-
Total non-operating revenues (expenses)	(3,475,526)	(28,563)	6,500	(3,497,589)	1,126,320
Income (loss) before transfers	(4,271,791)	98,747	(45,750)	(4,218,794)	(268,775)
Capital contributions	3,140,885	-	-	3,140,885	-
Transfers in	4,189,137	37,440	155,265	4,381,842	-
Transfers out	(4,189,137)	(3,020)	(93,152)	(4,285,309)	(98,361)
Change in net assets	(1,130,906)	133,167	16,363	(981,376)	(367,136)
Net assets:					
Beginning of year, as restated	17,242,296	5,614,170	(7,599)	22,848,867	192,622,907
End of year	$ 16,111,390	$ 5,747,337	$ 8,764	$ 21,867,491	$ 192,255,771

See Accompanying Notes to Basic Financial Statement

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2008

	Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Receipts from customers	$ 5,133,800	$ 3,391,790
Payments to suppliers	(2,331,001)	(80,384)
Payments to employees	(715,819)	(2,876,600)
Other receipts (payments)	(569,195)	141,016
Net cash provided by operating activities	1,517,785	575,822
Cash flows from non-capital financing activities:		
Operating subsidies and transfers to other funds	96,533	(98,361)
Net cash provided (used) by financing activities	96,533	(98,361)
Cash flows from capital and related financing activities:		
Capital improvements	(3,163,552)	1,126,320
Capital contributions	3,140,885	-
Purchases of capital assets	(2,380,368)	(1,130,768)
Loan received from water authority	1,456,875	-
Principal paid on capital debt	(290,000)	-
Interest paid on capital debt	(556,042)	-
Net cash (used) by capital and related financing activities	(1,792,202)	(4,448)
Cash flows from investing activities:		
Interest and dividends	222,005	-
Net cash provided by investing activities	222,005	-
Net increase in cash flows	44,121	473,013
Balances - beginning of the year	6,994,171	3,134,455
Balances - end of the year	$ 7,038,292	$ 3,607,468
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (721,205)	$ (1,395,095)
Adustments to reconcile operating income to net cash provided by operating activities:		
Amortization	3,579,811	2,017,071
Change in assets and liabilities:		
Receivables, net	(1,171,989)	1,449
Prepaid expenses	(621)	16,005
Deferred charges	(25,620)	-
Accounts payable	(36,191)	(25,591)
Accrued payroll and related liabilities	(23,037)	(5,481)
Interest payable	4,573	-
Deposits and retentions	(43,686)	-
Compensated absences	2,428	(32,536)
Net cash provided by operating activities	$ 1,517,785	$ 575,822

See accompanying Notes to Basic Financial Statements.

CITY OF SIERRA MADRE, CALIFORNIA

Statement of Net Assets

Fiduciary Funds

Year Ended June 30, 2008

ASSETS		Agency Funds
Cash and investments	$	337,704
Accounts receivable		3,016
Total assets	$	340,720
LIABILITIES		
Accounts payable	$	38,566
Deposits and retentions		302,154
Total liabilities	$	340,720

See Accompanying Notes to Basic Financial Statements.

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

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

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

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 June 30, 2007 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.

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 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 interested 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.

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.

2. CASH AND INVESTMENTS

Cash and investments as reported in the accompanying balance sheet as of June 30, 2008 are as follows:

Cash and Investments:	
Government-Wide	$ 12,837,978
Fiduciary	337,704
Cash and Investments Held by Fiscal Agent:	
Government-Wide	4,808,112
Total	$ 17,983,794

Cash and investments as of June 30, 2008 consisted of the following:

Agency Pooled Amounts	$ 1,269,677
Deposits with Fiscal Agents	4,808,112
Investments with LAIF	11,906,005
Total	$ 17,983,794

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 $1,269,677.

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, 2008, the City's balance was $11,906,005.

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.**

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

Disclosures Relating to Interest Rate Risk

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

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.

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.

3. INTERFUND TRANSACTIONS

At June 30, 2008, the City had the following transfers in/out which arise in the normal course of operations:

Transfers Out	Transfers In: Business-Type Activities
Governmental Activities	$ 96,533

4. FUND BALANCE DEFICITS

The following is a listing of the fund balance deficits at June 30, 2008:

Special Revenue Funds:	
Open Space	(501,457)
Development Services	(99,082)
Parking District 1	(8,606)
Sewer Assessment District	(4,769)
Public Library Foundation Grant	(1,888)
Central Business Assessment District	(886)
Enterprise Funds:	
Filming	(639)

a. The Open Space fund has a net asset deficit of ($501,457) which will be covered by revenues in future years.
b. The Development Services fund has a net asset deficit of ($99,082) which will be covered by revenues in future years.
c. The Parking District 1 fund has a net asset deficit of ($8,606) which will be covered by transfers from the Facilities Internal Services Fund.
d. The Sewer Assessment District fund has a net asset deficit of ($4,769) which will be covered by transfers from the Facilities Internal Services Fund.
e. The Public Library Foundation Grant fund has a net asset deficit of ($1,888) which will be covered by transfers from the Facilities Internal Services Fund.
f. The Central Business Assessment District fund has a net asset deficit of ($886) which will be covered by transfers from the Facilities Internal Services Fund.
g. The Filming fund has a net asset deficit of ($639) which will be covered by revenues in future years.

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, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance July 1, 2008
Water Revenue Parity Bonds, Series 2003	$ 417,704	$ -	$ (25,620)	$ 392,084
Total	$ 417,704	$ -	$ (25,620)	$ 392,084

6. INFRASTRUCTURE AND FIXED ASSETS

At June 30, 2008 the City's capital assets consisted of the following:

	Governmental	Enterprise	Total
Non-Depreciable assets:			
Land	$ 162,275,945	$ 1,483,250	$ 163,759,195
Trees	1,206,215	-	1,206,215
Total non-depreciable assets	163,482,160	1,483,250	164,965,410
Depreciable assets:			
Structures and improvements	12,212,432	821,290	13,033,722
Machinery and equipment	1,976,340	8,154,747	10,131,087
Infrastructure	23,057,000	31,828,923	54,885,923
Total depreciable assets	37,245,772	40,804,960	78,050,732
Total capital assets	200,727,932	42,288,210	243,016,142
Less accumulated depreciation	11,755,724	14,637,906	26,393,630
Total net capital assets	$ 188,972,208	$ 27,650,304	$ 216,622,512

6. INFRASTRUCTURE AND FIXED ASSETS (continued)

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Non-Depreciable assets:				
Land	$ 162,275,945	$ -	$ -	$ 162,275,945
Trees	1,070,400	135,815	-	1,206,215
Total non-depreciable assets	163,346,345	135,815	-	163,482,160
Depreciable assets:				
Structures and improvements	11,782,715	1,768,290	1,338,573	12,212,432
Machinery and equipment	1,926,882	49,458	-	1,976,340
Infrastructure	22,928,114	166,472	37,586	23,057,000
Total depreciable assets	36,637,711	1,984,220	1,376,159	37,245,772
Total capital assets	199,984,056	2,120,035	1,376,159	200,727,932
Less accumulated depreciation	10,217,855	2,284,899	747,030	11,755,724
Total net capital assets	$ 189,766,201	$ (164,864)	$ 629,129	$ 188,972,208

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Non-Depreciable assets:				
Land	$ 1,483,250	$ -	$ -	$ 1,483,250
Total non-depreciable assets	1,483,250	-	-	1,483,250
Depreciable assets:				
Structures and improvements	821,290	-	-	821,290
Machinery and equipment	8,154,747	-	-	8,154,747
Infrastructure	29,398,890	5,036,390	2,606,357	31,828,923
Total depreciable assets	38,374,927	5,036,390	2,606,357	40,804,960
Total capital assets	39,858,177	5,036,390	2,606,357	42,288,210
Less accumulated depreciation	13,690,072	1,903,499	955,665	14,637,906
Total net capital assets	$ 26,168,105	$ 3,132,891	$ 1,650,692	$ 27,650,304

7. LONG-TERM DEBT

A. Governmental Activities:

The following is a summary of the long-term debt transaction for the City of Sierra Madre for the year ended June 30, 2008:

	Outstanding July 1, 2007	Additions	Deletions	Outstanding July 1, 2008
Tax Increment Revenue Refunding Bond Series 1998A	$ 3,760,000	$ -	$ (215,000)	$ 3,545,000
Total	$ 3,760,000	$ -	$ (215,000)	$ 3,545,000

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

In May 1998, the Sierra Madre Financing Authority issued the Tax Increment Revenue Refunding Bonds, Series 1998A 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. These bonds mature annually through November 1, 2019 in the amounts ranging from $155,000 to $380,000 as of November 1, 1998. The interest on the bonds is payable semi-annually on May 1 and November 1, as of November 1, 1999. 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, Series 1998A ranging from 3.8% to 5.0%. The 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 $3,545,000 at June 30, 2008. Annual debt service requirements on these bonds are as follows:

Year Ending June 30,	**Principal**	**Interest**	**Total**
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	270,000	122,500	392,500
2014-2018	1,575,000	389,375	1,964,375
2019-2020	740,000	37,500	777,500
Total	$ 3,545,000	$ 1,164,538	$ 4,709,538

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, 2008.

	Outstanding July 1, 2007	Additions	Deletions	Outstanding July 1, 2008
Water Revenue Refunding Bonds, Series 1998A	$ 4,600,000	$ -	$ (290,000)	$ 4,310,000
Water Revenue Parity Bonds, Series 2003	6,750,000	-	-	6,750,000
Loan Payable to San Gabriel Valley Municipal Water District	-	1,456,875	-	1,456,875
Total	$ 11,350,000	$ 1,456,875	$ (290,000)	$ 12,516,875

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. These bonds mature annually through November 1, 2018 in amounts ranging from $200,000 to $495,000 as of November 1, 1999. 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.

The outstanding balance of the Water Revenue Refunding Bonds, Series 1998A was $4,310,000 at June 30, 2008. Annual payments on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	300,000	207,550	507,550
2010	320,000	192,500	512,500
2011	335,000	176,125	511,125
2012	350,000	159,000	509,000
2013	370,000	141,000	511,000
2014-2019	2,635,000	413,875	3,048,875
Total	$ 4,310,000	$ 1,290,050	$ 5,600,050

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. These bonds mature annually through November 1, 2018 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, 2003. 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.

The outstanding balance of the Water Revenue Parity Bonds, Series 2003 was $6,750,000 at June 30, 2008. Annual payments on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	-	339,345	339,345
2010	-	339,345	339,345
2011	-	339,345	339,345
2012	-	339,345	339,345
2013	-	339,345	339,345
2014-2018	-	1,696,725	1,696,725
2019-2023	1,335,000	1,567,350	2,902,350
2024-2028	2,095,000	1,111,350	3,206,350
2029-2033	2,695,000	513,323	3,208,323
2034	625,000	15,830	640,830
Total	$ 6,750,000	$ 6,601,303	$ 13,351,303

Loan Payable to San Gabriel Valley Municipal Water District - $1,456,875:

The City has identified equipment needed to help assure a reliable water supply, by replacing its Miramonte Reservoir and Booster Station ("Reservoir Project"). Therefore, the City entered into a loan agreement with the San Gabriel Valley Municipal Water District to fund a portion of the reservoir cost in the amount of $1,456,875. Proceeds of the loan are disbursed to the City during the duration of the Reservoir Project on a reimbursement basis. Payments are due in annual installments of $145,687.50 for ten years commencing on the date of the Notice of the Completion of the Reservoir Project or 90 days after the first disbursement of the Reservoir Loan proceeds, whichever is later. As of March 17, 2009, the City has not filed a Notice of Completion.

8. SELF-INSURANCE JOINT POWERS AUTHORITY

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the CALIFONIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 119 California public entities 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 for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

B. Self-Insurance Programs of the Authority

General Liability: Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are spread to members as follows: the first $30,000 of each occurrence is charged directly to the member's primary deposit; costs from $30,000 to $750,000 and the loss development reserves associated with losses up to $750,000 are pooled based on the member's share of losses under $30,000. Losses from $750,000 to $5,000,000 and the associated loss development reserves are pooled based on payroll. Costs of covered claims from $5,000,000 to $50,000,000 are currently paid by excess insurance. Costs of covered claims for subsidence losses from $15,000,000 to $25,000,000 are paid by excess insurance. The protection for each member is $50,000,000 per occurrence and $50,000,000 annual aggregate. Administrative expenses are paid from the Authority's investment earnings.

Workers' Compensation: The City of Sierra Madre also participates in the workers' compensation pool administered by the Authority. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued.

8. SELF-INSURANCE JOINT POWERS AUTHORITY (continued)

A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Each member has a retention level of $50,000 for each loss and this is charged directly to the member's primary deposit. Losses from $50,000 to $100,000 and the loss development reserve associated with losses up to $100,000 are pooled based on the member's share of losses under $50,000. Losses from $100,000 to $2,000,000 and employer's liability losses from $5,000,000 to $10,000,000 and loss development reserves associated with those losses are pooled based on payroll. Losses from $2,000,000 to $5,000,000 are pooled with California State Association of Counties – Excess Insurance Authority members. Costs from $2,000,000 to $300,000,000 are transferred to reinsurance carriers. Costs in excess of $300,000,000 are pooled among the Members based on payroll. Protection is provided per statutory liability under California Workers' Compensation law. Administrative expenses are paid from the Authority's investment earnings.

C. Purchased Insurance

Environmental Insurance: The City of Sierra Madre participates in the pollution legal liability and remediation legal liability insurance which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Sierra Madre. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50,000,000 for the 3-year period from July 1, 2005 through July 1, 2008. Each member of the Authority has a $10,000,000 limit during the 3-year term of the policy.

Property Insurance: The City of Sierra Madre participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City of Sierra Madre property is currently insured according to a schedule of covered property submitted by the City of Sierra Madre to the Authority. City of Sierra Madre property currently has all-risk property insurance protection in the amount of $42,193,960. There is a $5,000 deductible per occurrence except for non-emergency vehicle insurance which has $1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance: The City of Sierra Madre purchases crime insurance coverage in the amount of $1,000,000 with $2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

8. SELF-INSURANCE JOINT POWERS AUTHORITY (continued)

Special Event Tenant User Liability Insurance: The City of Sierra Madre further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on City property. The insurance premium is paid by the tenant user and is paid to the City of Sierra Madre according to a schedule. The City of Sierra Madre then pays for the insurance. The insurance is arranged by the Authority.

D. 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 the prior year.

Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Payments and Decreases in Estimates	Claims Payable June 30
2006	$ 197,000	$ -	$ -	$ 197,000
2007	197,000	-	-	197,000
2008	197,000	-	-	197,000

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, 2008 was $1,523,650 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 required to contribute at an actuarially determined rate; the current rate is 15.337% of annual covered payroll for regular employees and 33.1% for safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2008, the City's annual pension cost of $957,809 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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).

10. RETIREMENT PLAN (continued)

Three-Year Trend Information for PERS (City)

Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	$ 693,611	100%	-
2007	742,374	100%	-
2008	957,809	100%	-

Pool's Employer Contribution Funding History ($Amounts in Thousands)
(Most recent Information Available)

Valuation Date	Actuarial Value of Assets (AVA)	Accrued Liabilities (AL)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
2005	500,389	579,276	78,887	86.4%	129,379	61.0%
2006	787,759	912,989	125,230	86.3%	200,320	62.5%
2007	1,149,247	1,315,454	166,207	87.4%	289,090	57.5%

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, if any, which may be disallowed 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 convents by not filing its audited statements as required by law, regulation or bond covenant in a timely manner. Management is working to have prepared and filed such audits to fulfill such regulatory requirements.

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. Subsequent to 2007 management discovered adjustments were needed to comply with GASB 34. The following table provides a reconciliation of the fund balances as of June 30, 2007, as previously reported, to fund balances as of June 30, 2007, as restated.

Government-Wide Financial Statements:

Net assets as of June 30, 2007, as previously reported	$ 197,090,590
Additions:	-
Reductions:	(8,827)
Net assets as of June 30, 2007, as restated	$ 197,081,763

Fund Financial Statements:

Fund balances as of June 30, 2007, as previously reported	$ 8,920,155
Additions:	-
Reductions:	(8,827)
Fund balances as of June 30, 2007, as restated	$ 8,911,328

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIERRA MADRE, CALIFORNIA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2008

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 5,020,395	$ 5,020,395	$ 4,634,477	$ (385,918)
Charges for services	189,149	189,149	97,945	(91,204)
Intergovernmental	80,012	80,012	888,693	808,681
Licenses and permits	493,800	493,800	660,667	166,868
Fines and forfeitures	40,560	40,560	137,339	96,779
Use of money and property	85,870	85,870	325,471	239,601
Other	65,900	65,900	66,426	526
Total revenues	5,975,686	5,975,686	6,811,018	835,332
Expenditures:				
Current:				
General government	1,377,648	1,377,648	1,354,423	23,225
Public safety	2,905,510	2,905,510	3,000,088	(94,578)
Public works	254,579	254,579	236,489	18,090
Recreation, environmental and culture	1,137,277	1,137,277	1,022,698	114,579
Capital outlay	31,500	31,500	39,946	(8,446)
Total expenditures	5,706,514	5,706,514	5,653,644	52,870
Excess (deficiency) of revenues over (under) expenditures	269,172	269,172	1,157,374	888,202
Other financing sources (uses):				
Transfers in	127,100	127,100	245,676	118,576
Transfer out	(448,854)	(448,854)	(669,341)	(220,487)
Total other financing sources (uses)	(321,754)	(321,754)	(423,665)	(101,911)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(52,582)	(52,582)	733,709	786,291
Fund balances:				
Beginning of year	3,408,285	3,408,285	3,408,285	-
End of year	$ 3,355,703	$ 3,355,703	$ 4,141,994	$ 786,291

See Accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Debt Service

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2008

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 1,210,375	$ 1,397,200	$ 1,387,201	$ (9,999)
Use of money and property	-	-	15,866	15,866
Total revenues	1,210,375	1,397,200	1,403,067	5,867
Expenditures:				
Current:				
General government	111,651	111,651	133,243	(21,592)
Debt service:				
Principal	205,000	205,000	215,000	(10,000)
Interest	176,980	176,980	181,520	(4,540)
Total expenditures	493,631	493,631	529,763	(36,132)
Excess (deficiency) of revenues over (under) expenditures	716,744	903,569	873,304	(30,265)
Other financing sources (uses):				
Transfer out	-	-	(1,146,665)	(1,146,665)
Total other financing sources (uses)	-	-	(1,146,665)	(1,146,665)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	716,744	903,569	(273,361)	(1,176,930)
Fund balances:				
Beginning of year	3,451,710	3,451,710	3,451,710	-
End of year	$ 4,168,454	$ 4,355,279	$ 3,178,349	$ (1,176,930)

See Accompanying Notes to Required Supplementary Information.

CITY OF SIERRA MADRE, CALIFORNIA

Non-Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amount	
Revenues:				
Use of money and property	$ 12,592	$ 12,592	$ 106,400	$ 93,808
Other	3,000	3,000	3,991	991
Total revenues	15,592	15,592	110,391	94,799
Expenditures:				
Current:				
General government	1,638,006	1,707,087	649,888	1,057,199
Capital outlay	610,000	610,000	-	610,000
Total expenditures	2,248,006	2,317,087	649,888	1,667,199
Excess (deficiency) of revenues over (under) expenditures	(2,232,414)	(2,301,495)	(539,497)	1,761,998
Other financing sources (uses):				
Transfers in	-	-	1,146,665	1,146,665
Total other financing sources (uses)	-	-	1,146,665	1,146,665
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,232,414)	(2,301,495)	607,168	2,908,663
Fund balances:				
Beginning of year	(494,512)	(494,512)	(494,512)	-
End of year	$ (2,726,926)	$ (2,796,007)	$ 112,656	$ 2,908,663

See Accompanying Notes to Required Supplementary Informatioı

CITY OF SIERRA MADRE, CALIFORNIA

Low & Moderate Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual

Year Ended June 30, 2008

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Use of money and property	$ -	$ -	$ 73,661	$ 73,661
Total revenues	-	-	73,661	73,661
Expenditures:				
Current:				
General government	209,846	209,846	148,750	61,096
Total expenditures	209,846	209,846	148,750	61,096
Excess (deficiency) of revenues over (under) expenditures	(209,846)	(209,846)	(75,089)	134,757
Fund balances:				
Beginning of year	1,733,326	1,733,326	1,733,326	-
End of year	$ 1,523,480	$ 1,523,480	$ 1,658,237	$ 134,757

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, 2008

	Budgeted Amounts			
	Original	Final	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	$ 1,406,535	$ 1,406,535	$ 644,073	$ (762,462)
Use of money and property	55,000	55,000	-	(55,000)
Total revenues	1,461,535	1,461,535	644,073	(817,462)
Expenditures:				
Current:				
General government	-	-	3,551	(3,551)
Public safety	59,209	59,209	282,086	(222,877)
Public works	928,116	928,116	-	928,116
Recreation, environmental and culture	15,549	15,549	3,306	12,243
Capital outlay	394,319	394,319	32,969	361,350
Total expenditures	1,397,193	1,397,193	321,912	1,075,281
Excess (deficiency) of revenues over (under) expenditures	64,342	64,342	322,161	257,819
Other financing sources (uses):				
Transfers in	-	-	272,419	272,419
Transfer out	-	-	(554,875)	(554,875)
Total other financing sources (uses)	-	-	(282,456)	(282,456)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	64,342	64,342	39,705	(24,637)
Fund balances:				
Beginning of year	(462,999)	(462,999)	(462,999)	-
End of year	$ (398,657)	$ (398,657)	$ (423,294)	$ (24,637)

See Accompanying Notes to Required Supplementary Information.

(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, 2008 exceeded the appropriations of the following funds/programs:

	Budget	Actual	(Unfavorable) Variance
General Fund:			
Public Safety	2,905,510	3,000,088	(94,578)
Capital Outlay	31,500	39,946	(8,446)
Debt Service:			
General Government	111,651	133,243	(21,592)
Principal	205,000	215,000	(10,000)
Interest	176,980	181,520	(4,540)
Grants:			
General Government	-	3,551	(3,551)
Public Safety	59,209	282,086	(222,877)