

**CITY OF GRAND TERRACE,
CALIFORNIA**

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007

**City of Grand Terrace
Annual Financial Report
For The Year Ended June 30, 2007**

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The Honorable City Council
of the City of Grand Terrace
Grand Terrace, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Grand Terrace, as of and for the year ended June 30, 2007, which collectively comprise the City of Grand Terrace's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grand Terrace's management. Our responsibility is to express opinions 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Grand Terrace, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2007, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 55 through 56, are not a required part of the basic financial statements but are 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 the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Terrace's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rogers, Anderson, Molody & Scott, LLP

November 29, 2007

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Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the City of Grand Terrace provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. The information presented herein should be considered in conjunction with the City's financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

Included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Overview of the Financial Statements

The annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - Proprietary funds statements offer short and long-term financial information about the activities the government operates like a business.
 - Fiduciary fund statements provide information about the fiduciary relationships - like the agency funds of the City - in which the City acts solely as agent or trustee for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary spreadsheets that provide additional financial and budgetary information.

Reporting the City as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the City as a whole. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The City's net assets - the difference between assets and liabilities - are one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax or sales tax base and the condition of the City's roads, to assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities are divided into two kinds of activities:

- Governmental activities - Most of the City's basic services such as public safety, streets and roads, economic development and parks maintenance, are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activity - The City charges a fee to customers and budgets expenses so it covers all costs of services accounted for in this fund.

The government-wide financial statements include the Community Redevelopment Agency of the City of Grand Terrace and the Grand Terrace Public Financing Authority (component units), along with the City of Grand Terrace (the primary government). Although legally separate, these component units are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the City's most significant funds - not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting oversight responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other current financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for the proprietary fund. We do not use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2007, net assets for the City of Grand Terrace were \$31,648,606.

A summary of the government-wide Statement of Net Assets at June 30, 2007 follows:

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 25,522,337	\$ 23,810,894	\$ 2,875,072	\$ 2,863,784	\$ 28,397,409	\$ 26,674,678
Capital assets, net	14,097,444	12,024,984	5,682,538	5,688,958	19,779,982	17,713,942
Total assets	<u>39,619,781</u>	<u>35,835,878</u>	<u>8,557,610</u>	<u>8,552,742</u>	<u>48,177,391</u>	<u>44,388,620</u>
Other liabilities	2,530,414	2,572,938	1,165,625	1,333,617	3,696,039	3,906,555
Long-term liabilities	12,832,746	14,381,037	-	-	12,832,746	14,381,037
Total liabilities	<u>15,363,160</u>	<u>16,953,975</u>	<u>1,165,625</u>	<u>1,333,617</u>	<u>16,528,785</u>	<u>18,287,592</u>
Invested in capital						
Assets, net of debt	13,901,950	11,758,017	5,682,538	5,688,958	19,584,488	17,446,975
Restricted	22,536,667	20,000,143	-	-	22,536,667	20,000,143
Unrestricted	(12,181,996)	(12,876,257)	1,709,447	1,530,167	(10,472,549)	(11,346,090)
Total net assets	<u>\$ 24,256,621</u>	<u>\$ 18,881,903</u>	<u>\$ 7,391,985</u>	<u>\$ 7,219,125</u>	<u>\$ 31,648,606</u>	<u>\$ 26,101,028</u>

\$19,584,488 (61.9 percent) of the net assets reflects the City's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Since these assets are used to provide services to the citizens they are not available for future spending. An additional \$22,536,667 represents resources that are subject to external restrictions on how they may be used. The resulting net deficit of \$10,472,549 is due to outstanding debt of the Redevelopment Agency and the City that was not used for capital assets and is therefore an offset against unrestricted net assets.

A summary of the government-wide Statement of Activities for the year ended June 30, 2007 follows:

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues and transfers						
Program revenues:						
Charges for services	\$ 1,613,104	\$ 1,782,277	\$ 1,482,210	\$ 1,527,676	\$ 3,095,314	\$ 3,309,953
Operating contributions and grants	722,155	614,916	-	-	722,155	614,916
Capital contributions and grants	747,484	487,929	82,150	109,300	829,634	597,229
General revenues:						
Property tax	7,934,427	7,438,481	-	-	7,934,427	7,438,481
Sales tax	988,023	888,599	-	-	988,023	888,599
Motor vehicle in lieu	83,288	279,143	-	-	83,228	279,143
Other taxes	641,097	619,886	-	-	641,097	619,886
Other revenues	3,327,966	915,887	127,226	83,870	3,455,192	999,757
Transfers	119,136	243,680	(119,136)	(243,680)	-	-
Total revenues and transfers	16,176,680	13,270,798	1,572,450	1,477,166	17,749,130	14,747,964
Expenses						
General government	1,668,00	1,491,922	-	-	1,668,006	1,491,922
Public safety	1,866,625	1,605,335	-	-	1,866,625	1,605,335
Public works	1,478,223	1,476,048	-	-	1,478,223	1,476,048
Economic development	3,814,995	2,944,586	-	-	3,814,995	2,944,586
Culture and recreational	1,407,714	1,271,925	-	-	1,407,714	1,271,925
Interest on long-term debt	552,852	609,872	-	-	552,852	609,872
Waste water treatment	-	-	1,399,590	1,380,023	1,399,590	1,380,023
Total expenses	10,788,415	9,399,688	1,399,590	1,380,023	12,188,005	10,779,711
Change in net assets	5,388,265	3,871,110	172,860	97,143	5,561,125	3,968,253
Beginning net assets	18,868,356	15,010,793	7,219,125	7,121,982	26,087,481	22,132,775
Ending net assets	\$24,256,621	\$18,881,903	\$ 7,391,985	\$ 7,219,125	\$31,648,606	\$ 26,101,028

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the City improved or deteriorated during the year. From operations, total net assets for the City increased by \$5,561,125 during the fiscal year. Taken separately, governmental activities net assets increased by \$5,374,718 while business-type activities net assets increased by \$172,860. Total expenses of \$12,188,005 were offset by total revenues of \$17,749,130. In the Statement of Activities, expenditures do not include the cost of assets capitalized during the year or payments made on principal of outstanding debt. Depreciation is shown for governmental funds on this table, but the expense is not recorded in each individual fund. On the revenue side, redevelopment loan proceeds are excluded since they have no effect on net assets.

After the deduction of capitalized assets, the next largest component in changes to net assets is the actual increase or decrease in fund balances resulting from operations. For governmental funds there was a net increase of \$1,891,836. Of this amount, \$2,408,371 is attributable to the Redevelopment Agency, \$160,292 to the nonmajor funds, with the difference being a net decrease to the General Fund of \$676,827.

Governmental Activities

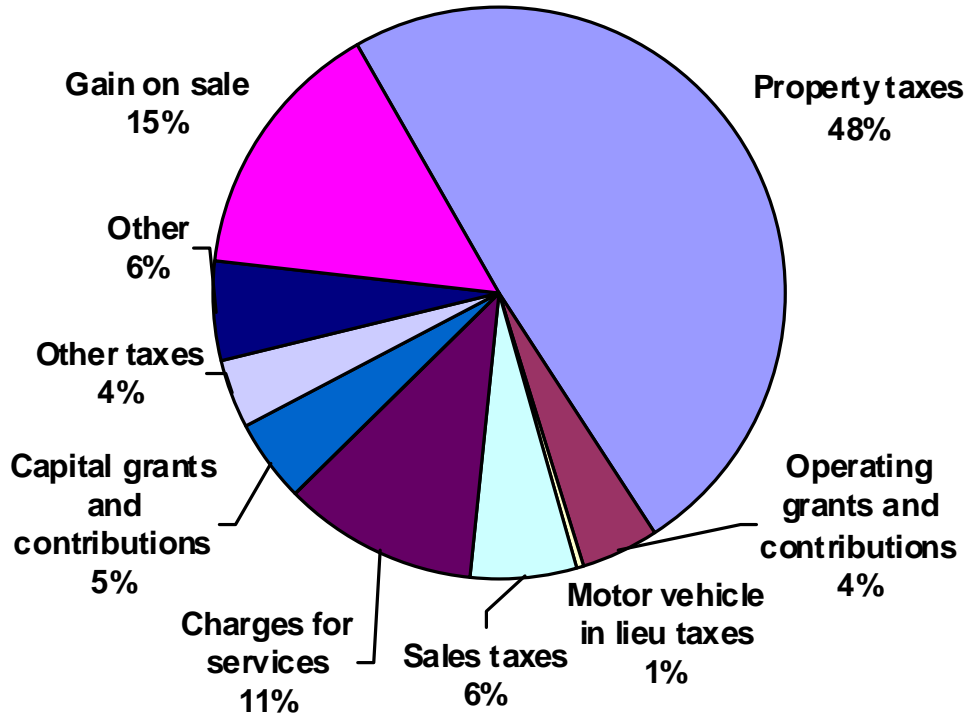
The following table shows the cost of each of the City's major programs and their net cost after subtracting fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City taxpayers by each of the programs.

Net Cost of Governmental Activities

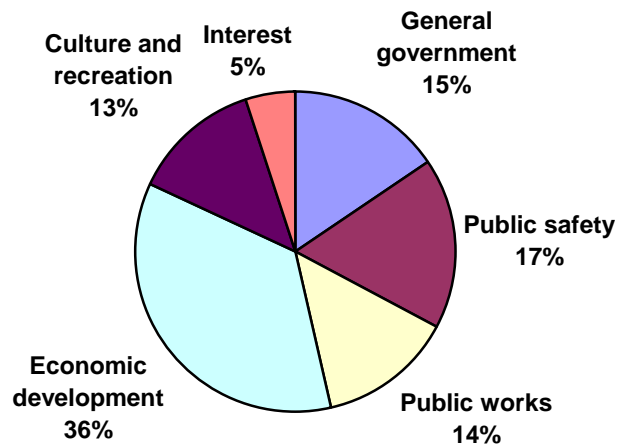
	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,668,006	\$ 1,615,862	\$ 1,491,922	\$ 1,414,388
Public safety	1,866,625	1,611,903	1,605,335	1,348,261
Public works	1,478,223	219,854	1,476,048	507,513
Economic development	3,814,995	3,397,633	2,944,586	2,434,001
Culture and recreation	1,407,714	307,568	1,271,925	200,531
Interest on long-term debt	552,852	552,852	609,872	609,872
Total	\$ 10,788,415	\$ 7,705,672	\$ 9,399,688	\$ 6,514,566

This table shows the cost of all governmental activities this year was \$10,788,415. General tax dollars paid for approximately 71.4 percent of this cost. Fees, grants and contributions funded the balance of the cost of governmental activities.

Revenues by Source - Governmental Activities



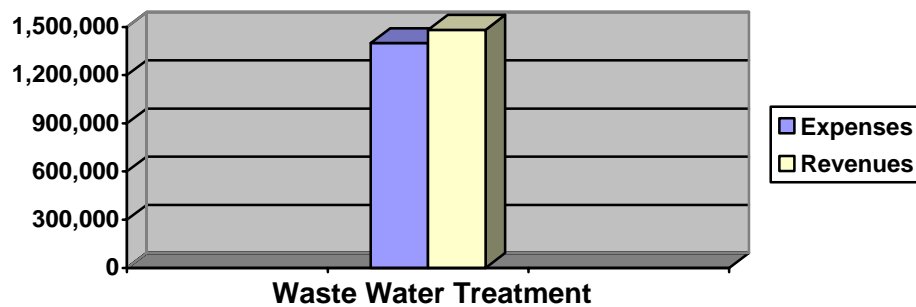
Expenses by Function - Governmental Activities



Business-Type Activity

Total revenues of the City's business-type activities, which consist only of the Waste Water Treatment Fund, were \$1,691,586. They decreased by \$29,260 or 1.7 percent in fiscal year 2006 - 2007. Of this amount, operating revenues decreased by 2.9 percent while investment earnings increased by 51.6 percent. Expenses increased by \$19,567 or 1.4 percent from \$1,380,023 in fiscal year 2005 - 2006 to \$1,399,590 in fiscal year 2006 - 2007. The cost of waste water treatment by the City of Colton amounted to 84.5 percent of total operating expenses.

Expenses and Program Revenues - Business-type Activities



Major Funds

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds:

The **General Fund** is the main operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$37,359 while total fund balance was \$343,131. Under the GASB 34 presentation, advances from the Redevelopment Agency to the City are required to be shown as liabilities rather than a component of long-term debt, as done in previous years.

The reasons for significant changes in the revenues and expenditures of the City's General Fund from the prior year are as follows:

- General Fund expenditures and transfers-out exceeded revenue and transfers-in by \$676,827. Total fund revenue decreased 13 percent from prior year. The decrease was due to not having other financing sources of combined capital lease revenue and sale of assets of \$665,000 that was realized in the prior year. A decline in building activity also contributed to the decrease. Total revenue and transfers-in totaled \$5,609,692.
- The property tax category increased 8.5 percent over the prior year to \$1,446,977.

- Licenses and permits decreased 15.4 percent to \$705,323. Included in that amount was a 52.3 percent decrease in construction permits to \$116,007. This one revenue source accounted for 99 percent of the total category decrease. Among the other revenues in this category, franchise fees decreased 5.1 percent to \$409,149, and business licenses 3.7 percent to \$95,043.
- Intergovernmental revenue decreased 5.8 percent from the prior year to \$1,150,730. Included in this category are sales tax revenue and vehicle license fees. Combined sales and sales tax in lieu increased 11.1 percent. We received 30 percent of prior year vehicle license fees due to shifts in State funding.
- Despite first year revenues from the rental inspection program, charges for services decreased 1.1 percent to \$1,278,069. Planning fees declined 42.5 percent to \$58,421 due to the depressed building market, child care center revenues were down 2.1 percent to \$988,670, and park and recreation fees declined 2.2 percent to \$23,869.
- In the use of money and property category, interest income was up 44.7% to \$199,386, while rental income was down 47% to \$27,020.
- General Fund operating expenditures increased 10.2 percent over the prior year, due to customary annual increases in health insurance premiums and our PERS retirement contribution rate, scheduled merit increases, civic center repairs, and the normal inflationary increase in the cost of goods and services. Operating transfers-out increased from \$53,204 to \$1,003,676. This included \$819,235 for major street repair projects and \$119,885 to support the COPS grant fund for police protection. The Sheriff's contract expenditures, which included an additional patrol position, increased 18.7 percent. Total Sheriff expenditures equal 29.9 percent of the General Fund, compared to 27.1 percent last year. The General Fund had \$138,540 of expenditures on capital outlay during the year.

The **Community Redevelopment Low Income Housing** fund has an unreserved fund balance of \$6,201,156 and a total fund balance of \$8,023,097. This represents a decrease of 0.8 percent from the prior year. Total revenues increased 24.7 percent to \$1,909,344, with the twenty percent set-aside of tax increment increasing 4.9 percent to \$1,292,660. Combined expenditures and transfers-out of \$1,977,496 underspent the prior year total by \$1,730,102 due to delays in the construction of the senior housing project. Sixty percent of the City code enforcement cost, or \$91,967, is charged to the housing fund.

The **Community Redevelopment Capital Projects** fund has a reserved fund balance of \$2,615,692 and an unreserved deficit of \$473,171 for a total fund balance of \$2,142,521. The assets consist entirely of property held for resale. Operating revenue increased to \$2,209,338 from \$202,844 the prior year. Of this amount, \$2,135,033 was gain on sale of property for the new high school. Expenditures were \$1,413,614, compared to \$293,277 the prior year. Most of this cost was attributable to the Agency's share of the 48 inch water line relocation project for the mutual benefit of the high school and our project area. Other expenditures include ongoing economic development and planning, as well as administrative costs.

The **Community Redevelopment Debt Service** fund has an undesignated fund balance of \$5,487,894 and a total fund balance of \$11,120,911. The reserved portion consists of \$1,326,272 for funds with fiscal agent and \$4,306,745 reserved for advances to other funds. Tax increment revenue increased 6.4 percent to \$5,244,112, while interest income increased 41.8 percent to \$227,114, due to a 26.5 percent increase in our average yield, and a 38.7 percent increase in the fund's cash balances, prior to year end cash transfers. Pass-throughs to other agencies increased proportionately with tax increment growth to \$2,019,916, indirect cost allocation increased 0.5 percent to \$154,738, administrative costs, which include trustee fees and county collection charges, decreased from \$105,214 to \$68,635. Actual principal and interest payments on existing debt service decreased 1.0 percent to \$2,095,032. Total debt service fund expenditures decreased 5.7 percent to \$4.4 million.

Nonmajor Funds. In the Nonmajor governmental funds, total revenues increased 40.4 percent to \$1,778,872. The largest individual increase was in the street capital fund which received \$414,274 in CDBG funds. Transfers in increased 273 percent or \$836,024, attributable to transfers into street capital from street improvement and General funds. Expenditures increased 117 percent to \$2,532,614. Fifty two percent of the increase or \$1,320,168 consisted of extensive street maintenance and repair on major city arterial roads. The Nonmajor funds are shown on pages 58 through 65 of this report and include gas tax, Measure I, the capital improvement funds, and most of the special revenue funds.

General Fund Budget

During the year, the City Council authorized additional appropriations to the adopted General Fund budget of \$1,235,853. The largest addition was a combined operating transfer to the street capital fund of \$835,282 for major arterial road reconstruction. Other appropriations included \$165,208 for an additional Sheriff patrol position plus equipment, \$102,544 for personnel salaries, benefits and retirement plan changes, \$55,000 for General Plan update, \$38,510 for miscellaneous community service operational items, \$8,314 for code enforcement and rental inspection program radios, \$11,000 for city website redesign, and \$4,110 for hearing devices in the council chambers.

After taking these adjustments into account, actual expenditures and transfers-out were lower than final total appropriations for a positive variance of \$287,643. Individual negative variances included additional insurance premium expense due to adjusting entries to our insurance reserves with the JPIA, additional Sheriff contract overtime and CLEEP equipment purchases and unanticipated city attorney expense. These were offset by positive variances in other areas, including city clerk, building and public works professional and engineering services, reduced personnel costs at the child care center, and small positive variances in a majority of General Fund departments.

On the revenue side, based on mid-year actual figures, we increased our total revenue estimates by 2.6% to \$5,102,479, but as it turned out, our final revenues were \$2,357 or less than .005 percent off the original estimate. The resulting negative variance from the adjusted figure was \$134,936 or 2.6 percent. A negative variance of \$83,993 in building permits more than offset a positive variance in property tax of \$73,463. Other positive variances in sales tax (\$143,101), interest income (\$118,765) and engineering plan review fees (\$68,080), were offset by negative variances in planning fees (\$58,853), insurance refunds (\$43,024), childcare center fees (\$24,150), and the delayed capitalized lease payment for the senior housing project (\$300,000).

Community Redevelopment Low Income Housing Fund Budget

During the year, the City Council, in the capacity of Redevelopment Agency Board, authorized additional appropriations to increase the adopted Low Income Housing Fund budget by \$8,353. This consisted of adjustments for allocated salaries and benefits.

Actual expenditures and transfers-out were \$4,446,650 under budget. A capitalized lease payment of \$300,000 to the General Fund for use of the senior housing property was again postponed, due to delays in construction, and the expenditures for the project were \$4.3 million less than was budgeted. Excluding the capitalized lease payment, general and administrative expenditures were under budget by \$1,653 or 0.7 percent. Code enforcement was under budget by 1.6 percent or \$1,499.

Actual Housing Fund revenues were under final estimates by \$1,116,998. This negative variance was due to land not being sold for the Town Center project as originally planned. However, we did show positive variances in the twenty percent tax increment set-aside of \$140,203 or 12.2 percent and in investment earnings of \$226,682 or 383.3 percent because the fund retained its large cash balance while the senior housing project was delayed for most of the year.

Community Redevelopment Capital Projects Fund Budget

During the year, the City Council, in the capacity of Redevelopment Agency Board, authorized additional appropriations to increase the adopted Redevelopment Capital Projects Fund budget by \$1,079,943. This consisted of the water line relocation cost sharing agreement with Colton Joint Unified School District for the benefit of the new high school and the agency project area.

Actual expenditures and transfers-out were \$189,528 under budget. This was due to no outlay for the La Cadena signal project and the postponement of a CDBG-funded project for the high school. The largest negative variance pertained to unbudgeted legal settlement costs of \$34,188, related to portions of projects delayed by litigation.

Project Fund revenues experienced a negative variance of \$781,756 due to estimating total sale proceeds of land, for cash flow purposes, and then recording only the gain on sale. Coupled with the delay in the CDBG project mentioned previously, the offsetting grant revenue was not received.

Community Redevelopment Debt Service Fund Budget

During the year, the City Council, in the capacity of Redevelopment Agency Board, authorized no additional appropriations for the Redevelopment Debt Service Fund.

The overall fund negative variance of \$296,700 was due to underestimating the final tax increment pass-through administered by the County of San Bernardino to neighboring government agencies.

On the revenue side, a positive fund variance resulted from tax increment over estimate of \$634,284 and investment earnings over estimate of \$102,114.

Capital Assets

As of June 30, 2007, the City had invested \$19,779,982 in a broad range of capital assets, including buildings, parks and park improvements, computer and maintenance equipment, vehicles, sewer collection systems, streets, sidewalks and storm drains. We are exempt by provisions of GASB 34 from including the valuation of old city infrastructure.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,456,687	\$ 1,456,687	\$ -	\$ -	\$ 1,456,687	\$ 1,456,687
Buildings	3,702,000	3,814,427	-	-	3,702,000	3,814,427
Improvements	2,551,296	2,637,823	189,633	198,061	2,740,929	2,835,884
Equipment	353,586	344,284	-	-	353,586	344,284
Vehicles	19,295	63,610	-	-	129,295	63,610
Infrastructure	2,140,678	851,189	-	-	2,140,678	851,189
Sewer mains	-	-	2,998,586	3,004,857	2,998,586	3,004,857
Sewer laterals	-	-	1,496,921	1,499,411	1,496,921	1,499,411
Sewer manholes	-	-	997,398	986,629	997,398	986,629
Construction in progress	3,763,902	2,856,964	-	-	3,763,902	2,856,964
Total	\$ 14,097,444	\$ 12,024,984	\$ 5,682,538	\$ 5,688,958	\$ 19,779,982	\$ 17,713,942

The major additions to capital assets during the year ended June 30, 2007 were as follows:

- Corp Yard Motorized Security Gate (\$13,308)
- Park Improvements (\$79,442)
- DeBerry Passive Park (in progress, \$11,481)
- Vehicles (\$89,515)
- Street Reconstruction (\$1,340,173)
- Park Playground Equipment (\$32,995)
- Senior Housing Project (in progress, \$895,457)
- City Hall Network Server System (\$35,717)
- Contributed Sewer Mains, Laterals and Manholes (\$82,150)

Long-Term Debt

At the end of the current fiscal year, the City had debt outstanding of \$13,245,238. Of this amount, \$10,030,000 represents outstanding bonds, \$2,785,000 of certificates of participation, and \$430,238 other debt comprised of a note payable, leases payable and compensated absences payable. \$1,782,404 of all debt is due and payable within one year.

Outstanding Debt Governmental Activities

	2007	2006
Refunding tax allocation bonds	\$ 10,030,000	\$ 11,530,000
Certificates of participation	2,785,000	2,910,000
Note payable	32,237	52,626
Leases payable	162,937	214,341
Compensated absences	235,064	169,061
Total outstanding debt	<u>\$ 13,245,238</u>	<u>\$ 14,876,028</u>

The City's total debt decreased by \$1,630,790 (10.9 percent) during the current fiscal year, due primarily to the \$1,500,000 principal payment on the 2004 refunding tax allocation bonds. No new debt was issued during the fiscal year.

Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements.

Economic Factors

Grand Terrace continues to be a well-managed family-oriented residential city and bedroom community in San Bernardino County, California. In the October, 2007 Inland Empire Quarterly Economic Report issued by SANBAG, among the 48 cities of our two-county region, Grand Terrace was again ranked 43rd in population, 47th in population growth from 2000 to 2007, 44th in taxable retail sales, 38th in per capita sales, 39th in total assessed valuation per capita, 26th in median price of existing homes (\$375,000), 30th in financial deposits per capita and 11th in 2006 median income. The increase in taxable sales over the prior year is partly attributable to the first year of operation for the CVS Drug Store, and the addition of a Miguel's Jr. restaurant. Housing activity in the entire region remains depressed. Short-term interest rates and creative short term financing plans of prior boom years have created many foreclosures, not only in our region but also throughout the State. Although we are almost built out for new housing, we continue to attract new businesses and promote an atmosphere of residential pride of ownership, with well-maintained streets and neighborhoods. Our code enforcement program continues to be very active and strives to maintain high standards for the residents and businesses in Grand Terrace. The future economic growth of Grand Terrace continues to depend in large part on the success of our two major pending commercial developments, the Town Center and the Redevelopment Freeway Project (formerly known as the Outdoor Adventures Center). The momentum of both projects has increased as of fiscal year end, and although their size and scope have been revised, they remain viable projects on the horizon, subject to ongoing negotiations. Last year at this time, from the State budget perspective, it appeared that our revenues had finally stabilized, with permanent property tax revenue replacing lost vehicle license fees. This coming year we are facing yet another crisis on the State level with a projected \$10 million deficit for FY08-09. We can only hope that the trickle down effect on local governments will not create our own budget problems as it has done in the past.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, at the City of Grand Terrace, 22795 Barton Road, Grand Terrace, California 92313, or call 909-824-6621.

Government-Wide Financial Statements

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**City of Grand Terrace
Statement of Net Assets
June 30, 2007**

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and investments	\$ 18,299,420	\$ 2,767,648	\$ 21,067,068
Cash and investments with fiscal agents	1,773,511	-	1,773,511
Interest receivable	172,275	-	172,275
Accrued revenue	111,990	107,424	219,414
Due from other governments	590,836	-	590,836
Loans receivable	125,142	-	125,142
Notes receivable	741,000	-	741,000
Property held for resale	3,395,678	-	3,395,678
Deferred charges	312,485	-	312,485
Capital assets:			
Land and construction in progress	5,220,589	-	5,220,589
Other capital assets, net of depreciation	8,876,855	5,682,538	14,559,393
Total assets	<u>39,619,781</u>	<u>8,557,610</u>	<u>48,177,391</u>
LIABILITIES			
Accounts payable	203,371	101,926	305,297
Accrued liabilities	105,941	9,539	115,480
Accrued interest payable	159,732	-	159,732
Due to other governments	611,118	688,160	1,299,278
Deferred revenue	1,445,589	366,000	1,811,589
Refundable deposits	4,663	-	4,663
Noncurrent liabilities:			
Due within one year	1,782,404	-	1,782,404
Due in more than one year	11,050,342	-	11,050,342
Total liabilities	<u>15,363,160</u>	<u>1,165,625</u>	<u>16,528,785</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,901,950	5,682,538	19,584,488
Restricted for:			
Debt service	11,408,418	-	11,408,418
Capital projects	2,142,521	-	2,142,521
Economic development	8,106,605	-	8,106,605
Public works	879,123	-	879,123
Unrestricted	<u>(12,181,996)</u>	<u>1,709,447</u>	<u>(10,472,549)</u>
Total net assets	<u>\$ 24,256,621</u>	<u>\$ 7,391,985</u>	<u>\$ 31,648,606</u>

The accompanying notes are an integral part of these financial statements.

**City of Grand Terrace
Statement of Activities
For the year ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,668,006	\$ 52,144	\$ -	\$ -
Public safety	1,866,625	133,147	121,575	-
Public works	1,478,223	20,149	591,538	646,682
Economic development	3,814,995	408,320	9,042	-
Culture and recreation	1,407,714	999,344	-	100,802
Interest on long-term debt	552,852	-	-	-
Total governmental activities	<u>10,788,415</u>	<u>1,613,104</u>	<u>722,155</u>	<u>747,484</u>
Business-type activity:				
Waste water treatment	1,399,590	1,482,210	-	82,150
Total	<u>\$ 12,188,005</u>	<u>\$ 3,095,314</u>	<u>\$ 722,155</u>	<u>\$ 829,634</u>

General revenues:
 Property taxes, levied for general purposes
 Property taxes, tax increment
 Franchise taxes
 Sales taxes
 Motor vehicle in lieu taxes
 Public service taxes
 Unrestricted investment earnings
 Gain on sale of land held for resale
 Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning as restated

Net assets, ending

The accompanying notes are an integral part of these financial statements.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activity	Total
\$ (1,615,862)	\$ -	\$ (1,615,862)
(1,611,903)	-	(1,611,903)
(219,854)	-	(219,854)
(3,397,633)	-	(3,397,633)
(307,568)	-	(307,568)
(552,852)	-	(552,852)
<u>(7,705,672)</u>	<u>-</u>	<u>(7,705,672)</u>
<u>-</u>	<u>164,770</u>	<u>164,770</u>
1,397,655	-	1,397,655
6,536,772	-	6,536,772
438,701	-	438,701
988,023	-	988,023
83,288	-	83,288
202,396	-	202,396
767,615	127,226	894,841
2,426,545	-	2,426,545
133,806	-	133,806
119,136	(119,136)	-
<u>13,093,937</u>	<u>8,090</u>	<u>13,102,027</u>
5,388,265	172,860	5,561,125
<u>18,868,356</u>	<u>7,219,125</u>	<u>26,147,632</u>
<u>\$ 24,256,621</u>	<u>\$ 7,391,985</u>	<u>\$ 31,648,606</u>

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Fund Financial Statements

**City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2007**

	General	Community Redevelopment Low Income Housing
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 4,300,474	\$ 6,156,997
Cash and investments with fiscal agents	-	-
Interest receivable	172,275	-
Accrued revenues	91,232	13,321
Due from other funds	259,458	-
Due from other governments	103,462	47,048
Advances to other funds	267,622	300,205
Loans receivable	967	124,175
Notes receivable	-	741,000
Property held for resale	-	779,986
Deposits	<u>63,132</u>	<u>-</u>
 Total assets	 <u><u>\$ 5,258,622</u></u>	 <u><u>\$ 8,162,732</u></u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 92,960	\$ 15,460
Accrued liabilities	95,314	-
Due to other funds	-	-
Due to other governments	-	-
Advances from other funds	4,606,950	-
Deferred revenue	120,267	124,175
Refundable deposits	<u>-</u>	<u>-</u>
 Total liabilities	 <u>4,915,491</u>	 <u>139,635</u>
 Fund balances:		
Reserved	305,772	1,821,941
Unreserved:		
Designated	925,558	-
Unreserved, reported in:		
General fund	(888,199)	-
Special revenue funds	-	6,201,156
Capital projects funds	-	-
Debt service funds	<u>-</u>	<u>-</u>
 Total fund balances	 <u>343,131</u>	 <u>8,023,097</u>
 Total liabilities and fund balances	 <u><u>\$ 5,258,622</u></u>	 <u><u>\$ 8,162,732</u></u>

The accompanying notes are an integral part of these financial statements.

Community Redevelopment Capital Projects	Community Redevelopment Debt Service	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 5,707,479	\$ 2,134,470	\$ 18,299,420
-	1,326,272	447,239	1,773,511
-	-	-	172,275
-	-	7,437	111,990
-	203,341	32,317	495,116
-	188,192	252,134	590,836
-	4,306,745	-	4,874,572
-	-	-	125,142
-	-	-	741,000
2,615,692	-	-	3,395,678
-	-	-	63,132
<u>\$ 2,615,692</u>	<u>\$ 11,732,029</u>	<u>\$ 2,873,597</u>	<u>\$ 30,642,672</u>
\$ 2,208	\$ -	\$ 92,743	\$ 203,371
-	-	235	95,549
203,341	-	291,775	495,116
-	611,118	-	611,118
267,622	-	-	4,874,572
-	-	1,201,147	1,445,589
-	-	4,663	4,663
<u>473,171</u>	<u>611,118</u>	<u>1,590,563</u>	<u>7,729,978</u>
2,615,692	5,633,017	119	10,376,541
-	-	-	925,558
-	-	-	(888,199)
-	-	1,006,071	7,207,227
(473,171)	-	(170,395)	(643,566)
-	5,487,894	447,239	5,935,133
<u>2,142,521</u>	<u>11,120,911</u>	<u>1,283,034</u>	<u>22,912,694</u>
<u>\$ 2,615,692</u>	<u>\$ 11,732,029</u>	<u>\$ 2,873,597</u>	<u>\$ 30,642,672</u>

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**City of Grand Terrace
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
June 30, 2007**

Fund balances of governmental funds \$ 22,912,694

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 14,097,444

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	\$(12,815,000)	
Less: deferred charge on refunding	531,989	
Less: costs of issuance	312,485	
Plus: premium received on issuance	(119,497)	
Loans payable	(32,237)	
Capital leases	(163,257)	
Other payable	(73,524)	
Accrued interest payable	(159,732)	
Long-term compensated absences payable	<u>(238,057)</u>	<u>(12,753,517)</u>

Net assets of governmental activities \$ 24,256,621

The accompanying notes are an integral part of these financial statements.

City of Grand Terrace
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	General	Community Redevelopment Low Income Housing
	<u> </u>	<u> </u>
REVENUES		
Taxes	\$ 1,446,977	\$ 1,292,660
Licenses and permits	705,323	-
Intergovernmental	1,150,730	-
Charges for services	1,278,069	-
Fines and forfeitures	26,966	-
Investment earnings	243,396	324,594
Gain on sale of land held for resale	-	291,512
Developer fees	-	-
Other	116,082	578
	<u>4,967,543</u>	<u>1,909,344</u>
Total revenues		
EXPENDITURES		
Current:		
General government	1,426,842	-
Public safety	1,591,370	-
Public works	890,618	-
Economic development	-	314,904
Culture and recreation	1,191,280	-
Pass-through payment	-	-
Debt service:		
Principal	34,976	-
Interest	9,217	-
Capital outlay	138,540	895,730
	<u>5,282,843</u>	<u>1,210,634</u>
Total expenditures		
Excess (deficiency) of revenues over (under) expenditures	<u>(315,300)</u>	<u>698,710</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	642,149	-
Transfers out	<u>(1,003,676)</u>	<u>(766,862)</u>
Total other financing sources (uses)	<u>(361,527)</u>	<u>(766,862)</u>
Net change in fund balances	(676,827)	(68,152)
Fund balances – beginning	<u>1,019,958</u>	<u>8,091,249</u>
Fund balances – ending	<u>\$ 343,131</u>	<u>\$ 8,023,097</u>

The accompanying notes are an integral part of these financial statements.

<u>Community Redevelopment Capital Projects</u>	<u>Community Redevelopment Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 5,244,112	\$ -	\$ 7,983,749
-	-	-	705,323
6,445	-	1,157,937	2,315,112
-	-	-	1,278,069
-	-	48,542	75,508
67,580	227,114	111,959	974,643
2,135,033	-	-	2,426,545
-	-	197,777	197,777
280	-	262,657	379,597
<u>2,209,338</u>	<u>5,471,226</u>	<u>1,778,872</u>	<u>16,336,323</u>
-	-	-	1,426,842
-	-	260,936	1,852,306
-	-	511,599	1,402,217
140,372	134,318	-	589,594
-	-	-	1,191,280
-	2,019,916	-	2,019,916
20,389	1,625,000	141,428	1,821,793
2,022	470,032	154,560	635,831
1,125,483	-	1,464,091	3,623,844
<u>1,288,266</u>	<u>4,249,266</u>	<u>2,532,614</u>	<u>14,563,623</u>
<u>921,072</u>	<u>1,221,960</u>	<u>(753,742)</u>	<u>1,772,700</u>
-	613,577	1,142,297	2,398,023
(125,348)	(154,738)	(228,263)	(2,278,887)
<u>(125,348)</u>	<u>458,839</u>	<u>914,034</u>	<u>119,136</u>
795,724	1,680,799	160,292	1,891,836
<u>1,346,797</u>	<u>9,440,112</u>	<u>1,122,742</u>	<u>21,020,858</u>
<u>\$ 2,142,521</u>	<u>\$ 11,120,911</u>	<u>\$ 1,283,034</u>	<u>\$ 22,912,694</u>

**City of Grand Terrace
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007**

Net change in fund balances - total governmental funds \$ 1,891,836

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

This activity is reconciled as follows:

Cost of assets capitalized	\$ 2,498,088	
Cost of asset sold	(5,075)	
Depreciation expense	<u>(420,553)</u>	2,072,460

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (66,003)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Principal payments on bonds	\$ 1,625,000	
Principal payments on loans	20,389	
Principal payments on capital leases	<u>51,404</u>	1,696,793

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of deferred charges on refunding	\$ (106,398)	
Amortization of costs of issuance	(62,497)	
Amortization of premium	23,899	
Other expenses	(73,524)	
Accrued interest payable on long-term liabilities	<u>11,699</u>	<u>(206,821)</u>

Change in net assets of governmental activities \$ 5,388,265

The accompanying notes are an integral part of these financial statements.

**City of Grand Terrace
Statement of Net Assets
Proprietary Fund
June 30, 2007**

	Business-type Activity
	Waste Water Treatment
ASSETS	
Current assets:	
Cash and investments	\$ 2,767,648
Accrued revenues	107,424
Total current assets	2,875,072
Noncurrent assets:	
Capital assets:	
Sewer system	7,415,106
Less accumulated depreciation	(1,732,568)
Total noncurrent assets	5,682,538
Total assets	8,557,610
LIABILITIES	
Current liabilities:	
Accounts payable	101,926
Accrued liabilities	9,539
Due to other governments	688,160
Deferred revenue	366,000
Total liabilities	1,165,625
NET ASSETS	
Invested in capital assets	5,682,538
Unrestricted	1,709,447
Total net assets	\$ 7,391,985

The accompanying notes are an integral part of these financial statements.

City of Grand Terrace
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the year ended June 30, 2007

	Business-type Activity
	Waste Water Treatment
OPERATING REVENUES	
Charges for services	\$ 1,479,810
Connection fees	2,400
	1,482,210
OPERATING EXPENSES	
Personnel services	53,678
Employee benefits	24,798
Office expense	463
Depreciation	88,570
Contract services	1,183,981
Repairs and maintenance	48,100
	1,399,590
Total operating expenses	1,399,590
Operating income	82,620
NONOPERATING REVENUES	
Interest income	127,226
	209,846
Income before contributions and transfers	209,846
Capital contributions	82,150
Transfers out	(119,136)
	172,860
Change in net assets	172,860
Total net assets - beginning	7,219,125
Total net assets – ending	\$ 7,391,985

The accompanying notes are an integral part of these financial statements.

**City of Grand Terrace
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2007**

	Business-type Activity
	Waste Water Treatment
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,669,554
Cash payments to suppliers	(1,400,856)
Cash payments to employees for services	(78,156)
Other operating revenues	2,400
Net cash provided by operating activities	192,942
Cash Flows From Noncapital Financing Activities:	
Transfers to other funds	(119,136)
Cash Flows From Investing Activities:	
Interest income	127,226
Net increase in cash and cash equivalents	201,032
Cash and cash equivalents - beginning	2,566,616
Cash and cash equivalents – ending	\$ 2,767,648
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 82,620
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	88,570
(Increase) decrease in assets:	
Due from other governments	297,168
Accrued revenues	(107,424)
Increase (decrease) in liabilities:	
Accounts payable	(189,912)
Accrued liabilities	320
Due to other governments	21,600
Net cash provided by operating activities	\$ 192,942
Noncash Investing, Capital and Financing Activities:	
Contributions of capital assets from property owners	\$ 82,150

The accompanying notes are an integral part of these financial statements.

City of Grand Terrace
Statement of Fiduciary Assets and Liabilities
June 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and investments	<u>\$ 304,198</u>
LIABILITIES	
Refundable deposits	<u>\$ 304,198</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

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**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. *Description of the reporting entity*

The City of Grand Terrace (the "City") was incorporated November 1978 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety (law enforcement), highways and streets, cultural and recreation, public improvements, planning and zoning, building and safety, low and moderate income housing programs, and general administrative services.

As required by generally accepted accounting principles, these financial statements present the City of Grand Terrace (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 Grand Terrace's elected officials have a continuing full or partial accountability for fiscal matters of the other entities. The financial reporting entity consists of: 1) the City, 2) organizations for which the City is financially accountable, and 3) organizations for which the nature and significance of their relationship with the City are such that exclusions would cause the City's financial statements to be misleading or incomplete.

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, component units 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. The following component units of the City have been included in the financial reporting entity as blended component units.

A description of these component units and the method of incorporating their financial information in the accompanying general purpose financial statements are summarized as follows:

The Community Redevelopment Agency of the City of Grand Terrace

The Community Redevelopment Agency of the City of Grand Terrace (the "CRA") was formed, pursuant to the State of California Health and Safety Code; Section 33000 entitled "Community Redevelopment Law." Its purpose is to carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Grand Terrace. The City Council also acts as the governing body of the Agency. The financial activity of the Community Redevelopment Agency of the City of Grand Terrace is reported in the City's financial statements as the Community Redevelopment Capital Projects Fund, the Community Redevelopment Debt Service Fund and the Community Redevelopment Low Income Housing Fund. Separate financial statements for the Community Redevelopment Agency of the City of Grand Terrace previously described may be obtained at 22795 Barton Road, Grand Terrace, California 92313.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 1: Organization and Summary of Significant Accounting Policies (continued)

The City of Grand Terrace Public Financing Authority

The Grand Terrace Public Financing Authority was established on July 16, 1991, pursuant to a Joint Powers Agreement between the City of Grand Terrace and the Community Redevelopment Agency of the City of Grand Terrace. The Authority was created to facilitate financing for public capital improvements benefiting the City and Agency. The City Council also acts as the governing body of the Authority. The Authority's activities are blended with those of the City in these financial statements and are reported as a debt service fund.

There are several other governmental agencies, including the County of San Bernardino, school districts, and others, providing services within the City of Grand Terrace. Those agencies have independently elected governing boards other than the City Council of the City of Grand Terrace and no financial accountability to the City of Grand Terrace. Consequently, financial information for these agencies is not included within this financial report.

b. Government-wide and fund financial statements

The government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables, and receivables. All internal balances in the statement of net assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions, including special assessment, that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies (continued)

c. *Measurement focus, basis of accounting, and financial statement presentation*

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure 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. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized in these funds when susceptible to accrual (i.e. when they are both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers property taxes collected after year-end, as available if they are collected within 60 days of the end of the current fiscal period. Other revenue susceptible to accrual includes sales tax, state gasoline taxes, investment income, and certain other intergovernmental revenues. Expenditures in the governmental funds are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, as well as compensated absences and claims and judgments, which are recognized when due.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Community Redevelopment Low Income Housing Special Revenue Fund* is used to account for the portion of the Agency's tax increment that is required to be set aside for the low and moderate income housing and related expenditures.

The *Community Redevelopment Capital Projects Fund* is used to account for the financial resources used in developing the project area as well as administrative expenditures incurred in sustaining Agency activities.

The *Community Redevelopment Debt Service Fund* is used for the accumulation of resources to be used for the repayment of Agency debt.

The City reports the following major proprietary fund:

The *Waste Water Treatment Fund* is used to account for the provision of waste water disposal services to the residences and businesses of the City.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund type:

The *Agency Funds* are used to account for the resources held by the City in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's waste water disposal function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the Waste Water Disposal Fund are charges to customers for sales and services. Operating expenses for the same Enterprise Fund include the cost of sales and services, administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other Accounting Policies

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies (continued)

The County of San Bernardino collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in March preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1, the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10 respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31.

Cash and cash equivalents

For purpose of the statement of cash flows, the City considered cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling cash and investments of all funds. Since cash and investments are pooled, the City utilizes the assumption that the cash and investments in the Enterprise Fund are cash and cash equivalents.

Investments

The City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Property held for resale

Property held for resale is recorded at the lower of cost or net realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance the City's current operations.

Compensated absences

The short-term portion is determined to be the amount due to employees for future absences which is attributable to services already rendered and which is expected to be paid during the next fiscal year. The total amount of liability for compensated absences is segregated between short-term and long-term as indicated above and both portions are reflected in the government-wide statements.

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than two times his regular annual entitlement.

Sick leave is payable when an employee is unable to work because of illness. Upon termination, regular employees with 5 years continuous service will be paid 40% for any unused sick leave.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies (continued)

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than or equal to \$5,000 (amount not rounded) and an estimated useful life of at least two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	50
Machinery & equipment	5 - 15
Vehicles	6 - 15
Improvements other than buildings	15 - 20
Infrastructure	20 - 30
Sewer lines	90

Use of estimates

The financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. *Budgetary Data*

The annual budget is adopted by the City Council after the holding of a hearing and provides for the general operation of the City. The operating budget includes proposed expenditures and the means of financing them.

The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. This "appropriated budget" (as defined by GASB Code Section 2400.109) covers City expenditures in all governmental funds, except for the Public Financing Authority Debt Service Fund. This entity does not adopt an annual budget as effective budgetary control is achieved through bond indenture and other instrument provisions. Actual expenditures may not exceed budgeted appropriations at the fund level.

Formal budgetary integration is employed as a management control device during the year. Commitments for materials and service, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Encumbrances at year-end lapse, and then are added to the following year's budgeted appropriations. However, encumbrances at year-end are reported as reservations of fund balance, as allowed by GASB Code Sec. 1700.129d. Also, unencumbered appropriations lapse at year-end.

Annual budgets for the General, Special Revenue, and Community Redevelopment Agency Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

Capital projects are budgeted through the Capital Project Funds. Appropriations for capital projects authorized but not constructed or completed during the year lapse at year-end, and are then included as a part of appropriations in the following year's annual budget.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 1: Organization and Summary of Significant Accounting Policies (continued)

b. Deficit Fund Balances

As of June 30, 2007 the following funds have deficit fund balances:

	<u>Amount</u>
Capital Projects Fund:	
Bike Lane	\$ (2,580)
Barton/Colton Bridge	(167,815)

These deficits will be funded by future revenues or transfers from other funds.

c. Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in individual funds are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Fund:			
Street Fund	\$ 1,007	\$ -	\$ 1,007
Traffic Safety	8,794	7,621	1,173
Capital Projects Fund:			
Bike Lane	84,370	81,790	2,580

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 21,067,068
Cash and investments with fiscal agents	1,773,511
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>304,198</u>
Total cash and investments	<u><u>\$ 23,144,777</u></u>

Cash and Investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	200,223
Investments	<u>22,943,404</u>
Total cash and investments	<u><u>\$ 23,144,777</u></u>

Authorized investments

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U. S. Treasury Obligations	5 years	None	None
Repurchase Agreements	1 year	None	None
Certificates of Deposit	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Passbook Savings Accounts	N/A	None	None
Securities Issued by Federal Agencies	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Mutual Funds	N/A	20%	10%
Pools and other investment structures	N/A	None	None

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 2: Cash and Investments (continued)

Investments Authorized by debt agreements

Investments of debt proceeds held by bond trustees 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 bond trustees. The table identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Government Obligations	None	None	None
FHLB's	None	None	None
FHLMC's	None	None	None
Farm Credit Banks	None	None	None
FNMA's	None	None	None
Financing Corp Debt Obligations	None	None	None
Resolution Funding Corp Debt Obligations	None	None	None
Certificates of Deposit	360 days	None	None
Deposits fully insured by FDIC	None	None	None
USAID Guaranteed Notes	None	None	None
Investment Agreements	None	None	None
Bankers Acceptances	360 days	None	None
Municipal Obligations rated Aaa	None	None	None
Commercial Paper rated P-1	270 days	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds rated AAAm	N/A	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations are presented below.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 2: Cash and Investments (continued)

Investment Type	Amount	12 Months or Less	13 to 24 Months
Money Market Mutual Fund	\$ 1,505,403	\$ 1,505,403	\$ -
Certificates of Deposit	195,890	195,890	-
Local Agency Investment Fund (LAIF)	13,719,822	13,719,822	-
Local Gov. Invest. Pool CAMP	3,634,281	3,634,281	-
Federal Agency Securities Held by Bond Trustee:	2,114,497	2,114,497	-
Money Market Funds	1,773,511	1,773,511	-
Total	<u>\$ 22,943,404</u>	<u>\$ 22,943,404</u>	<u>\$ -</u>

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. Information about the minimum rating required by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each type of investment held by the City can be found below.

Investment Type	Amount	Minimum Legal Rating	Actual Rating
Money Market Mutual Fund	\$ 1,505,403	N/A	N/A
Certificates of Deposit	195,890	N/A	N/A
Local Agency Investment Fund (LAIF)	13,719,822	N/A	N/A
Local Gov. Invest. Pool CAMP	3,634,281	N/A	N/A
Federal Agency Securities Held by Bond Trustee:	2,114,497	N/A	AAA
Money Market Funds	1,773,511	AAAm	AAA
Total	<u>\$ 22,943,404</u>		

Concentration of credit risk

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. Investments in any one issuer (other than Mutual Funds and External Investment Pools) that represent 5% or more of the City's investments are as follows:

Issuer	Investment Type	Reported Amount
FHLMC	Federal Agency Securities	\$ 2,114,497

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 2: Cash and Investments (continued)

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, \$100,223 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

As of June 30, 2007, City investments in the following investment types were held by the same broker dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Federal Agency Securities	<u>\$ 2,114,497</u>

Investments 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 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.

LAIF has reported to its participating agencies that, as of June 30, 2007, the carrying amount (at amortized cost) of the pool was \$65,786,597,418 and the estimated fair value of the pool was \$65,756,665,933. The City's proportionate share of the pool's market value (as determined by LAIF) as of June 30, 2007, was \$13,719,822. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 2: Cash and Investments (continued)

Local Government Investment Pool

The City is a voluntary participant in the Local Government Investment Pool (CAMP).

Pooled cash

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

Interest income earned on pooled cash and investments is allocated to the various funds based on the cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Note 3: Interfund Receivable, Payable and Transfers

The composition of interfund balances at June 30, 2007 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds	\$ 259,458
Nonmajor governmental funds	Nonmajor governmental funds	32,317
CRA Low Income Housing	CRA Capital Projects Fund	50,850
CRA Debt Service Fund	CRA Capital Projects Fund	152,491
		<u>\$ 495,116</u>

The above amounts were loaned to provide short-term loans to fund operations of the various funds.

Advances from/to other funds:

Receivable Fund	Payable Fund	Amount
General Fund	CRA Capital Projects Fund	\$ 267,622
CRA Low Income Housing Fund	General Fund	300,205
CRA Debt Service Fund	General Fund	4,306,745
		<u>\$ 4,874,572</u>

The \$267,622 is a temporary loan to assist the CRA in its purchase of property, and will be repaid when the CRA sells the property.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 3: Interfund Receivable, Payable and Transfers (continued)

In April 1980, the CRA entered into a pass-through agreement with the City, which was found to be in noncompliance with State statutes. The misallocated tax increment is being treated as advances payable to the CRA's Low Income Housing and Debt Service Funds. Interest on the advances accrues at an interest rate equal to the Local Agency Investment Fund yield. The advances are to be repaid as funds are available.

Interfund transfers:

Fund Receiving Transfers	Fund Making Transfers		Amount
General Fund	CRA Capital Projects	\$	125,348
	CRA Low Income Housing Fund		153,285
	CRA Debt Service Fund		154,738
	Nonmajor governmental funds		89,642
	Waste Water Disposal Fund		119,136
		(1)	642,149
CRA Debt Service Fund	CRA Low Income Housing Fund	(2)	613,577
AB 3299 COPS Fund	General Fund	(3)	119,885
AB 3229 COPA Fund	Traffic Safety	(3)	40,096
State Gas Tax	General Fund	(4)	29,552
Nonmajor Governmental Funds	General Fund	(5)	819,235
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(5)	98,525
Nonmajor Governmental Funds	General Fund	(6)	35,004
			1,142,297
Total Interfund Transfers			\$ 2,398,023

- (1) The transfers were made to reimburse the General Fund for overhead expenditures.
- (2) This transfer was made for debt service payments due on the 2004 Tax Allocation Bonds.
- (3) These transfers were made to fund an additional position.
- (4) This transfer was made to move sweep fees to offset street sweeping expenditures.
- (5) This transfer was made for street projects.
- (6) This transfer was made for the match for the Bike Lane Project.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 4: Loans Receivable

General Fund

The City offers an employee loan program under which employees may be loaned, interest free, up to \$2,000 towards the purchase of a computer. The loans are repaid over a period not to exceed twenty-four months through payroll deductions. The balance at June 30, 2007, is \$967.

Community Redevelopment Low Income Housing Fund

The CRA has provided deferred rehabilitation loans to qualifying low and moderate income households from its 20 percent set-aside funds. Corresponding deferred revenue has been recorded, as these funds are not currently available. The balance at June 30, 2007, is \$124,175.

Note 5: Notes Receivable

Community Redevelopment Low Income Housing Fund

The CRA has provided notes receivable relating to the sales of low and moderate income housing. The notes are payable on or before the sale or refinance of the subject property, and are secured by second deeds of trust. The balance at June 30, 2007, is \$741,000.

Due to the nature of the above receivables, fund balance has been reserved accordingly.

Note 6: Property Held for Resale

Community Redevelopment Low Income Housing Fund

This amount represents the costs associated with the purchase and renovation of low and moderate income housing held for resale. Fund balance has been reserved for this amount. The balance at June 30, 2007 is \$779,986.

Community Redevelopment Capital Projects Fund

This amount represents the costs associated with the purchase of vacant land held for future development. Fund balance has been reserved for this amount. The balance at June 30, 2007 is \$2,615,692.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,456,687	\$ -	\$ -	\$ 1,456,687
Construction in progress	2,856,964	906,938	-	3,763,902
Total capital assets, not being depreciated	4,313,651	906,938	-	5,220,589
Capital assets, being depreciated:				
Buildings	5,621,360	-	-	5,621,360
Machinery & equipment	737,611	68,712	(7,612)	798,711
Vehicles	432,597	89,515	(16,953)	505,159
Improvements other than buildings	3,512,208	92,750	-	3,604,958
Infrastructure	911,378	1,340,173	-	2,251,551
Total capital assets, being depreciated	11,215,154	1,591,150	(24,565)	12,781,739
Less accumulated depreciation for:				
Buildings	(1,806,933)	(112,427)	-	(1,919,360)
Machinery & equipment	(393,327)	(54,335)	2,537	(445,125)
Vehicles	(368,987)	(23,830)	16,953	(375,864)
Improvements other than buildings	(874,385)	(179,277)	-	(1,053,662)
Infrastructure	(60,189)	(50,684)	-	(110,873)
Total accumulated depreciation	(3,503,821)	(420,553)	19,490	(3,904,884)
Total capital assets, being depreciated, net	7,711,333	1,170,597	(5,075)	8,876,855
Governmental activities capital assets, net	\$ 12,024,984	\$ 2,077,535	\$ (5,075)	\$ 14,097,444

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 7: Capital Assets (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activity:				
Capital assets, being depreciated:				
Sewer mains	\$ 3,984,699	\$ 38,430	\$ -	\$ 4,023,129
Laterals	1,872,423	18,520	-	1,890,943
Manholes	1,273,560	25,200	-	1,298,760
Improvements	202,274	-	-	202,274
Total capital assets, being depreciated	<u>7,332,956</u>	<u>82,150</u>	<u>-</u>	<u>7,415,106</u>
Less accumulated depreciation for:				
Sewer mains	(979,842)	(44,701)	-	(1,024,543)
Laterals	(373,012)	(21,010)	-	(394,022)
Manholes	(286,931)	(14,431)	-	(301,362)
Improvements	(4,213)	(8,428)	-	(12,641)
Total accumulated depreciation	<u>(1,643,998)</u>	<u>(88,570)</u>	<u>-</u>	<u>(1,732,568)</u>
Business-type activity capital assets, net	<u>\$ 5,688,958</u>	<u>\$ (6,420)</u>	<u>\$ -</u>	<u>\$ 5,682,538</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
General government	\$ 101,637
Public safety	14,319
Public works	76,006
Economic development	17,232
Culture and recreation	<u>211,359</u>
Total depreciation expense - governmental activities	<u>\$ 420,553</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 8: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
1997 Refunding Certificates of Participation	\$ 2,910,000	\$ -	\$ (125,000)	\$ 2,785,000	\$ 130,000
2004 Refunding Tax Allocation Bonds	11,530,000	-	(1,500,000)	10,030,000	1,535,000
Less deferred amounts:					
On refunding	(638,387)	-	106,398	(531,989)	-
Plus premium on issue	143,396	-	(23,899)	119,497	-
Total bonds payable	<u>13,945,009</u>	<u>-</u>	<u>(1,542,501)</u>	<u>12,402,508</u>	<u>1,665,000</u>
Notes payable:					
Note for 22799 Barton Road	52,626	-	(20,389)	32,237	21,265
Total notes payable	<u>52,626</u>	<u>-</u>	<u>(20,389)</u>	<u>32,237</u>	<u>21,265</u>
Capital leases:					
Honeywell Capital Lease	27,913	-	(13,504)	14,409	14,409
HVAC Lease	170,000	-	(21,472)	148,528	22,964
Tymco Capital Lease	16,428	-	(16,428)	-	-
Total capital leases	<u>214,341</u>	<u>-</u>	<u>(51,404)</u>	<u>162,937</u>	<u>37,373</u>
Compensated Absences	<u>169,061</u>	<u>215,702</u>	<u>(149,699)</u>	<u>235,064</u>	<u>58,766</u>
Total long-term liabilities	<u>\$ 14,381,037</u>	<u>\$ 215,702</u>	<u>\$ (1,763,993)</u>	<u>\$ 12,832,746</u>	<u>\$ 1,782,404</u>

Governmental Activities:

a. 1997 Refunding Certificates of Participation

The CRA has accepted the responsibility of making the debt service payments for the 1997 Refunding Certificates of Participation for the past several years. The 1997 issuance was a refunding of the 1991 Lease-Revenue Bonds. The proceeds of the 1991 issuance were used to construct a childcare center, the Pico Park Project, and the Grand Terrace Parkside Improvement Project.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 8: Long-Term Liabilities (continued)

Debt service payments to maturity for the 1997 Refunding Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 130,000	\$ 147,785
2009	135,000	141,019
2010	140,000	133,525
2011	150,000	125,623
2012	155,000	117,311
2013 - 2017	905,000	447,036
2018 - 2022	1,170,000	164,862
Total	<u>\$ 2,785,000</u>	<u>\$ 1,277,161</u>

b. 2004 Refunding Tax Allocation Bonds

In August of 2004, the CRA issued the \$13,000,000 Refunding Tax Allocation Bonds, Series 2004. The Bonds were issued to refund the \$3,695,000 outstanding Tax Allocation Bond Series 1993 A, the \$1,290,000 outstanding Zions First National Bank loan, the \$2,780,000 outstanding Tax Allocation Bond Series 1993 B, and to finance certain redevelopment activities of the CRA. Interest varies from 2.00% to 3.75% and is payable semiannually on March 1 and September 1, commencing March 1, 2005. Principal payments are due annually commencing March 1, 2005 through March 1, 2012.

The CRA deposited \$8,241,183 of the proceeds in an irrevocable trust and purchased U.S Government State and Local Government Securities for the purpose of generating resources which will be used to call the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$851,183. This amount is being netted against the new debt and amortized over the remaining life of the new debt. This advance refunding was undertaken to reduce total debt service payments over the next 14 years by \$464,691 and resulted in an economic gain of \$631,303.

Debt service payments to maturity for the 2004 Refunding Tax Allocation Bonds are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 1,535,000	\$ 307,544
2009	1,565,000	266,800
2010	1,610,000	215,150
2011	1,670,000	161,925
2012	1,720,000	104,625
2013 - 2017	1,930,000	36,187
Total	<u>\$ 10,030,000</u>	<u>\$ 1,092,231</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 8: Long-Term Liabilities (continued)

c. Note Payable

In August 2003, the CRA entered into a loan agreement in the amount of \$100,000 with Alba B. DeBebenet, Trustee of the Alba B. Zampese 1988 Trust. The proceeds of the loan are to be used along with other available funds for the City of Grand Terrace maintenance building for public works. Interest on the loan is payable semi-annually on February 14 and August 14 at the rate of 4.25 percent, commencing February 14, 2005. The principal on the loan is payable semi-annually on February 14 and August 14 commencing February 14, 2005.

Debt service payments to maturity on the note payable are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 21,265	\$ 1,147
2009	10,972	233
Total	<u>\$ 32,237</u>	<u>\$ 1,380</u>

d. Capital Leases

Honeywell Energy Conservation Lease

In 1997, the City entered into a capital lease to purchase energy conservation equipment. The amount financed was \$115,200 to be repaid over a ten-year period with interest at 6.7 percent. Principal and interest payments are made annually commencing on April 15, 1998. The payments vary slightly to provide for equal savings in each year. The lease payments are structured so that the City will receive net energy savings of about \$423 annually over the ten-year financing term. There are no annual fees associated with the lease agreement. All costs are included in the 6.7 percent rate. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through this capital lease is as follows:

ASSET:	
Energy conservation equipment	\$ 115,200
Less: accumulated depreciation	<u>(40,320)</u>
Total	<u>\$ 74,880</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 8: Long-Term Liabilities (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

Year Ending June 30,	Payments
2008	\$ 15,374
Total minimum lease payments	15,374
Less: amounts representing interest	(965)
Present value of minimum lease payments	\$ 14,409

Tymco International Regenerative Air Street Sweeper Lease

In 2002, the City entered into a lease to purchase a regenerative air street sweeper. The amount financed was \$92,234 to be repaid over a six-year period with interest at 4.75 percent. Principal and interest payments are made annually commencing on July 3, 2002. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

This lease was paid off during the year.

HVAC Lease

In 2007, the City entered into a lease to purchase an HVAC system. The amount financed was \$170,000 to be repaid over a seven-year period with interest at 4.84%. Principal and interest payments are made semi-annually commencing on December 1, 2006. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through this capital lease is as follows:

ASSET:	
HVAC System	\$ 170,000
Less: accumulated depreciation	(11,316)
Total	\$ 158,684

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 8: Long-Term Liabilities (continued)

The minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

Year Ending June 30,	Payments
2008	\$ 28,819
2009	28,819
2010	28,819
2011	28,819
2012	28,819
2013	28,819
Total minimum lease payments	172,914
Less: amounts representing interest	(24,386)
Present value of minimum lease payments	\$ 148,528

Note 9: City Employees Retirement Plan

Plan description

The City contributes to the California Public Employees Retirements System (PERS), a cost sharing 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 their executive office: 400 "P" Street, Sacramento, California 95814.

Funding policy

Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate 11.930% for non-safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS. The City's contributions to PERS for the years ending June 30, 2005, 2006 and 2007 were \$114,601, \$199,391 and \$293,192 respectively, which were equal to the required contributions for each year.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2007**

Note 9: City Employees Retirement Plan (continued)

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. As a result, the City was required to participate in a risk pool of other agencies with less than 100 employees.

At the time of joining a risk pool (valuation of June 30, 2003), a Side Fund was created to account for the difference between the funded status of the pool and funded status of the City's plan. The Side Fund for the City's plan as of the June 30, 2005 valuation was (\$1,156,711) for the Miscellaneous Plan.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative Side Fund will cause the City's required employer contribution rate to be increased by the Amortization of the Side Fund. In the absence of subsequent contract amendments or funding changes, the Side Fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2005, was 16 years for the Miscellaneous Plan.

Note 10: Residential Mortgage Revenue Bonds

Acting as a conduit agent, the CRA has issued the following mortgage revenue bond:

	<u>Outstanding Balance</u>
La Verne/Grand Terrace Housing Financing Agency \$38,625,000 1984 Series A Residential Mortgage Revenue Bonds	<u>\$ 4,750,000</u>

The bonds are payable solely from payments made on, and secured by, a pledge of mortgage loans acquired from bond proceeds; and neither the faith and credit nor the taxing power of the City or CRA has been pledged to the payment of the bonds. Therefore, these bonds are not included as an outstanding obligation in the financial statements of the City or CRA.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 11: Fund Equity

Reservation of Fund Balance

The City has established certain fund balance reserve accounts to report the amounts in the following funds, which represent available spendable resources restricted for a specified purpose:

	General	CRA Low Income Housing	CRA Capital Projects	CRA Debt Service	Total Nonmajor Governmental Funds	Total
Reserved for:						
Encumbrances	\$ 25,879	\$ 750	\$ -	\$ -	\$ 119	\$ 26,748
Debt service	-	-	-	1,326,272	-	1,326,272
Workers compensation	264,893	-	-	-	-	264,893
Community center gymnasium	15,000	-	-	-	-	15,000
Long-term advances receivable	-	300,205	-	4,306,745	-	4,606,950
Long-term housing note receivable	-	741,000	-	-	-	741,000
Property held for resale	-	779,986	2,615,692	-	-	3,395,678
Total Reservations	<u>\$305,772</u>	<u>\$ 1,821,941</u>	<u>\$ 2,615,692</u>	<u>\$ 5,633,017</u>	<u>\$ 119</u>	<u>\$10,376,541</u>

Restatements

Government-wide financial statements

Governmental activities	Balance as previously reported	Restatements	Balance as restated
Description			
To write off a grant receivable	<u>\$ 18,881,903</u>	<u>\$ (13,547)</u>	<u>\$ 18,868,356</u>

Fund financial statements

Description	Balance as previously reported	Restatements	Balance as restated
Capital Projects Fund - Streets			
To write off a grant receivable	<u>\$ (9,192)</u>	<u>\$ (13,547)</u>	<u>\$ (22,739)</u>

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 12: Risk Management

The City is a member of the California Joint Powers Insurance Authority (the "Authority"). The following joint venture disclosures are made in compliance with GASB Code Section J50.103:

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

The City of Grand Terrace is a member of the California Joint Powers Insurance Authority (the "Authority"). The Authority is composed of 107 California public entities and is organized under a joint powers agreement pursuant to California Government Code §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. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,001 to \$750,000 are pooled based on a member's share of costs under \$30,000; costs from \$750,001 to \$15,000,000 are pooled based on payroll. Costs of covered claims above \$15,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers Compensation The City of Grand Terrace also participates in the workers compensation pool administered by the Authority. Members retain the first \$50,000 of each claim. Claims are pooled separately between public safety and non-public safety. Loss development reserves are allocated by pool and by loss layer (\$0-\$100,000 allocated by retained amount and \$100,000 to \$2,000,000 by payroll). 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 loss development reserves associated with losses from \$100,000 to \$2,000,000 are pooled based on payroll. Costs from \$2,000,000 to \$50,000,000 are transferred to an excess insurance policy. Costs in excess of \$50,000 are pooled among the Members based on payroll. Administrative expenses are paid from Authority's investment earnings.

c. Purchased Insurance

Property Insurance The City of Grand Terrace participates in the all-risk property protection program of the Authority. Several insurance companies underwrite this insurance protection. The City of Grand Terrace property is currently insured accordingly to a schedule of covered property submitted by the City of Grand Terrace to the Authority. Total all-risk property insurance coverage is \$12,480,414. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive.

City of Grand Terrace
Notes to Financial Statements
June 30, 2007

Note 12: Risk Management (continued)

Earthquake and Flood Insurance The City of Grand Terrace purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City of Grand Terrace property currently has earthquake protection in the amount of \$5,121,572. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

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.

Note 13: Agreements With Other Taxing Agencies

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the CRA has entered into pass-through agreements with various governmental agencies to pass-through portions of tax increment funds received by the CRA, attributable to the area within the territorial limits of the other agencies. The amount passed through for the fiscal year ended June 30, 2007, was \$2,019,916. These payments were recorded as expenditures in the Community Redevelopment Debt Service Fund.

In addition, the CRA was required to transfer tax increment in the amount of \$400,423 to the State of California's Education Revenue Augmentation Fund (ERAF) for the fiscal year ended June 30, 2007.

Note 14: Contingencies

As of June 30, 2007, in the opinion of the City Administration and its legal counsel, there are no outstanding matters, which would have a material effect on the financial position of the City.

The City has received federal and state funds for specific purposes that are subject to audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Note 15: Proposition 218

Proposition 218, which was approved by the voters in November 1996, will regulate the City's ability to impose, increase and extend taxes, assessments and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. The City staff feels that the impact of Proposition 218 will be minimal.

Required Supplementary Information

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Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,373,512	\$ 1,373,514	\$ 1,446,977	\$ 73,463
Licenses and permits	777,991	793,006	705,323	(87,683)
Intergovernmental	1,015,672	1,019,754	1,150,730	130,976
Charges for services	1,299,559	1,299,558	1,278,069	(21,489)
Fine and forfeitures	29,032	29,032	26,966	(2,066)
Investment earnings	117,934	124,434	243,396	118,962
Other	356,200	463,181	116,082	(347,099)
Total revenues	4,969,900	5,102,479	4,967,543	(134,936)
EXPENDITURES				
Current:				
General government	1,388,411	1,484,723	1,426,842	57,881
Public safety	1,398,036	1,563,244	1,591,370	(28,126)
Public works	1,019,338	1,076,857	890,618	186,239
Culture and recreation	1,246,450	1,320,774	1,191,280	129,494
Debt service:				
Principal	34,976	34,976	34,976	-
Interest	9,217	9,217	9,217	-
Capital outlay	71,757	71,757	138,540	(66,783)
Total expenditures	5,168,185	5,561,548	5,282,843	278,705
Excess of revenues over (under) expenditures	(198,285)	(459,069)	(315,300)	143,769
OTHER FINANCING SOURCES USES)				
Transfers in	650,761	650,761	642,149	(8,612)
Transfers out	(170,124)	(1,012,614)	(1,003,676)	8,938
Total other financing sources (uses)	480,637	(361,853)	(361,527)	326
Net change in fund balance	282,352	(820,922)	(676,827)	144,095
Fund balance - beginning of year	1,019,958	1,019,958	1,019,958	-
Fund balance - end of year	<u>\$ 1,302,310</u>	<u>\$ 199,036</u>	<u>\$ 343,131</u>	<u>\$ 144,095</u>

**Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
Community Redevelopment Low Income Housing
Special Revenue Fund
For the year ended June 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax increment	\$ 1,152,457	\$ 1,152,457	\$ 1,292,660	\$ 140,203
Use of money and property	111,185	111,185	324,594	213,409
Gain on sale of land held for resale	1,760,000	1,760,000	291,512	(1,468,488)
Miscellaneous	2,700	2,700	578	(2,122)
Total revenues	<u>3,026,342</u>	<u>3,026,342</u>	<u>1,909,344</u>	<u>(1,116,998)</u>
EXPENDITURES				
Current:				
Economic development	359,976	368,349	314,904	53,445
Capital outlay:				
Project improvement costs	5,588,935	5,288,935	895,730	4,393,205
Total expenditures	<u>5,948,911</u>	<u>5,657,284</u>	<u>1,210,634</u>	<u>4,446,650</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,922,569)</u>	<u>(2,630,942)</u>	<u>698,710</u>	<u>3,329,652</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(741,696)	(766,862)	(766,862)	-
Total other financing sources (uses)	<u>(741,696)</u>	<u>(766,862)</u>	<u>(766,862)</u>	<u>-</u>
Net change in fund balance	(3,664,265)	(3,397,804)	(68,152)	3,329,652
Fund balance - beginning of year	8,091,249	8,091,249	8,091,249	-
Fund balance - end of year	<u>\$ 4,426,984</u>	<u>\$ 4,693,445</u>	<u>\$ 8,023,097</u>	<u>\$ 3,329,652</u>

**Nonmajor Governmental Funds
Combining Statements**

**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
ASSETS					
Cash and investments	\$ 652,781	\$ 88,630	\$ 567,284	\$ -	\$ 28,857
Cash with fiscal agents	-	-	-	-	-
Due from other funds	32,317	-	-	-	-
Due from other governments	-	-	-	-	3,865
Total assets	\$ 685,098	\$ 88,630	\$ 567,284	\$ -	\$ 32,722
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 26
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	307,803	54,729	544,550	-	-
Refundable deposits	4,663	-	-	-	-
Total liabilities	312,466	54,729	544,550	-	26
Fund Balances:					
Reserved	-	-	119	-	-
Unreserved, reported in:					
Special revenue funds	372,632	33,901	22,615	-	32,696
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Total fund balances	372,632	33,901	22,734	-	32,696
Total liabilities and fund balances	\$ 685,098	\$ 88,630	\$ 567,284	\$ -	\$ 32,722

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	Terrace Pines Landscape and Lighting District	Total Special Revenue Funds
\$ 185,616	\$ 688	\$ 212,873	\$ 284,219	\$ 8,976	\$ 2,029,924
-	-	-	-	-	-
23,008	9,205	-	13,612	155	49,845
<u>\$ 208,624</u>	<u>\$ 9,893</u>	<u>\$ 212,873</u>	<u>\$ 297,831</u>	<u>\$ 9,131</u>	<u>\$ 2,112,086</u>
\$ 8,946	\$ -	\$ -	\$ -	\$ 149	\$ 9,121
-	235	-	-	-	235
-	-	-	-	-	-
-	-	184,795	-	-	1,091,877
-	-	-	-	-	4,663
<u>8,946</u>	<u>235</u>	<u>184,795</u>	<u>-</u>	<u>149</u>	<u>1,105,896</u>
-	-	-	-	-	119
199,678	9,658	28,078	297,831	8,982	1,006,071
-	-	-	-	-	-
-	-	-	-	-	-
<u>199,678</u>	<u>9,658</u>	<u>28,078</u>	<u>297,831</u>	<u>8,982</u>	<u>1,006,190</u>
<u>\$ 208,624</u>	<u>\$ 9,893</u>	<u>\$ 212,873</u>	<u>\$ 297,831</u>	<u>\$ 9,131</u>	<u>\$ 2,112,086</u>

**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

	Capital Projects Funds			
	Bike Lane	Streets	Barton/Colton Bridge	Total Capital Projects Funds
ASSETS				
Cash and investments	\$ 19,383	\$ -	\$ 85,163	\$ 104,546
Cash with fiscal agent	-	-	-	-
Accrued revenue	-	7,437	-	7,437
Due from other funds	-	-	-	-
Due from other governments	50,000	124,618	27,671	202,289
	<u>\$ 69,383</u>	<u>\$ 132,055</u>	<u>\$ 112,834</u>	<u>\$ 314,272</u>
Total assets				
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 68,748	\$ 14,874	\$ -	\$ 83,622
Accrued liabilities	-	-	-	-
Due to other funds	3,215	117,181	171,379	291,775
Deferred revenue	-	-	109,270	109,270
Refundable deposits	-	-	-	-
	<u>71,963</u>	<u>132,055</u>	<u>280,649</u>	<u>484,667</u>
Total liabilities				
Fund Balances:				
Reserved	-	-	-	-
Unreserved, reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	(2,580)	-	(167,815)	(170,395)
Debt service funds	-	-	-	-
	<u>(2,580)</u>	<u>-</u>	<u>(167,815)</u>	<u>(170,395)</u>
Total fund balances				
	<u>\$ 69,383</u>	<u>\$ 132,055</u>	<u>\$ 112,834</u>	<u>\$ 314,272</u>
Total liabilities and fund balances				

<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Public Financing Authority</u>	
\$ -	\$ 2,134,470
447,239	447,239
-	7,437
-	32,317
-	252,134
\$ 447,239	\$ 2,873,597

\$ -	\$ 92,743
-	235
-	291,775
-	1,201,147
-	4,663
-	1,590,563
-	119
-	1,006,071
-	(170,395)
447,239	447,239
447,239	1,283,034
\$ 447,239	\$ 2,873,597

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2007

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
REVENUES					
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	90,034	-	50,000	101,455	14,820
Investment earnings	28,839	3,719	25,968	-	1,022
Developer fees	126,233	28,449	24,834	-	-
Other	-	-	-	-	-
Total revenues	245,106	32,168	100,802	101,455	15,842
EXPENDITURES					
Current:					
Public safety	-	-	-	260,936	-
Public works	1,007	13,600	5,308	-	271
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	123,918	-	-
Total expenditures	1,007	13,600	129,226	260,936	271
Excess (deficiency) of revenues over (under) expenditures	244,099	18,568	(28,424)	(159,481)	15,571
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	159,981	-
Transfers out	(110,472)	(1,785)	(16,964)	(500)	(700)
Total other financing sources (uses)	(110,472)	(1,785)	(16,964)	159,481	(700)
Net change in fund balances	133,627	16,783	(45,388)	-	14,871
Fund balances – beginning, restated	239,005	17,118	68,122	-	17,825
Fund balances - ending	<u>\$ 372,632</u>	<u>\$ 33,901</u>	<u>\$ 22,734</u>	<u>\$ -</u>	<u>\$ 32,696</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	Terrace Pines Landscape and Lighting District	Total Special Revenue Funds
\$ -	\$ 48,542	\$ -	\$ -	\$ -	\$ 48,542
231,504	4,570	-	195,215	6,065	693,663
8,943	988	9,063	11,399	99	90,040
-	-	18,261	-	-	197,777
-	-	-	-	-	-
240,447	54,100	27,324	206,614	6,164	1,030,022
-	-	-	-	-	260,936
276,249	8,794	-	78,339	8,620	392,188
16,428	-	-	-	-	16,428
781	-	-	-	-	781
54,209	-	-	-	-	178,127
347,667	8,794	-	78,339	8,620	848,460
(107,220)	45,306	27,324	128,275	(2,456)	181,562
29,552	-	-	-	-	189,533
(45,639)	(40,787)	-	(10,284)	(1,132)	(228,263)
(16,087)	(40,787)	-	(10,284)	(1,132)	(38,730)
(123,307)	4,519	27,324	117,991	(3,588)	142,832
322,985	5,139	754	179,840	12,570	863,358
\$ 199,678	\$ 9,658	\$ 28,078	\$ 297,831	\$ 8,982	\$ 1,006,190

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2007

	Capital Projects Funds			Total Capital Projects Funds
	Bike Lane	Streets	Barton/Colton Bridge	
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -
Intergovernmental	50,000	414,274	-	464,274
Investment earnings	-	3,436	-	3,436
Developer fees	-	-	-	-
Other	-	7,437	-	7,437
Total revenues	50,000	425,147	-	475,147
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Public works	84,370	34,204	837	119,411
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	1,285,964	-	1,285,964
Total expenditures	84,370	1,320,168	837	1,405,375
Excess (deficiency) of revenues over (under) expenditures	(34,370)	(895,021)	(837)	(930,228)
OTHER FINANCING SOURCES (USES)				
Transfers in	35,004	917,760	-	952,764
Transfers out	-	-	-	-
Total other financing sources (uses)	35,004	917,760	-	952,764
Net change in fund balances	634	22,739	(837)	22,536
Fund balances - beginning, restated	(3,214)	(22,739)	(166,978)	(192,931)
Fund balances - ending	<u>\$ (2,580)</u>	<u>\$ -</u>	<u>\$ (167,815)</u>	<u>\$ (170,395)</u>

<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Public Financing Authority</u>	
\$ -	\$ 48,542
-	1,157,937
18,483	111,959
-	197,777
<u>255,220</u>	<u>262,657</u>
<u>273,703</u>	<u>1,778,872</u>
-	260,936
-	511,599
125,000	141,428
153,779	154,560
-	1,464,091
<u>278,779</u>	<u>2,532,614</u>
<u>(5,076)</u>	<u>(753,742)</u>
-	1,142,297
-	(228,263)
<u>-</u>	<u>914,034</u>
(5,076)	160,292
<u>452,315</u>	<u>1,122,742</u>
<u>\$ 447,239</u>	<u>\$ 1,283,034</u>