

**SIERRA MADRE COMMUNITY
REDEVELOPMENT AGENCY**

SIERRA MADRE, CALIFORNIA

*Basic Financial Statements
and Independent Auditors' Reports*

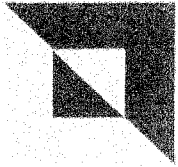
For the year ended June 30, 2011

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)

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June 30, 2011

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BERANEK CHAN AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sierra Madre Community Redevelopment Agency (Agency) a component unit of the City of Sierra Madre, California as of and for the year ended June 30, 2011, 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As discussed in Note 5, the Sierra Madre Community Redevelopment Agency's legal status and financial position and operations may be significantly impacted by legislation passed during the year ended June 30, 2011, and related litigation. The California Supreme Court has issued a partial stay of the effectiveness of the legislation until it can consider and rule on the issues of the matter. The outcome of the litigation and the effects of the legislation, if enacted, are not reasonably determinable.

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 Agency as of June 30, 2011, 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.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated January 3, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The accompanying Supplementary Information is presented for the purpose of additional analysis and is not required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Beverly Chan & Associates
Certified Public Accountants

January 3, 2012
Arcadia, California

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

Management Discussion and Analysis

The information presented in the "Management's Discussion and Analysis" is intended to be a narrative overview of the Community Redevelopment Agency of the City of Sierra Madre's (Agency) financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Agency exceeded its liabilities at the close of fiscal year June 30, 2011 by \$1,685,916 (net assets). Net Assets of \$2,364,839 is restricted for Low and moderate housing projects; of this \$1,682,998 is land purchased using Low and Moderate Housing funds. The Agency has outstanding long-term debt for redevelopment of assets of which the Agency does not own or subsequently contribute. (State law requires the Agency to operate only when in debt, please see page 8).
- The Agency's total net assets increased by \$164,048 in fiscal year 2010-2011.
- As of the close of fiscal year June 30, 2011, the Agency's governmental funds reported combined ending fund balances of \$4,506,827; an decrease of \$169,740 from the prior year. The decrease in ending fund balance is attributable to the State's Supplemental Education Revenue Augmentation Fund (SERAF) payment as well as the Agency's adoption of a Five Year Plan for blight removal in the Project Area. The City's Agency SERAF payment was \$111,693 for FY 2010-2011.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Redevelopment Agency of the City Of Sierra Madre's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements and required supplementary information, this report also contains a report on compliance and on internal control over financial reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the fiscal year's revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus assets, liabilities and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

- The *Statement of Net Assets* presents all of the Agency's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Agency is improving or deteriorating.

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COMMUNITY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

- The *Statement of Activities* presents information showing the Agency's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support. Both of the government-wide financial statements highlight functions of the Agency that are principally supported by property tax increment, interest earnings, and bond proceeds from prior years.

Redevelopment activities, in general, include providing needed public improvements, assisting with development and rehabilitation of existing properties, and providing low and moderate-income housing to eliminate or alleviate blighting conditions.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency only has governmental fund types.

- *Governmental funds* – Government funds are used to account for essentially the same functions reported as *governmental activities* in the agency-wide financial statements. However, unlike the agency-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the agency's near-term financing requirements. Because the focus of governmental funds is narrower than that of the agency-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the agency-wide financial statements. By doing so, readers may better understand the long-term impact of the agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation on pages 14 and 16 to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains three individual governmental funds, of which all three are considered major funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances, for each of these funds.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and fund financial statements.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

AGENCY-WIDE FINANCIAL ANALYSIS

Our agency-wide analysis focuses on the net assets and changes in net assets for the Agency's governmental activities. A summary of the Agency's net assets is as follows:

GOVERNMENTAL ACTIVITIES FOR AGENCY
Statement of Net Assets as of June 30,

	2010	2011
Assets		
Current assets	\$ 2,608,340	\$ 2,534,643
Restricted cash and investments	401,575	401,575
Non-Current Assets		
Non-Depreciable Assets	1,682,998	1,682,998
Depreciable Assets	-	73,318
Total assets	\$ 4,692,913	\$ 4,692,534
Liabilities		
Non-Current liabilities	\$ 331,045	\$ 421,168
Other liabilities	2,840,000	2,585,000
Total liabilities	3,171,045	3,006,618
Net assets		
Investments in capital assets, net of related debt	-	73,318
Restricted	4,681,595	4,580,144
Unrestricted	(3,159,727)	(2,967,546)
Total net assets	\$ 1,521,868	\$ 1,685,916

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For the Year Ended June 30, 2011**

GOVERNMENTAL ACTIVITIES FOR AGENCY
Statement of Activities and Changes in Net Assets as of June 30,

	2010	2011
Revenues:		
General revenues:		
Property taxes	\$ 1,414,596	\$ 1,336,588
Investment income	11,415	25,949
Total general revenues	1,426,011	1,362,537
Expenses:		
Economic development	1,238,413	989,482
Interest on long term debt	156,125	132,655
Total expenses	1,394,538	1,122,137
 Changes in net assets	 31,473	 240,400
Transfers Out	-	(76,352)
Net assets (deficit) – Beginning	1,490,395	1,521,868
 Net assets (deficit) – End	 \$ 1,521,868	 \$ 1,685,916

As noted earlier, net assets may serve over time as a useful indicator of the agency's financial position. In the case of the Agency, it is \$1,685,916 at June 30, 2011, an increase of \$164,048 from the prior year.

Governmental Activities

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Governmental activities decreased the Agency's net assets by \$169,740. Key elements of this increase area follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

TOTAL GOVERNMENTAL FUNDS FOR AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance, as of June 30,

	2010	2011
Revenues:		
Taxes	\$ 1,414,596	\$ 1,336,588
Use of money and property	11,415	25,949
Total revenues	1,426,011	1,362,537
Expenses:		
Economic development	1,236,168	1,062,800
Debt Services:		
Principal	235,000	245,000
Interest	160,125	148,125
Capital Outlay	-	-
Total expenses	1,631,293	1,455,925
Other financing sources (uses)		
Transfers In	387,421	1,022,714
Transfers Out	(387,421)	(1,099,066)
Total other financing sources (uses)	-	(76,352)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(205,282)	(169,740)
Fund Balance at June 30, 2010	4,881,849	4,676,567
Fund Balance at June 30, 2011	\$ 4,676,567	\$ 4,506,827

Property tax increment revenues are the Agency's major revenue source. This revenue decreased by \$78,008, or -5.5% from the prior year. This is a reflection of the current real estate decline and property tax reassessments. Investment earnings of \$25,949 were received from investments of available funds, an increase of \$14,534 from the prior year. Expenditures decreased by \$178,368 primarily from the from the State SERAF payment year-over-year change.

In FY 2011-2012, the State of California legislature approved AB 1X26 abolishing Redevelopment in California. It also passed AB 1X27, allowing Agencies to remain operational so long as the City's agreed to pay payments similar to the FY 2009-2010 and FY 2010-2011 SERAF payments. In July 2011, the City of Sierra Madre City Council/ Agency board adopted Ordinance 1302 to make the payments under AB 1X 27.

**SIERRA MADRE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

On December 29, 2011, the California Supreme Court ruled in the redevelopment litigation -- *CRA v. Matosantos* – upholding ABX1 26 which abolished redevelopment agencies, but striking down companion legislation ABX1 27 that would have allowed agencies to survive if they contribute money to the State. As part of the Supreme Court’s ruling, agencies are to be dissolved on February 1, 2012. The City of Sierra Madre will be named the Successor Agency and will make payments for contractual obligations under EOPS (Enforceable Obligation Payment Schedule) that was filed with the State Department of Finance in August 2011.

GASB 54 FUND BALANCE POLICY

The City of Sierra Madre adopted GASB 54 Fund Balance Policy in June 2011 for governmental funds. Resolution 11-060 (adopted June 28, 2011) Committed \$2,455,000 in the Fund Reserves in the Agency funds:

Action or Project to Use Funds	Vendor	Fund	Fund No.	Amount per Fund
Senior Center/Park House	Onyx & B-One Const.	CRA Non-housing	33001	\$245,000
City Hall/Public Safety Roofs	Waterproofing Experts, Inc.	CRA Non-housing	33001	\$250,000
SMB Water Main Replacement	Bucknam& TBD	CRA Non-housing	33001	\$750,000
Re-pave City-Owned parking lots	TBD	CRA Non-housing	33001	\$500,000
Façade Improvement Program	various	CRA Non-housing	33001	\$30,000
Memorial Park Restroom	CX	CRA Non-housing	33001	\$100,000
		CRA Non-housing	33001	\$100,000
Market Demand Study	TBD	CRA Non-housing	33001	\$30,000
Low Mod Housing (Highland)	TBD	CRA Housing	47000	\$450,000

Actual Fund Balance as of June 30, 2011

Non-Spendable	\$401,575
Restricted	1,682,998
Committed	2,422,254
	\$4,506,827

DEBT ADMINISTRATION

Long-Term Liabilities

The Agency, operating under California Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Bond funds may be used to acquire properties, construct buildings and infrastructure, and to alleviate blight. These expenditures do not generally create assets to offset bonded debt. Future tax increment revenues must be used to liquidate noncurrent bond liabilities. At the end of the current fiscal year, the Agency had total bonded debt of \$2,840,000 and they are secured solely by property tax increment revenue.

The Agency’s total debt decreased by \$245,000 during the current fiscal year, due to scheduled debt

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For the Year Ended June 30, 2011**

service payments made for the tax allocation bonds issued in 1998. Standard & Poor's rates the

Agency's overall 1998-bond credit rating as AA. Annual debt service requirements on these bond areas are as follow:

**FISCAL YEAR END
JUNE 30,**

2012	\$255,000	\$135,625	\$390,625
2013	270,000	122,500	392,500
2014	285,000	108,625	393,625
2015	300,000	94,000	394,000
2016	315,000	78,625	393,625
2017-2020	<u>1,415,000</u>	<u>145,625</u>	<u>1,560,625</u>
	<u>\$2,840,000</u>	<u>\$685,000</u>	<u>\$3,525,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency adopted FY 2010-2015 Five Year Implementation Plan in October 2010. Included in this plan (available on the City's website www.cityofsierramadre.com), the Agency has provided the five year financial forecast for the Agency including the Low and moderate-income housing funds. The City Council provided funding for the following projects, listed below in no particular order;

1. Completion of the Hart Park House renovation in Memorial Park
2. Provide grant funds to businesses in the Project Area for façade improvements.
3. Provided development fee subsidies for businesses that achieved three or more goals in the Five Year Plan.
4. Paving and restriping of Project area parking lots, both private and public
5. Appropriate funding for consultant to develop Highland Street property purchased with Low and moderate housing funds
6. Replacement of water mains on Sierra Madre Boulevard; improving water conveyance and reliability to the Project Area
7. Co-funded street resurfacing with Proposition C and General Fund funds on Sierra Madre Boulevard
8. Replacement of park equipment at Memorial Park
9. Started Market Demand Study with Buxton
10. General Plan and Housing Element Update

On December 29, 2011, the California Supreme Court ruled in the redevelopment litigation -- *CRA v. Matosantos* – upholding ABX1 26 which abolished redevelopment agencies, but striking down companion legislation ABX1 27 that would have allowed agencies to survive if they contribute money to the State. As part of the Supreme Court's ruling, agencies are to be dissolved on February 1, 2012. The City of Sierra Madre will be named the Successor Agency and will make payments for

contractual obligations under EOPS (Enforceable Obligation Payment Schedule) that was filed with

**SIERRA MADRE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011**

the State Department of Finance in August 2011.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Redevelopment Agency of the City of Sierra Madre, 232 W Sierra Madre Blvd., Sierra Madre, California 91024.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Statement of Net Assets
June 30, 2011

	Governmental
<u>Assets:</u>	
Current assets:	
Cash and investments	\$ 2,534,643
Restricted cash and investments	401,575
Total current assets	2,936,218
Non-current assets:	
Land held for resale	1,682,998
Capital asset	
Depreciable, net	73,318
Total non-current assets	1,756,316
Total assets	4,692,534
 <u>Liabilities:</u>	
Current liabilities:	
Accounts payable	100,504
Accrued payroll and related liabilities	11,886
Interest payable	33,906
Compensated absences	20,322
Bonds payable - due within one year	255,000
Total current liabilities	421,618
Non-current liabilities:	
Bonds payable - due in more than one year	2,585,000
Total non-current liabilities	2,585,000
Total liabilities	3,006,618
 <u>Net assets:</u>	
Investmed in capital assets, net of related debt	73,318
Restricted for:	
Debt services	2,215,305
Low and moderate housing	2,364,839
Total restricted	4,580,144
Unrestricted	(2,967,546)
Total net assets	\$ 1,685,916

See Accompanying Notes to Basic Financial Statements.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Current Services	Operating Grants and Contributions	
Functions/programs				
Governmental activities:				
General government	\$ 280,907	\$ -	\$ -	\$ (280,907)
Development	624,960	-	-	(624,960)
Public works	83,615	-	-	(83,615)
Interest on long term debt	132,655	-	-	(132,655)
Total governmental activities	<u>1,122,137</u>	<u>-</u>	<u>-</u>	<u>(1,122,137)</u>

General revenues and transfers:

Property taxes	1,336,588
Investment income	25,917
Transfer to other City funds	(76,352)
Other	32
Total general revenues and transfers	<u>1,286,185</u>

Change in net assets	164,048
Net assets - beginning of year	<u>1,521,868</u>
Net assets - end of year	<u>\$ 1,685,916</u>

See Accompanying Notes to Basic Financial Statements.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)

Balance Sheet
Governmental Funds
June 30, 2011

	<u>Capital Project Funds</u>			<u>Total Governmental Funds</u>
	<u>Debt Service</u>	<u>Non-Housing</u>	<u>Low & Moderate Housing</u>	
ASSETS				
Cash and investments	\$ 1,813,730	\$ 127,547	\$ 593,366	\$ 2,534,643
Restricted cash and investments	401,575	-	-	401,575
Land held for resale	-	-	1,682,998	1,682,998
Advances to other funds	-	-	-	-
Total assets	<u>\$ 2,215,305</u>	<u>\$ 127,547</u>	<u>\$ 2,276,364</u>	<u>\$ 4,619,216</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ 98,039	\$ 2,465	\$ 100,504
Accrued payroll and related liabilities	-	5,943	5,943	11,886
Total liabilities	<u>-</u>	<u>103,982</u>	<u>8,408</u>	<u>112,390</u>
Fund balances:				
Nonspendable	401,575	-	-	401,575
Restricted	-	-	1,682,998	1,682,998
Committed	1,813,730	23,565	584,958	2,422,253
Unassigned	-	-	-	-
Total fund balances	<u>2,215,305</u>	<u>23,565</u>	<u>2,267,956</u>	<u>4,506,826</u>
Total liabilities and fund balances	<u>\$ 2,215,305</u>	<u>\$ 127,547</u>	<u>\$ 2,276,364</u>	<u>\$ 4,619,216</u>

See Accompanying Notes to Basic Financial Statements.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Reconciliation of the Balance Sheet of the Governmental Funds to the
Statement of Net Assets
June 30, 2011

<u>Total Fund Balances Governmental Funds</u>	\$	4,506,826
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial sources and, therefore, not reported in governmental funds		73,318
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.		(33,906)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund:		
Bonds payable - due within one year		(255,000)
Bonds payable - due in more than one year		(2,585,000)
The liabilities for compensated absences were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.		(20,322)
		(20,322)
<u>Statement of Net Assets</u>	\$	1,685,916

See accompanying Notes to Basic Financial Statements.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
Year-Ended June 30, 2011

	<u>Capital Projects</u>			<u>Total Governmental Funds</u>
	<u>Debt Service</u>	<u>Non-Housing</u>	<u>Low & Moderate Housing</u>	
Revenues:				
Taxes	\$ 1,336,588	\$ -	\$ -	\$ 1,336,588
Use of money and property	4,098	20,762	1,057	25,917
Other	-	32	-	32
Total revenues	<u>1,340,686</u>	<u>20,794</u>	<u>1,057</u>	<u>1,362,537</u>
Expenditures:				
Current:				
General government	161,860	69,023	50,024	280,907
Public works	-	148,915	8,018	156,933
Development	-	497,094	127,866	624,960
Debt service:				
Principal	245,000	-	-	245,000
Interest	148,125	-	-	148,125
Total expenditures	<u>554,985</u>	<u>715,032</u>	<u>185,908</u>	<u>1,455,925</u>
Excess (deficiency) of revenues over (under) expenditures	<u>785,701</u>	<u>(694,238)</u>	<u>(184,851)</u>	<u>(93,388)</u>
Other financing sources (uses):				
Transfers in	-	722,831	299,883	1,022,714
Transfer out	<u>(1,099,066)</u>	<u>-</u>	<u>-</u>	<u>(1,099,066)</u>
Total other financing sources (uses)	<u>(1,099,066)</u>	<u>722,831</u>	<u>299,883</u>	<u>(76,352)</u>
Excess (deficiency) of revenues and other financing sources over financing uses	<u>(313,365)</u>	<u>28,593</u>	<u>115,032</u>	<u>(169,740)</u>
Fund balances:				
Beginning of year	<u>2,528,670</u>	<u>(5,028)</u>	<u>2,152,924</u>	<u>4,676,566</u>
End of year	<u>\$ 2,215,305</u>	<u>\$ 23,565</u>	<u>\$ 2,267,956</u>	<u>\$ 4,506,826</u>

See Accompanying Notes to Basic Financial Statements.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
June 30, 2011

<u>Net Change in Fund Balances - Total Governmental Funds</u>	\$	(169,740)
 <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>		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives through depreciation expenses		\$73,318
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.		17,714
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Government Wide Statement of Net Assets.		245,000
Governmental funds do not report the long-term portion of compensated absences, while the Statement of Activities records such liabilities. Thus, the amount recorded is the change in liability for the year.		<u>(2,244)</u>
<u>Change in Net Assets of Governmental Activities</u>	<u>\$</u>	<u>164,048</u>

See accompanying Notes to Basic Financial Statements.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

The principal objectives of the Agency are to improve the commercial environment, upgrade residential neighborhoods, expand the industrial base, provide public improvements, enhance economic conditions, and create employment opportunities.

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

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

B. Basis of Accounting and Measurement Focus

Government-Wide Statements

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

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Governmental Fund Financial Statements

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

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

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

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.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments:

The Agency pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotation are readily available.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Agency and are presented as "Cash and Investments" in the accompanying component unit financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosure* (An amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas:

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

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Investments with Fiscal Agents

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

E. Land Held for Resale:

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

F. Property Tax:

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, advances from the City. Additionally, broadened property tax exemptions could have a similar effect. Conversely, any increase in tax rate or assessed valuation, or any reduction or elimination of present exemptions, would increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans and advance from the City. The following dates relate to property tax levies and collections:

Lien Date	January 1
Levy Date	July 1
Due Dates	November 1 and February 1
Delinquent Dates	December 10 and April 10

G. Capital Assets

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB No. 34, the Agency has included all capital assets as of June 30, 2011 in its statement of net assets.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets (continued)

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. The Agency's capitalization policy is \$5,000 and above for fixed assets; \$10,000 and above for building improvements; \$20,000 and above for buildings; and \$50,000 and above for infrastructure assets. Capital assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Park Structures	25 years
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H. Interest Payable:

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

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

I. Compensated Absences:

For government-wide financial statements, all vested vacation and compensatory leave time is recognized as an expense and as a liability at the time the liability vests. Governmental fund types recognize the vested vacation and compensatory time as expenditure in the current year to the extent that it is paid during the year.

J. Reservations and Designations of Fund Balances:

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balances be segregated or identify the portion of the fund balances not available for future expenditures. Designations of fund balances represent tentative management plans that are subject to change.

SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Use of Restricted/Unrestricted Net Assets:

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

Government-Wide

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

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

Fund Financial Statements

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Reporting and Governmental Fund Type Definitions*. The Statement is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. GASB 54 became effective in the year ending June 30, 2011, and requires the Agency to report the fund balance as follows:

Non-spendable – reflects amounts that are not in spendable form, examples of which include inventory, prepaid items, and spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment. The Agency's non-spendable fund balance at June 30, 2011 included the restricted cash and investment held by a fiscal agent for future debt service.

Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers or through enabling legislation. The Agency considered the land held for resale as restricted fund balance at June 30, 2011.

Committed – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Committed fund balance may be redirected by the Agency to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the highest level of decision-making authority. The Agency considered the remaining fund balance to be committed.

Assigned - comprises amounts intended to be used by the government for specific purposes. Assignments may be established either by the Agency or by a designee of the Agency, and are subject to neither the restricted nor committed levels of constraints. The Agency does not have any assigned fund balance at June 30, 2011.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Use of Restricted/Unrestricted Net Assets (continued)

Fund Financial Statements (continued)

Unassigned –is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

It is the Agency's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Agency's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. In the initial GASB 54 implementation year, beginning fund balance for all special revenue funds will be classified as restricted, unless they are negative, in which they must be shown as negative unassigned. Beginning fund balance in the general fund will all be classified as unassigned.

The Agency's highest level of legal authority, as described in GASB 54, is an ordinance.

L. Budgetary Policy and Control:

Budget amounts are reported as originally adopted and as further amended by the Agency Board. The differences between budgetary basis and GAAP fund balances as of June 30, 2011 were not material.

M. Use of Estimates:

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

SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

2. CASH AND INVESTMENTS

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

Cash and investments	\$ 2,534,643
Restricted cash and investments	401,575
Total	<u>\$ 2,936,218</u>

Cash and investments as of June 30, 2011 consisted of the following:

Agency pooled amounts	\$ (1,356,969)
Restricted cash and investments	401,575
Investments with LAIF	3,891,612
Total	<u>\$ 2,936,218</u>

Pooled Cash with the City of Sierra Madre

Investments in the City of Sierra Madre cash pool cannot be assigned a credit risk category because the Agency does not own specific securities. However, the City's investment policies and practices with regard to the credit and market risks have been determined acceptable to the Agency's investment policies. Pooled advances from the City of Sierra Madre amounted to \$(1,356,969).

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, 2011, the Redevelopment Agency's balance was \$3,891,612.

Investments Authorized by the Entity's Investment Policy

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

SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

2. CASH AND INVESTMENTS (continued)

Investments Authorized by Debt Agreements

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

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

Disclosures Relating to Interest Rate Risk

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

Disclosures Relating to Credit Risk

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

Concentration of Credit

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

Custodial Credit Risk

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

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

2. CASH AND INVESTMENTS (continued)

Investment in State Investment Pool

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

3. CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable assets:				
Park structure	\$ -	\$ 73,317	\$ -	\$ 73,317
Total depreciable assets	<u>-</u>	<u>73,317</u>	<u>-</u>	<u>73,317</u>
Less accumulated depreciation	-	-	-	-
Total net capital assets	<u>\$ -</u>	<u>\$ 73,317</u>	<u>\$ -</u>	<u>\$ 73,317</u>

The Agency expects to depreciate the above asset at the beginning of the fiscal year 2012.

4. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Agency for the year ended June 30, 2011:

	Outstanding June 30, 2010	Additions	Payments	Outstanding June 30, 2011
<i>Tax Increment Revenue Refunding Bonds, Series 1998A</i>	\$ 3,085,000	\$ -	\$ (245,000)	\$ 2,840,000

SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

4. LONG-TERM DEBT (continued)

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

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

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

The Tax Increment Revenue Refunding Bonds are subject to mandatory sinking redemption and redemption from optional loan prepayments prior to maturity. The outstanding balance of the Tax Increment Revenue Refunding Bonds, Series 1998A was \$2,840,000 at June 30, 2011. Annual debt service requirements on these bonds are as follows:

Year Ending				
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2012	\$ 255,000	\$ 135,625	\$ 390,625	
2013	270,000	122,500	392,500	
2014	285,000	108,625	393,625	
2015	300,000	94,000	394,000	
2016	315,000	78,625	393,625	
2017-2020	<u>1,415,000</u>	<u>145,625</u>	<u>1,560,625</u>	
Total	<u>\$ 2,840,000</u>	<u>\$ 685,000</u>	<u>\$ 3,525,000</u>	

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

5. COMMITMENTS AND CONTINGENCIES

A. Grant Audits:

The Agency participates in Federal and State grant programs. These programs are audited by the Agency's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies, cannot be determined at this time. The Agency expects such amounts, if any, to be immaterial.

B. Litigation:

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

C. State Legislation ABX1 26 and ABX1 27:

As part of the State budget, the Legislature approved and the Governor signed bills ABX1 26 and ABX1 27 (legislation). The first part of the legislation dissolves all redevelopment agencies and establishes mechanisms for paying existing agency debts and liquidating agency issues. The second part of this legislation allows redevelopment activity to continue and preserve the assets under a voluntary alternative redevelopment program if the City sponsoring the redevelopment agency agrees to make certain payments. As calculated by the State, the City and/or the Agency will be required to pay \$3,290,212 in 2012.

The California Redevelopment Association (CRA) and California League of Cities (CLC) filed a petition with the California Supreme Court, challenging the constitutionality of ABX1 26 and 27 and seeking a stay of ABX1 26 and 27 pending resolution of the Petition. The Supreme Court has agreed to hear the CRA and the CLC and stayed most of the statutes' provisions, freezing or limiting redevelopment agencies' activities in the interim until a ruling is made. The stay precludes redevelopment agencies from entering into new commitments and allows them to honor existing commitments, leaving the interpretation of specific actions to City and Agency Attorneys. A decision is scheduled to be made by the Supreme Court by January 15, 2012.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2011**

5. COMMITMENTS AND CONTINGENCIES (Continued)

At their meeting of July 19, 2011, the City Council and the Agency Board agreed to adopt a contingent ordinance to opt-in to the provisions of the voluntary alternative redevelopment program and make the required payments to be reimbursed by Agency's tax increment funds.

Pending decision of the Supreme Court on the constitutionality of ABX1 26 and ABX1 27, the City and the Agency deferred the transfer and conveyance of these properties to the City. The transfer has not been recorded in the books of the City and the Agency as of June 30, 2011.

6. SUBSEQUENT EVENTS

Evaluation of Subsequent Events

The Agency has evaluated subsequent events through January 3, 2012, the date which the financial statements were available to be issued.

On December 29, 2011, the California Supreme Court ruled in the redevelopment litigation -- CRA v. Matosantos – upholding ABX1 26 which abolished redevelopment agencies, but striking down companion legislation ABX1 27 that would have allowed agencies to survive if they contribute money to the State. As part of the Supreme Court's ruling, agencies are to be dissolved on February 1, 2012. The City of Sierra Madre will be named the Successor Agency and will make payments for contractual obligations under ROPS (Required Obligation Payment Schedule) that was filed with the State Department of Finance in August 2011.

REQUIRED SUPPLEMENTARY INFORMATION

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Debt Service
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year-Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
Revenues:				
Taxes	\$ 1,466,842	\$ 1,466,842	\$ 1,336,588	\$ (130,254)
Use of money and property	-	-	4,098	4,098
Other	-	-	-	-
Total revenues	<u>1,466,842</u>	<u>1,466,842</u>	<u>1,340,686</u>	<u>(126,156)</u>
Expenditures:				
Current:				
General government	294,339	689,464	161,860	527,604
Debt service:				
Principal	235,000	235,000	245,000	(10,000)
Interest	160,125	160,125	148,125	12,000
Total expenditures	<u>689,464</u>	<u>1,084,589</u>	<u>554,985</u>	<u>529,604</u>
Excess (deficiency) of revenues over (under) expenditures	<u>777,378</u>	<u>382,253</u>	<u>785,701</u>	<u>403,448</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfer out	-	-	(1,099,066)	(1,099,066)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,099,066)</u>	<u>(1,099,066)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>777,378</u>	<u>382,253</u>	<u>(313,365)</u>	<u>(695,618)</u>
Fund balances:				
Beginning of year	<u>2,528,670</u>	<u>2,528,670</u>	<u>2,528,670</u>	<u>-</u>
End of year	<u>\$ 3,306,048</u>	<u>\$ 2,910,923</u>	<u>\$ 2,215,305</u>	<u>\$ (695,618)</u>

See accompanying Notes to Required Supplementary Information.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Non-Housing
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year-Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property	15,748	15,905	20,762	4,857
Other	-	-	32	32
Total revenues	<u>15,748</u>	<u>15,905</u>	<u>20,794</u>	<u>4,889</u>
Expenditures:				
Current:				
General government	38,235	38,235	69,023	(30,788)
Public works	158,990	158,990	148,915	10,075
Development	498,065	498,065	497,094	971
Total expenditures	<u>695,290</u>	<u>695,290</u>	<u>715,032</u>	<u>(19,742)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(679,542)</u>	<u>(679,385)</u>	<u>(694,238)</u>	<u>(14,853)</u>
Other financing sources (uses):				
Transfers in	-	-	722,831	722,831
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>722,831</u>	<u>722,831</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(679,542)</u>	<u>(679,385)</u>	<u>28,593</u>	<u>707,978</u>
Fund balances:				
Beginning of year	<u>(5,028)</u>	<u>(5,028)</u>	<u>(5,028)</u>	<u>-</u>
End of year	<u>\$ (684,570)</u>	<u>\$ (684,413)</u>	<u>\$ 23,565</u>	<u>\$ 707,978</u>

See accompanying Notes to Required Supplementary Information.

SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Sierra Madre, California)
Low & Moderate Housing
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year-Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property	75,750	76,508	1,057	(75,451)
Other	-	-	-	-
Total revenues	<u>75,750</u>	<u>76,508</u>	<u>1,057</u>	<u>(75,451)</u>
Expenditures:				
Current:				
General government	26,437	26,437	50,024	(23,587)
Public works	7,509	7,509	8,018	(509)
Development	146,902	146,902	127,866	19,036
Total expenditures	<u>180,848</u>	<u>180,848</u>	<u>185,908</u>	<u>(5,060)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(105,098)</u>	<u>(104,340)</u>	<u>(184,851)</u>	<u>(80,511)</u>
Other financing sources (uses):				
Transfers in	-	-	299,883	299,883
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>299,883</u>	<u>299,883</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(105,098)</u>	<u>(104,340)</u>	<u>115,032</u>	<u>219,372</u>
Fund balances:				
Beginning of year	<u>2,152,924</u>	<u>2,152,924</u>	<u>2,152,924</u>	<u>-</u>
End of year	<u>\$ 2,047,826</u>	<u>\$ 2,048,584</u>	<u>\$ 2,267,956</u>	<u>\$ 219,372</u>

See accompanying Notes to Required Supplementary Information.

**SIERRA MADRE
COMMUNITY REDEVELOPMENT AGENCY
Notes to Required Supplementary Information
For the Year Ended June 30, 2011**

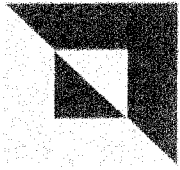
(1) BUDGETS AND BUDGETARY ACCOUNTING

The Agency adopts an annual budget prepared on the modified accrual basis of accounting for its governmental funds. The Executive Director or appointed designee is authorized to transfer budgeted amounts between the accounts of any department. Revisions that alter the total appropriations of any department or fund may be approved by Agency Board. There were no additional appropriations during the year. Prior year appropriations lapse unless they are approved for carryover into the following fiscal year. Expenditures may not legally exceed appropriations at the program level. Reserves for encumbrances are not recorded by the Agency.

(2) EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures for the year ended June 30, 2011 exceeded the appropriations of the following funds/programs:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Debt Service:			
Principal	\$ 235,000	\$ 245,000	\$ (10,000)
Non-Housing			
General government	38,235	69,023	(30,788)
Low & Moderate Housing			
General government	26,437	50,024	(23,587)
Public works	7,509	8,018	(509)



BERANEK CHAN AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board Members of the Sierra Madre
Community Redevelopment Agency
Sierra Madre, California

We have audited the financial statements of the governmental activities, each major fund, of the Sierra Madre Community Redevelopment Agency (Agency), a component unit of the City of Sierra Madre, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. . However, as described in the accompanying, Schedule of Findings and Questioned Costs, the results of our test disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* [2011-01].

The Agency's response to the finding identified are described in the accompanying, Schedule of Findings and Questioned Costs. We did not audit the Agency's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Benarek Chan & Associates

Certified Public Accountants

January 3, 2012
Arcadia, California

**SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
CITY OF SIERRA MADRE, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR
FOR THE YEAR ENDED JUNE 30, 2011**

Financial Statements

Type of auditors' report issued on the financial statements: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Noncompliance material to general purpose financial statements noted:

No

Section II – State Controller Compliance

Finding 2011-01 – Filing of 2010 Audited Financial Statements

Criteria: According to Health and Safety Code section 33080.1, the agency must present an annual report to its legislative body and the SCO within six months of the end of a fiscal year (generally, December 31). The annual report shall contain all of the information required under, including the independent auditors' reports.

Condition: The Agency did not file the 2010 report within six months of the end of fiscal year.

Questioned Costs: N/A

Context: N/A

Effect: The lack of filing the audited financial statements in a timely manner caused the Agency to pay penalties to the State of California.

Cause: The non-compliance was primarily caused by the lack of meeting the required State Controller's deadline.

Recommendation: We recommend that the Agency file the audited financial statements to the State Controller in a timely manner.

Management Response: The City did file the 2010 report on or about January 5, 2011. Management is working to prepare and file future report in accordance with regulatory requirements.

**SIERRA MADRE COMMUNITY REDEVELOPMENT AGENCY
CITY OF SIERRA MADRE, CALIFORNIA
STATUS OF PRIOR AUDIT REPORT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

There were no prior audit report findings.