

**COMMUNITY REDEVELOPMENT
AGENCY OF THE
CITY OF GRAND TERRACE, CALIFORNIA**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

JUNE 30, 2008

Community Redevelopment Agency of the City of Grand Terrace

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ROGERS, ANDERSON, MALODY & SCOTT, LLP
 CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
 ROBERT B. MEMORY, C.P.A.
 PHILLIP H. WALLER, C.P.A.
 BRENDA L. ODLE, C.P.A.
 TERRY P. SHEA, C.P.A.
 KIRK A. FRANKS, C.P.A.
 MATTHEW B. WILSON, C.P.A.
 SCOTT W. MANNO, C.P.A.
 LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
 BRAD A. WELEBIR, C.P.A.
 TIMOTHY P. HORN, C.P.A.
 KATIE L. MILLSOM, C.P.A.
 JOHN J. BADIA, C.P.A.

Governing Board
 Community Redevelopment Agency
 of the City of Grand Terrace
 Grand Terrace, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California (the "Agency"), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Agency'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 misstatements. 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 and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008 on our consideration of the Community Redevelopment Agency of the City of Grand Terrace, California'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.

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The management's discussion and analysis and budgetary comparison information on pages 3 through 9, and 29, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Rogers, Anderson, Molodt & Scott, LLP

November 28, 2008

Management's Discussion and Analysis

Our discussion and analysis of the Community Redevelopment Agency of the City of Grand Terrace (the "Agency") financial performance for the fiscal year ended June 30, 2008 provides an overview of year ending results based on the government-wide statements, an analysis on the Agency's overall financial position and results of operations to assist users in evaluating the Agency's financial position. In addition, it shows the result of the activities during the year for capital assets and long term debt. Please read it in conjunction with the Agency's financial statements.

FINANCIAL HIGHLIGHTS

The Agency spent \$4,109,489 on programs and projects, including:

High School and public infrastructure improvements – Through a partnership with the Colton Unified School District, property was assembled for the new high school and businesses were relocated. The City of Riverside 48 inch water line was relocated and the water line easements were transferred to the City of Riverside for maintenance. Negotiations continue with Riverside County Transportation Agency and Union Pacific Railroad to complete improvements to Main Street.

Senior Center and Senior Housing – This project was reviewed for entitlements, the EIR completed, constructions plans completed, and construction is now underway. The project includes a new 7,000 square foot senior center (up from the existing 4,500 square feet) and 120 one- and two-bedroom units for seniors. One hundred eight (108) units are restricted for household incomes at or below 60% of the area median income adjusted for family size.

Affordable Housing Programs – At an average of \$30,000 per unit, the Agency's Home Improvement Program provides eligible low- and moderate-income households loans to fund minor rehabilitation expenses. One homeowner has been assisted during this Plan period, and additional projects may occur before the end of the period. The Agency is now reviewing foreclosed homes for future rehabilitation projects.

Property acquisition for project site assembly – Property acquisition for both the freeway-oriented 120 acre project (former Outdoor Adventure site) and the Town Square commercial project has been underway in partnership with private development partners. In addition, the Agency is pursuing additional opportunities while sales prices are low to assemble property for projects at other locations that will provide new jobs for residents.

Economic Development and Redevelopment Website – To offer better access to information about the City's and Redevelopment Agency's programs and projects, staff is in the process of upgrading the web pages. This effort includes providing links to outside agency programs that are available, such as small business loans and marketing plan assistance.

Code Enforcement Program – The Agency has continued its support of the Code Enforcement Program to ensure the preservation of both residential and commercial neighborhoods and eliminate substandard housing. In addition to complaint response, during 2006, a residential inspection program was established for rental housing. Each unit is inspected on an annual basis, and any substandard housing and property maintenance violations observed are required to be corrected. Three hundred thirty-four (334) rental homes and 112 multi-family units are inspected each year, and the compliance rate to date is 95%.

Other

- Assessed values in the project area increased 4.0% over the prior year.
- On the current financial resources (government-wide) basis, the Agency's total net assets were in surplus position of \$16,935,309 and on the spendable resources (fund financial statements) basis the Agency's fund balances were in a surplus position of \$20,502,326 at the end of the year. The lower net assets position on the government wide basis derives from the fact that the Agency produces no capital assets yet reduces net assets for current and future indebtedness under existing bond agreements. The non-current portion of these liabilities is not shown under the fund financial statements basis.
- On the current financial resources (government-wide) basis, the Agency reported revenues in excess of expenses of \$4,177,752 and on the spendable resources (fund financial statements) basis reported expenditures in excess of revenues and other financing sources and uses of \$(784,203) for the year. This difference is due primarily to the construction on the senior housing project. It is also important to note that payments to retire bond principal reduce liabilities and therefore increase net assets on the government-wide basis, whereas payments to retire bond principal are considered expenditures and decrease fund balances under the fund financial statements basis.

USING THIS ANNUAL REPORT

This annual report consists of three parts – management's discussion and analysis (this portion), the basic financial statements, and required supplementary information. The basic financial statements include the *statement of net assets* and *statement of activities*. These provide information about the activities of the Agency as a whole and present a long-term view of the Agency's finances. 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 Agency's operation in more detail than the government-wide statements by providing information about the Agency's most significant funds and other funds.

REPORTING THE AGENCY AS A WHOLE

The Statement of Net Assets and the Statement of Activities:

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The *statement of net assets* and the *statement of activities* report information about the Agency as a whole and about its activities in a way to answer this question. These statements include all assets and liabilities of the Agency 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 Agency's *net assets* and *changes in net assets*. Net assets are the difference between assets (resources) and liabilities (obligations), which is one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net assets are an indication of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Agency's tax increment to assess the overall health of the Agency.

REPORTING THE AGENCY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements:

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, management established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other resources. The Agency only has governmental type funds.

Governmental funds - the Agency's basic services are reported in governmental funds, which focus on how money flows in 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* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

The statement of net assets and the statement of activities present information about the following:

- Governmental activities - All of the Agency's basic services are considered to be governmental activities, including salaries and wages, community development, and public works. Tax increment and investment income finance most of these activities.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide statements provide long-term and short-term information about the Agency's overall financial condition. The analysis addresses the financial statements of the Agency as a whole.

TABLE 1

Net Assets

	Governmental Activities	
	2008	2007
Current and restricted assets	\$ 18,742,826	\$ 19,223,919
Land held for resale	3,078,374	3,395,678
Capital assets	7,159,159	3,752,421
Total assets	<u>28,980,359</u>	<u>26,372,018</u>
Long-term liabilities outstanding	9,120,007	10,748,479
Other liabilities	2,925,043	2,865,982
Total liabilities	<u>12,045,050</u>	<u>13,614,461</u>
Invested in capital assets	7,159,159	3,752,421
Restricted	20,357,141	21,127,396
Unrestricted	(10,580,991)	(12,122,260)
Total net assets	<u>\$ 16,935,309</u>	<u>\$ 12,757,557</u>

TABLE 2**Changes in Net Assets**

	Governmental Activities	
	2008	2007
GENERAL REVENUES:		
Property tax increment	\$ 7,089,612	\$ 6,536,772
Intergovernmental	0	6,445
Investment earnings	592,850	619,288
Gain on sale of land held for resale	314,190	2,426,545
Miscellaneous	290,589	858
Total revenues	<u>8,287,241</u>	<u>9,589,908</u>
PROGRAM EXPENSES:		
Community development	1,124,393	1,085,462
Pass-through payments	2,181,328	2,019,916
Project improvement costs	293,031	1,125,756
Interest on long-term debt	510,737	542,255
Total expense	<u>4,109,489</u>	<u>4,773,389</u>
Change in net assets	<u>\$ 4,177,752</u>	<u>\$ 4,816,519</u>

Revenues – Statement of Activities

The Agency's total revenue from governmental activities was \$8,287,241. Redevelopment tax increment comprised \$7,089,612 or 85.5 percent of the total revenue of the Agency. Twenty percent of gross increment is restricted to low and moderate income housing programs. After pass-through to other agencies, the Agency realized net increment of \$4,908,284, an increase of 8.6% over last year.

Expenses – Statement of Activities

Overall expenses of the Agency totaled \$4,109,489. Project Improvement costs amounted to \$293,031 or 7.1 percent of total. Expenses specific to other community development activity, including planning, code enforcement and housing activities, totaled \$1,124,393 or 27.3 percent of total expenses. Pass-through agreements consist of tax increment that is deducted from our gross increment and distributed to other agencies by the County of San Bernardino. The agency is required to report tax increment at the gross amount so that the calculations for the 20 percent set aside restricted for low and moderate income housing activities is distinguishable. This pass-through amount to \$2,181,328 or 53.0 percent of total expenses. Making up the remainder of expenses were interest on debt service (\$510,737 or 12.4 percent).

Net Assets – Statement of Activities

The Agency's net assets increased 32.8 percent or \$4,177,752 during the year as a result of general revenues exceeding program expenses. This change is reflected in the statement of activities.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the Agency's government, reporting the Agency's operations in more detail than the government-wide financial statements. The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The Agency's governmental funds reported combined fund balances at June 30, 2008 of \$20,502,326, a decrease of 3.6 % from last fiscal year.

TABLE 3

Fund Financial Statements – Fund Balances

	<u>2008</u>	<u>2007</u>
Reserved for:		
Encumbrances	\$ 316,518	\$ 750
Debt service	1,311,615	1,326,272
Long-term advances receivable	4,606,950	4,606,950
Long-term notes receivable	741,000	741,000
Land held for resale	3,078,374	3,395,678
Total reserved fund balances	<u>10,054,457</u>	<u>10,070,650</u>
Unreserved, reported in:		
Special revenue fund	3,990,580	6,201,156
Debt service fund	7,029,755	5,487,894
Capital projects fund	(572,466)	(473,171)
Total unreserved fund balances	<u>10,447,869</u>	<u>11,215,879</u>
Total fund balances	<u>\$ 20,502,326</u>	<u>\$ 21,286,529</u>

Fund Balance Analysis by Fund

The Special Revenue Fund revenues were \$1,985,187, and expenditures and financing uses were \$4,506,794. Fund balance decreased by \$2,521,607 to \$5,501,490. The decrease primarily related to project costs of the Senior Housing project.

The Debt Service Fund revenues and financing sources were \$6,181,978, and expenditures and financing uses were \$4,654,774. Fund balance increased \$1,527,204 to \$12,648,115.

The Capital Projects Fund revenues and financing sources were \$719,870 and expenditures and financing uses were \$509,670. Fund balance increased \$210,200 to \$2,352,721.

Major Special Revenue Fund Budgetary Highlights

Over the course of the year, the Agency revised the Agency budget with adjustments that fall into the following two categories:

- Changes made in the midyear review to adjust revenues, augment current year expenditure appropriations, adjust appropriations for prior year department carryover, and establish or increase designations of fund balance.
- Other revenue adjustments and expenditure appropriations approved after the original budget is adopted, and before or after midyear report is approved.

Actual revenues in the Housing Fund were \$250,952 under original estimates. This is primarily due to the practice of estimating the entire proceeds from the sale of land for cash flow purposes, rather than only the estimated gain on sale. Actual tax increment exceeded the estimate by \$39,582, while investment earnings were \$74,958 over final projections. Program expenditures were under final budget by \$2,167,368, resulting in a budgeted surplus of \$2,196,144 and an actual decrease to fund balance of \$2,521,607.

CAPITAL ASSETS

The Agency’s investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$7,159,159. This investment in capital assets is made up of construction in progress.

Major capital assets during the current fiscal year:

Construction began on the Senior Housing Project; construction in progress as of the close of the fiscal year had reached \$7,159,159.

DEBT ADMINISTRATION

At year-end, the Agency’s governmental activities had \$11,160,972 in outstanding bonds, loans and notes.

**TABLE 4
Outstanding Debt, at Year-End**

	Governmental Activities	
	2008	2007
Refunding tax allocation bonds	\$ 8,495,000	\$ 10,030,000
Certificates of participation	2,655,000	2,785,000
Note payable	10,972	32,237
Total outstanding debt	<u>\$ 11,160,972</u>	<u>\$ 12,847,237</u>

ECONOMIC FACTORS

Although delayed by legal challenges, the Agency is progressing with projects in FY 07-08. Work is continuing on the Town Center project and Freeway Project. The general economy of the Inland Empire region and especially the housing industry continued to decline and the foreclosures trend that began last year is accelerating. San Bernardino County’s median new home price was down 6.1% compared to the previous year. New home sales fell 38.4% countywide, while existing home sales fell 40.7%

Despite the housing industry gloom, the general economy for Grand Terrace continues to maintain status quo with only a minor decrease in taxable sales of less than 1.0% and a 4.0% increase in assessed property value. The community was proud to be recognized by Money Magazine as No. 92 out of 100 in their annual “Best Places to Live” article.

The continuing State of California budget crisis continues to have a potential effect on all cities, special districts and redevelopment agencies. As of December 2008 the State has a budget deficit of \$15 billion and may run out of operating funds by February 2009. The State Budget Act of 2008 requires the Community Redevelopment Agency to shift \$448,211 to the Educational Revenue Augmentation Fund (ERAF). This effectively transfers a portion of the agency's property tax to schools as part of a \$350 million "take away" from California Redevelopment Agencies. On December 4, 2008, the California Redevelopment Association and the City of Moreno Valley's Redevelopment Agency filed a lawsuit in Sacramento Superior Court seeking to block sections of budget trailer bill AB 1389, which was approved as part of the FY 2008-09 State budgets, and which authorized a one-time raid of \$350 million in redevelopment funds. The lawsuit seeks both to invalidate sections of AB 1389 and prohibit the State from forcing county auditors to divert redevelopment funds to the Educational Revenue Augmentation Funds (ERAF).

The lawsuit contends that State takes of redevelopment funds to balance the State's budget violate Article XVI, Section 16 of the Constitution on multiple counts. For one, the Constitution requires that redevelopment funds can be used only to finance specified redevelopment activities. Second, taking redevelopment funds could also unconstitutionally impair contracts, particularly covenants pledging future tax revenues to repay bonds.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Government-Wide Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Statement of Net Assets
June 30, 2008

ASSETS

Cash and investments	\$ 11,435,087
Cash and investments with fiscal agents	1,311,615
Interest receivable	60,982
Accrued revenue	46,421
Due from other governments	176,104
Due from city of Grand Terrace	4,606,950
Loan receivable	114,679
Land held for resale	3,078,374
Notes receivable	741,000
Deferred charges	249,988
Capital assets not being depreciated:	
Construction in progress	<u>7,159,159</u>
 Total assets	 <u>28,980,359</u>

LIABILITIES

Accounts payable and other current liabilities	53,039
Accrued interest payable	145,185
Due to other governments	633,546
Due to City of Grand Terrace	267,622
Deferred revenue	114,679
Non-current liabilities:	
Due within one year	1,710,972
Due in more than one year	<u>9,120,007</u>
 Total liabilities	 <u>12,045,050</u>

NET ASSETS

Invested in capital assets, net of related debt	7,159,159
Restricted for:	
Community development	5,501,490
Capital projects	2,352,721
Debt service	12,502,930
Unrestricted (deficit)	<u>(10,580,991)</u>
 Total net assets	 <u><u>\$ 16,935,309</u></u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Statement of Activities
For the Year Ended June 30, 2008**

PROGRAM EXPENSES

Governmental activities:	
Community development	\$ 1,124,393
Passthrough payments	2,181,328
Project improvement costs	293,031
Interest on long-term debt	<u>510,737</u>
Total program expenses	<u>4,109,489</u>

GENERAL REVENUES

Taxes:	
Incremental property taxes	7,089,612
Investment earnings	592,850
Gain on sale of property	314,190
Miscellaneous	<u>290,589</u>
Total general revenues	<u>8,287,241</u>
Change in net assets	4,177,752
Net assets, beginning of year	<u>12,757,557</u>
Net assets, end of year	<u><u>\$ 16,935,309</u></u>

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

Fund Financial Statements

**Community Redevelopment Agency of the City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2008**

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 3,949,537	\$ 7,485,550	\$ -	\$ 11,435,087
Cash with fiscal agents	-	1,311,615	-	1,311,615
Interest receivable	24,115	36,867	-	60,982
Accrued revenue	314	-	46,107	46,421
Due from other governments	35,220	140,884	-	176,104
Due from City of Grand Terrace	300,205	4,306,745	-	4,606,950
Loans receivable	114,679	-	-	114,679
Property held for resale	462,682	-	2,615,692	3,078,374
Notes receivable	741,000	-	-	741,000
	<u>\$ 5,627,752</u>	<u>\$ 13,281,661</u>	<u>\$ 2,661,799</u>	<u>\$ 21,571,212</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,583	\$ -	\$ 41,456	\$ 53,039
Due to other governments	-	633,546	-	633,546
Due to City of Grand Terrace	-	-	267,622	267,622
Deferred revenue	114,679	-	-	114,679
	<u>126,262</u>	<u>633,546</u>	<u>309,078</u>	<u>1,068,886</u>
Fund Balances:				
Reserved for:				
Encumbrances	7,023	-	309,495	316,518
Debt service	-	1,311,615	-	1,311,615
Long-term advances receivable	300,205	4,306,745	-	4,606,950
Long-term notes receivable	741,000	-	-	741,000
Property held for resale	462,682	-	2,615,692	3,078,374
Unreserved, reported in:				
Special revenue fund	3,990,580	-	-	3,990,580
Debt service fund	-	7,029,755	-	7,029,755
Capital projects fund	-	-	(572,466)	(572,466)
	<u>5,501,490</u>	<u>12,648,115</u>	<u>2,352,721</u>	<u>20,502,326</u>
Total liabilities and fund balances	<u>\$ 5,627,752</u>	<u>\$ 13,281,661</u>	<u>\$ 2,661,799</u>	<u>\$ 21,571,212</u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
For the Year Ended June 30, 2008**

Total fund balances of governmental funds	\$ 20,502,326
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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.	7,159,159
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Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities -- both current and long-term -- are reported in the statement of net assets. Balances at June 30, 2008 are:

Bonds payable	(11,150,000)
Less: deferred charges on refunding	425,591
Less: costs of issuance	249,988
Plus: premium received on issuance	(95,598)
Loans payable	(10,972)
Accrued interest payable	(145,185)
	(11,665,185)

Net assets of governmental activities	\$ 16,935,309
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The accompanying notes are an integral part of these financial statements.

Community Redevelopment Agency of the City of Grand Terrace
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Tax increment	\$ 1,417,922	\$ 5,671,690	\$ -	\$ 7,089,612
Use of money and property	253,075	293,560	46,215	592,850
Gain on sale of property	314,190	-	-	314,190
Miscellaneous	-	-	290,589	290,589
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	1,985,187	5,965,250	336,804	8,287,241
EXPENDITURES				
Current:				
Economic development	305,689	186,838	73,685	566,212
Pass-through payments	-	2,181,328	-	2,181,328
Capital outlay:				
Project improvement costs	3,407,436	-	292,333	3,699,769
Debt service:				
Principal	-	1,665,000	21,265	1,686,265
Interest and other charges	-	440,941	1,245	442,186
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	3,713,125	4,474,107	388,528	8,575,760
Excess of revenues over (under) expenditures	<hr/> (1,727,938)	<hr/> 1,491,143	<hr/> (51,724)	<hr/> (288,519)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(599,794)	216,728	383,066	-
Transfers to the City of Grand Terrace	(193,875)	(180,667)	(121,142)	(495,684)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(793,669)	36,061	261,924	(495,684)
Net change in fund balances	(2,521,607)	1,527,204	210,200	(784,203)
Fund balances, beginning of year	<hr/> 8,023,097	<hr/> 11,120,911	<hr/> 2,142,521	<hr/> 21,286,529
Fund balances, end of year	<hr/> <u>\$ 5,501,490</u>	<hr/> <u>\$ 12,648,115</u>	<hr/> <u>\$ 2,352,721</u>	<hr/> <u>\$ 20,502,326</u>

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

**Community Redevelopment Agency of the 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, 2008**

Net change in fund balances of governmental funds \$ (784,203)

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. This is the amount of current year capital outlay. 3,406,738

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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments on debt 1,686,265

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 charge on refunding	(106,398)
Amortization of costs of issuance	(62,497)
Amortization of premium	23,899
Accrued interest expense	13,948
	13,948

Change in net assets of governmental activities \$ 4,177,752

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

Notes to Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Community Redevelopment Agency of the City of Grand Terrace (the "Agency") conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard setting body for governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies.

Description of the reporting entity

The Agency is a component unit of a reporting entity which consists of the following oversight and component units:

Reporting Entity:

Oversight Unit:

City of Grand Terrace

Component Units:

Community Redevelopment Agency of the City of Grand Terrace
City of Grand Terrace Public Financing Authority

The component unit financial statements contain information relative only to the Agency as a component unit which is an integral part of the total reporting entity. They do not contain financial data relating to the other reporting unit.

The Agency was formed under Section 33000 et. Seq. of the Health and Safety Code. Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Grand Terrace. The City provides management assistance to the Agency and the members of the City Council also act as the governing body of the Agency.

As of June 30, 2008 the Grand Terrace Project Area was the only project area formed by the Agency.

Government-wide and fund financial statements

The government-wide financial statements include a statement of net assets and the statement of changes in net assets which report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

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 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 revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

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

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and investments

The City of Grand Terrace maintains and controls cash and investment pools in which the City and Agency share. The government's cash and cash equivalents are cash or investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value which is determined using selected bases. Cash deposits are reported at carrying amount which reasonably estimates fair value.

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." Currently, the Agency does not have any business-type activities.

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.

Property taxes

The County of San Bernardino collects property taxes for the Agency. 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.

Land held for resale

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop blighted properties. The Agency records these parcels as land held for resale in its financial records. The land is being carried in the Special Revenue Fund and Capital Projects Fund at net realizable value, which is equal to cost. At June 30, 2008 net realizable value for land held for resale totaled \$2,615,692 in the Capital Projects Fund and \$462,682 in the Special Revenue Fund with these amounts offset by a reservation of fund balance.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column in the 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 effective interest 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.

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.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary data*

General Budget Policies

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Governing Board. Supplemental appropriations, where required during the period are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the function level. At fiscal year-end all operating budget appropriations lapse.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level within a department.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at year-end are completed. They do not constitute expenditures or estimated liabilities.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and Investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and investments	\$ 11,435,087
Cash and investments with fiscal agents	<u>1,311,615</u>
	<u>\$ 12,746,702</u>

Cash and Investments as of June 30, 2008 consist of the following:

Deposits with financial institutions (pooled with City)	\$ 138,665
Investments	<u>12,608,037</u>
	<u>\$ 12,746,702</u>

Authorized investments

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency'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 Agency, rather than the general provisions of the California Government Code or the Agency'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	N/A	None	None
Mutual Funds	N/A	20%	10%
Pools and other investment structures	N/A	None	None

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. 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 Agency 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 Agency's investments to market interest rate fluctuations are presented below, information about the Agency's investments pooled with the City can be found in the City of Grand Terrace's Annual Financial Report.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 2: Cash and Investments (continued)

Investment Type	Amount	12 Months or Less
Money market mutual fund	\$ 1,311,615	\$ 1,311,615
Local Agency Investment Fund	11,296,422	11,296,422
Total	<u>\$ 12,608,037</u>	<u>\$ 12,608,037</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 Agency's investment policy, or debt agreements, and the actual rating as of year-end for each type of investment held by the Agency can be found below, information about the Agency's investments pooled with the City can be found in the City of Grand Terrace's Annual Financial Report. Currently, LAIF is not rated by an accredited rating agency.

Investment Type	Amount	Minimum Legal Rating	Actual Rating
Money market mutual fund	\$ 1,311,615	AAAm	AAA
Local Agency Investment Fund	11,296,422	N/A	N/A
Total	<u>\$ 12,608,037</u>		

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U. S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the Agency's investments can be found in the City of Grand Terrace's Annual Financial Report.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

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 Agency'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. For amount of deposits held in excess of federal depository insurance limits see the City of Grand Terrace's Annual Financial Report.

Investments in State Investment Pool

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

Pooled cash

The Agency 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.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 3: Due from City of Grand Terrace

In April of 1980, the Community Redevelopment Agency of the City of Grand Terrace entered into a pass-through agreement with the City of Grand Terrace which provided that certain tax increment generated by the Agency project area be allocated to the City of Grand Terrace beginning in fiscal year 1981/82. This agreement was in noncompliance with state statutes. As a result, \$3,689,025 of tax increment was allocated to the City's General Fund through June 30, 1993, of which \$737,805 represents amounts which should have been allocated for 20 percent low and moderate housing set-aside as required by state statutes.

The City and Agency agreed to the following plan for repayment of tax increment monies to the Agency's Debt Service and Capital Projects Funds:

Agency Low and Moderate Income Housing Fund

Unpaid 20 percent set-aside of \$737,805, plus interest from fiscal year 1981/82 through June 30, 1993, of \$138,948, totaling \$876,753 has been recognized as an advance to the City's General fund, to be paid as funds are available, with interest accruing at an interest rate equal to the average Local Agency Investment Fund yield. The balance at June 30, 2008 is:

\$ 300,205

Agency Debt Service Fund

To the extent of unpaid advances made by the City to the Agency and outstanding at June 30, 1992 (\$2,450,023), tax increment monies allocated to the City rather than the Agency Debt Service Fund were treated as repayment of advances owing to the City. The effect on interest paid by the Agency on outstanding advances payable to the City was adjusted, with the difference being treated as excess repayment by the Agency of outstanding advances payable. The resulting amounts owing of \$1,073,846 at June 30, 1993, to the Agency by the City carry the same terms as described above.

	1,073,846
Advances made to City and Agency Low Income Housing Program	<u>3,232,899</u>
Balance at June 30, 2008	<u>4,306,745</u>
Total balance at June 30, 2008	<u><u>\$ 4,606,950</u></u>

Note 4: Loans Receivable

The Agency has provided deferred rehabilitation loans to qualifying low and moderate income households from its 20 percent set-aside funds. A corresponding deferred revenue is recorded accordingly. The balance at June 30, 2008 is \$114,679.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 5: Property Held for Resale

Special Revenue 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, 2008 is \$462,682.

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, 2008 is \$2,615,692.

Note 6: Notes Receivable

The amount of \$741,000 in notes receivable is related to 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.

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

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 3,752,421	\$3,406,738	\$ -	\$7,159,159
Total capital assets, not being depreciated	<u>\$ 3,752,421</u>	<u>\$3,406,738</u>	<u>\$ -</u>	<u>\$7,159,159</u>

Note 8: Long-term Debt

a. *1997 Refunding Certificates of Participation*

The Agency 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.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 8: Long-term Debt (continued)

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

Year Ending June 30,	Principal	Interest
2009	\$ 135,000	\$ 141,019
2010	140,000	133,525
2011	150,000	125,623
2012	155,000	117,311
2013	165,000	105,591
2014 - 2018	955,000	396,351
2019 - 2022	955,000	106,956
Total	<u>\$ 2,655,000</u>	<u>\$ 1,126,376</u>

b. *2004 Refunding Tax Allocation Bonds*

In August of 2004, the Agency 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 Agency. 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 Agency 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
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	1,930,000	36,188
Total	<u>\$ 8,495,000</u>	<u>\$ 784,688</u>

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 8: Long-term Debt (continued)

c. *Note Payable*

In August 2003, the Agency entered into a loan agreement in the amount of \$100,000 with Alba B. DeBenedet, 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, 2009	Principal	Interest
Total	\$ 10,972	\$ 233

d. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
1997 Refunding Certificates of Participation	\$ 2,785,000	\$ -	\$ (130,000)	\$ 2,655,000	\$ 135,000
2004 Refunding Tax Allocation Bonds	10,030,000	-	(1,535,000)	8,495,000	1,565,000
Less deferred amounts:					
On refunding	(531,989)	-	106,398	(425,591)	-
Plus premium on issue	119,497	-	(23,899)	95,598	-
Total bonds payable	12,402,508	-	(1,582,501)	10,820,007	1,700,000
Notes payable:					
Note for 22799 Barton Road	32,237	-	(21,265)	10,972	10,972
Total notes payable	32,237	-	(21,265)	10,972	10,972
Total long-term liabilities	\$ 12,434,745	\$ -	\$ (1,603,766)	\$ 10,830,979	\$ 1,710,972

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2008

Note 9: Interfund Transfers

Interfund transfers for the year ended June 30, 2008 are as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
Debt Service	Special Revenue	\$ 599,794
Capital Projects	Debt Service	383,066
		\$ 982,860

The transfer into the Debt Service fund was made for servicing the 2004 refunding tax allocation bonds.

The transfer into the Capital Projects fund was made to cover a negative cash balance during the fiscal year.

Note 10: Agreements With Varying Taxing Agencies

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the Agency has entered into pass-through agreements with various governmental agencies to pass-through portions of tax increment funds received by the Agency, attributable to the area within the territorial limits of the other agencies. The amount passed through for the fiscal year ended June 30, 2008, was \$2,181,328. These payments were recorded as expenditures in the Debt Service Fund.

In addition, the Agency was required to transfer tax increment in the amount of \$84,010 to the State of California's Education Revenue Augmentation Fund (ERAF) for the fiscal year ended June 30, 2008.

Note 11: Joint Venture

On July 16, 1991, the Community Redevelopment Agency of the City of Grand Terrace entered into a Joint Powers Agreement with the City of Grand Terrace to establish the Grand Terrace Public Financing Authority. The Authority was created to facilitate financing for public capital improvements benefiting the City and Agency. No separate financial statement data are presented; the transactions of the Authority are recorded in the governmental funds of the City of Grand Terrace.

Note 12: Contingencies

As of June 30, 2008, in the opinion of the Agency, there are no outstanding matters, which would have a material effect on the financial position of the Agency.

The Agency has received funds for specific purposes that are subject to audit by the State. Although such audits could generate differences under the regulations of the Health and Safety Code, it is believed that any required reimbursements will not be material.

Required Supplementary Information

Required Supplementary Information
Community Redevelopment Agency of the City of Grand Terrace
Budgetary Comparison Schedule - Major Special Revenue Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax increment	\$ 1,378,340	\$ 1,378,340	\$ 1,417,922	\$ 39,582
Use of money and property	153,865	178,117	253,075	74,958
Gain on sale of property	559,252	676,982	314,190	(362,792)
Miscellaneous	2,700	2,700	-	(2,700)
Total revenues	<u>2,094,157</u>	<u>2,236,139</u>	<u>1,985,187</u>	<u>(250,952)</u>
EXPENDITURES				
Current:				
Economic development	337,813	411,002	305,689	105,313
Capital outlay:				
Project improvement costs	<u>5,770,443</u>	<u>5,720,443</u>	<u>3,407,436</u>	<u>2,313,007</u>
Total expenditures	<u>6,108,256</u>	<u>6,131,445</u>	<u>3,713,125</u>	<u>2,418,320</u>
Excess of revenues over (under) expenditures	<u>(4,014,099)</u>	<u>(3,895,306)</u>	<u>(1,727,938)</u>	<u>2,167,368</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(613,577)	(613,577)	(599,794)	13,783
Transfers to the City of Grand Terrace	<u>(208,868)</u>	<u>(208,868)</u>	<u>(193,875)</u>	<u>14,993</u>
Total other financing sources (uses)	<u>(822,445)</u>	<u>(822,445)</u>	<u>(793,669)</u>	<u>28,776</u>
Net change in fund balance	(4,836,544)	(4,717,751)	(2,521,607)	2,196,144
Fund balance, beginning of year	<u>8,023,097</u>	<u>8,023,097</u>	<u>8,023,097</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,186,553</u>	<u>\$ 3,305,346</u>	<u>\$ 5,501,490</u>	<u>\$ 2,196,144</u>



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRAD A. WELEBIR, C.P.A.
TIMOTHY P. HORN, C.P.A.
KATIE L. MILLSOM, C.P.A.
JOHN J. BADIA, C.P.A.

Governing Board
Community Redevelopment Agency
of the City of Grand Terrace
Grand Terrace, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Community Redevelopment Agency of the City of Grand Terrace (the Agency), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
Website: www.ramscpa.net

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to management of the Agency in a separate letter dated November 28, 2008

This report is intended solely for the information and use of management, Agency Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers. Anderson Malady & Lamb, LLP

November 28, 2008