

**CITY OF GRAND TERRACE,
CALIFORNIA**

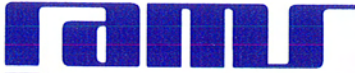
ANNUAL FINANCIAL REPORT

Year Ended June 30, 2010

**City of Grand Terrace
Annual Financial Report
For the year ended June 30, 2010**

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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, 2010, 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, 2010, 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 December 17, 2010, 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.

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

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

Rogers, Anderson, Malady & Scott, LLP

December 17, 2010

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, 2010. 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- 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, 2010, net assets for the City of Grand Terrace were \$30,780,477 compared to net assets of \$30,277,790 at June 30, 2009.

A summary of the government-wide Statement of Net Assets at June 30, 2010 and June 30, 2009 are as follows:

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 22,365,803	\$ 23,599,897	\$ 2,833,516	\$ 3,191,371	\$ 25,199,319	\$ 26,791,268
Capital assets, net	11,019,743	10,952,721	5,416,828	5,505,398	16,436,571	16,458,119
Total assets	<u>33,385,546</u>	<u>34,552,618</u>	<u>8,250,344</u>	<u>8,696,769</u>	<u>41,635,890</u>	<u>43,249,387</u>
Other liabilities	1,891,291	1,899,190	1,130,845	1,433,489	3,022,136	3,332,679
Long-term liabilities	<u>7,833,277</u>	<u>9,638,918</u>	-	-	<u>7,833,277</u>	<u>9,638,918</u>
Total liabilities	<u>9,724,568</u>	<u>11,538,108</u>	<u>1,130,845</u>	<u>1,433,489</u>	<u>10,855,413</u>	<u>12,971,597</u>
Invested in capital assets, net of debt	8,853,271	10,849,049	5,416,828	5,505,398	14,270,099	16,354,447
Restricted	21,242,247	22,395,850	-	-	21,242,247	22,395,850
Unrestricted	<u>(6,434,540)</u>	<u>(10,230,389)</u>	<u>1,702,671</u>	<u>1,757,882</u>	<u>(4,731,869)</u>	<u>(8,472,507)</u>
Total net assets	<u>\$ 23,660,978</u>	<u>\$ 23,014,510</u>	<u>\$ 7,119,499</u>	<u>\$ 7,263,280</u>	<u>\$ 30,780,477</u>	<u>\$ 30,277,790</u>

\$14,270,099 (46.3%) 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 \$21,242,247 represents resources that are subject to external restrictions on how they may be used. The resulting net deficit of \$4,731,869 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, 2010 and June 30, 2009 are as follows:

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues and transfers						
Program revenues:						
Charges for services	\$ 1,492,074	\$ 1,385,838	\$ 1,518,320	\$ 1,497,252	\$ 3,010,394	\$ 2,883,090
Operating contributions and grants	631,949	588,841	-	-	631,949	588,841
Capital contributions and grants	310,062	218,416	-	-	310,062	218,416
General revenues:						
Property tax	9,344,037	10,496,175	-	-	9,344,037	10,496,175
Sales tax	779,616	929,509	-	-	779,616	929,509
Motor vehicle in lieu	36,918	42,623	-	-	36,918	42,623
Other taxes	540,722	569,706	-	-	540,722	569,706
Other revenues	151,718	820,139	15,331	57,000	167,049	877,139
Transfers	257,454	229,481	(257,454)	(229,481)	-	-
Total revenues and transfers	13,544,550	15,280,728	1,276,197	1,324,771	14,820,747	16,605,499
Expenses						
General government	1,684,775	2,127,179	-	-	1,684,775	2,127,179
Public safety	2,018,266	2,067,154	-	-	2,018,266	2,067,154
Public works	1,429,113	2,365,483	-	-	1,429,113	2,365,483
Economic development	5,731,970	13,307,641	-	-	5,731,970	13,307,641
Culture and recreation	1,418,134	1,514,950	-	-	1,418,134	1,514,950
Interest on long-term debt	615,824	754,001	-	-	2,035,802	754,001
Waste water treatment	-	-	1,419,978	1,473,759	-	1,473,759
Total expenses	12,898,082	22,136,408	1,419,978	1,473,759	14,318,060	23,610,167
Change in net assets	646,468	(6,855,680)	(143,781)	(148,988)	502,687	(7,004,668)
Beginning net assets	23,014,510	29,870,190	7,263,280	7,412,268	30,277,790	37,282,458
Ending net assets	\$ 23,660,978	\$ 23,014,510	\$ 7,119,499	\$ 7,263,280	\$ 30,780,477	\$ 30,277,790

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 \$502,687 during the fiscal year. Taken separately, governmental activities net assets increased by \$646,468 while business-type activities net assets decreased by \$143,781. Total expenses of \$14,318,060 were offset by total revenues of \$14,820,747. 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 decrease of \$1,227,281. Of this amount, a net decrease of \$829,145 is attributable to the Redevelopment Agency, a net decrease of \$443,437 to the Public Financing Authority, a net increase of \$258,716 to the nonmajor funds, with the difference being a net decrease to the General Fund of \$213,415.

Governmental Activities

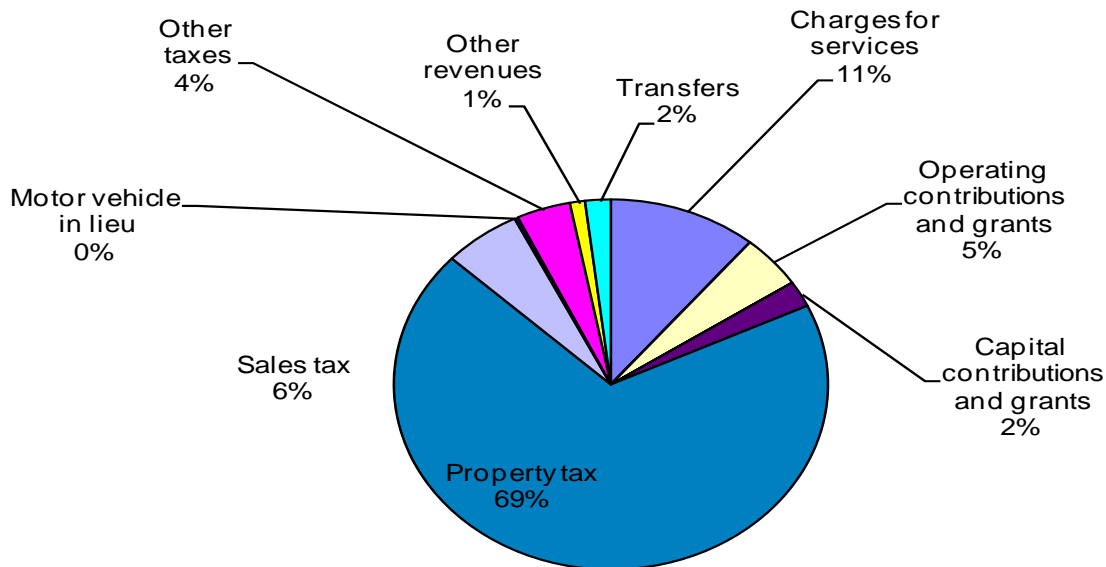
The following table shows the cost of each of the City's major programs and their net cost after subtracting fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City taxpayers by each of the programs.

Net Cost of Governmental Activities

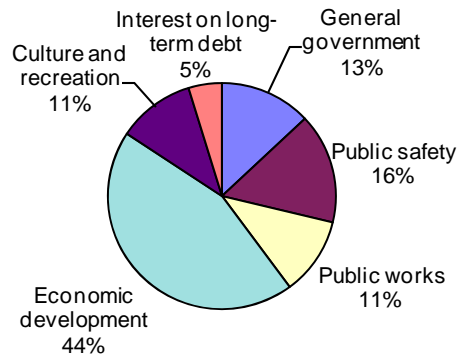
	2010		2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,684,775	\$ 1,628,769	\$ 2,127,179	\$ 2,063,276
Public safety	2,018,266	1,627,542	2,067,154	1,801,985
Public works	1,429,113	579,626	2,365,483	1,653,767
Economic development	5,731,970	5,559,032	13,307,641	13,104,985
Culture and recreation	1,418,134	453,204	1,514,950	565,299
Interest on long-term debt	615,824	615,824	754,001	754,001
Total	\$ 12,898,082	\$ 10,463,997	\$ 22,136,408	\$ 19,943,313

This table shows the cost of all governmental activities this year was \$12,898,082. General tax dollars paid for approximately 86.1 percent of this cost. Fees, grants and contributions funded the balance of the cost of governmental activities.

Revenues by Source - Governmental Activities \$13,544,550



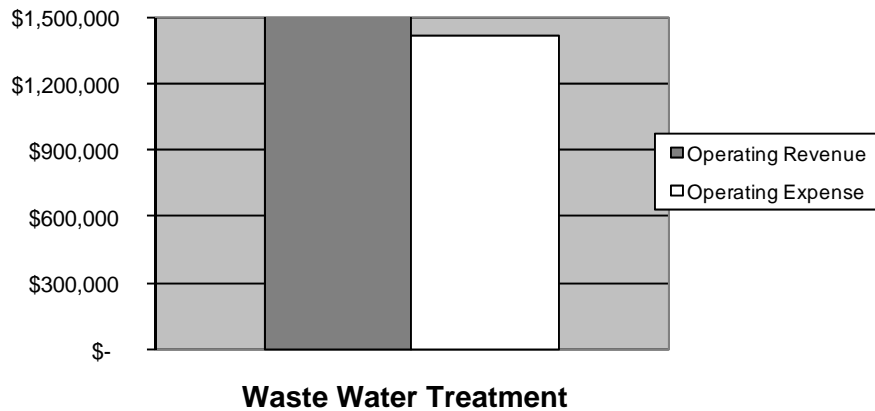
Expenses by Function - Governmental Activities - \$12,898,082



Business-Type Activity

Total revenues of the City's business-type activities, which consist only of the Waste Water Treatment Fund, were \$1,533,651. Revenues decreased by \$20,601 or 1.3 percent in fiscal year 2009 - 2010. Of this amount, operating revenues increased by 1.4 percent and investment earnings decreased by \$41,669. Expenses decreased by \$53,781 or 3.6 percent from \$1,473,759 in fiscal year 2008 - 2009 to \$1,419,978 in fiscal year 2009 - 2010. The cost of waste water treatment by the City of Colton amounted to \$1,197,163 or 84.3 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 \$(720,430) while total fund balance (deficit) was \$(720,430). 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 revenues and transfers in by \$213,415. Total fund revenue and transfer in resources decreased by \$534,637 or 9.1 percent from prior year. The decrease was primarily due to decreases in taxes and intergovernmental revenue, and interest income which was partially offset by an increase in one time revenues and fees. Total expenditures and transfers out decreased by \$1,182,866 from the previous year.
- Property tax received decreased 7.1 percent from the prior year to \$1,465,169.
- Sales tax and MLV – in-lieu decreased 19.3 percent from \$972,132 to \$816,534.
- Charges for services overall remained close to the previous year at \$1,121,986. However, Building and Planning fees continue to decrease and amounted to only \$85,824 compared to \$321,853 in FY 2006-07, due to the depressed building market and economy. Child Care Center revenues actually increased 3 percent to \$959,872.
- Use of money and property category declined by 81.5 percent to \$54,639, as interest rates on investment opportunities continue to decline and no property was sold in the current year, as opposed to a one time sale of property of \$180,350 in the previous year.
- General Fund operating expenditures decreased 17.2 percent over the prior year, due to a combination of cost cutting, including a 10 percent employee salary furlough, elimination or deferral of some employee benefits, deferral of merit increases, budget line item reductions, accounting changes, and reallocation of some employee salaries to other funds. Operating transfers-out decreased from \$253,405 to \$181,987. This included transfers for major street projects and support for the COPS grant fund for police protection. Total law enforcement expenditures equate to 35 percent of the General Fund operating expenditures. The General Fund had \$236,165 of expenditures on capital outlay during the year. Operating transfers-in decreased from \$899,671 to \$571,288, primarily due to the decrease in the overhead cost allocation resulting from a decrease in general fund overhead costs.

The **Community Redevelopment Low Income Housing** fund has an unreserved fund balance of \$1,221,107 and a total fund balance of \$2,850,078. This represents a decrease of 10.1 percent from the prior year. Total revenues decreased 11.8 percent to \$1,609,201, with the 20 percent set-aside of tax increment, revenue decreasing 11.7 percent to \$1,579,178. Of the combined expenditures and transfers-out of \$1,930,555, \$333,348 is related to the final construction costs of the senior housing project and \$600,000 is attributed to a current year and prior year residual receipts security agreement expenditure recognition to the General Fund. The Housing Fund is charged with 60 percent, or \$36,894, of the City code enforcement cost.

The **Community Redevelopment Capital Projects** fund has a reserved fund balance of \$3,596,323 and an unreserved balance of \$(516,562) for a total fund balance of \$3,079,761. Revenues decreased to \$50,993 from \$90,730 from the prior year. Expenditures include project costs, and ongoing economic development and planning, as well as administrative costs.

The **Community Redevelopment Debt Service** fund has an undesignated fund balance of \$8,247,631 and a total fund balance of \$13,854,376. The reserved portion consists of \$1,300,000 for funds with fiscal agent, and \$4,306,745 reserved and unavailable due to advances to the General Fund. Tax increment revenue decreased 11.7 percent to \$6,314,840, while interest income decreased 65.4 percent to \$48,298 due to the lower investment earning rates available. Pass-through to other agencies decreased proportionately with tax increment decline to \$2,082,561.

The Agency made lease payments to Zion's Bank in the amount of \$173,647 under an underlying debt assumption related to the refinancing of the 1997 Certificates of Participation and made payments of \$1,825,150 for debt obligations of the 2004 CRA Tax Allocation Bonds. The fund statements records the net payoff of the 1997 Certificates of Participation is recorded as a principal payment of debt and records the issuance of the Zion's debt capital lease as an other financing source. Principal payments of long-term debt are not shown in the government-wide statements. The Agency made contractual and statutory pass-through payments to overlapping taxing agencies in the current fiscal year in the amount of \$2,082,561. The total includes a statutory pass-through payment to the City of Grand Terrace in the amount of \$131,106.

In accordance with ABx4-26, the Agency remitted \$2,179,087 to the County Auditor-Controller for its share of mandated Supplemental Educational Revenue Augmentation Fund (SERAF) in May 2010. The Agency was also responsible for \$110,362 in statutory Educational Revenue Augmentation Fund (ERAF) liability at June 30, 2010.

Non major Funds The Non major funds are shown on pages 57 through 62 of this report and include Gas Tax, Measure I, the Capital Improvement Funds, and most of the special revenue funds.

Capital Assets

As of June 30, 2010, the City had invested \$16,436,571 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	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,711,379	\$ 1,665,149	\$ -	\$ -	\$ 1,711,379	\$ 1,665,149
Buildings	3,991,538	3,593,295	-	-	3,991,538	3,593,295
Improvements	2,326,407	2,413,917	164,349	172,777	2,490,756	2,586,694
Equipment	244,466	279,657	-	-	244,466	279,657
Vehicles	115,131	143,623	-	-	115,131	143,623
Infrastructure	2,606,781	2,574,014	-	-	2,606,781	2,574,014
Sewer mains	-	-	2,864,483	2,909,184	2,864,483	2,909,184
Sewer laterals	-	-	1,433,891	1,454,901	1,433,891	1,454,901
Sewer manholes	-	-	954,105	968,536	954,105	968,536
Construction in progress	24,041	283,066	-	-	24,041	283,066
Total	\$ 11,019,743	\$ 10,952,721	\$ 5,416,828	\$ 5,505,398	\$ 16,436,571	\$ 16,458,119

Long-Term Debt

At the end of the current fiscal year, the City had debt outstanding of \$7,998,272. Of this amount, \$5,320,000 represents outstanding bonds, \$2,166,472 represents outstanding leases, and \$511,800 other debt comprised of an OPEB obligation, lease payable and compensated absences payable. \$1,908,042 of all debt is due and payable within one year.

**Outstanding Debt
Governmental Activities**

	2010	2009
Refunding tax allocation bonds CRA	\$ 5,320,000	\$ 6,930,000
Certificates of participation	-	2,520,000
OPEB Obligation	290,156	142,000
Leases payable	2,166,472	103,672
Compensated absences	221,644	190,740
Total outstanding debt	\$ 7,998,272	\$ 9,886,412

The City's total debt decreased by \$1,888,140 (19.1 percent) during the current fiscal year, due primarily to the \$1,610,000 principal payment on the 2004 refunding tax allocation bonds. The City entered into a new lease with Zion National Bank in the amount of \$2,162,000 and used the proceeds to refund the 1997 Refunding Certificates of Participation. The City has adopted GASB 45 and recognizes a liability of \$290,156 for retiree health benefits.

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

Budget vs. Financial Statement Differences

Financial reporting is required to be presented in accordance with governmental and generally accepted accounting principles. There is no similar requirement for budgeting for governmental agencies. The majority of items relate to transactions of long term debt, capital items and other timing items.

For budgeting purposes, management uses a different beginning and ending General Fund Balance Reserve due to the financial reporting requirement under GASB 34 relating to the presentation of advances from the Redevelopment Agency to the City. These long term advances are now required to be shown as reductions in fund balance rather than a component of long-term debt, as done in years prior to GASB 34.

Therefore, there is a difference of approximately \$4,606,950 between the reporting General Fund and Community Redevelopment Agency Fund Balance Reserve in the budget versus the financial statement.

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. This report and other information are also available at the official city website at <http://www.cityofgrandterrace.org/>.

Government-Wide Financial Statements

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**City of Grand Terrace
Statement of Net Assets
June 30, 2010**

	<u>Governmental Activities</u>	<u>Business-type Activity</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 15,576,419	\$ 2,730,386	\$ 18,306,805
Cash and investments with fiscal agents	1,300,000	-	1,300,000
Interest receivable	15,781	2,850	18,631
Accrued revenue	167,537	100,280	267,817
Due from other governments	253,310	-	253,310
Loans receivable	93,566	-	93,566
Notes receivable	688,600	-	688,600
Property held for resale	4,087,317	-	4,087,317
Deferred charges	183,273	-	183,273
Capital assets:			
Land and construction in progress	1,735,420	-	1,735,420
Other capital assets, net of depreciation	9,284,323	5,416,828	14,701,151
	<u>33,385,546</u>	<u>8,250,344</u>	<u>41,635,890</u>
Total assets			
LIABILITIES			
Accounts payable	231,375	100,092	331,467
Insurance payable	250,490	-	250,490
Accrued liabilities	103,502	7,793	111,295
Accrued interest payable	95,437	-	95,437
Due to other governments	1,090,115	1,022,960	2,113,075
Deferred revenue	115,709	-	115,709
Refundable deposits	4,663	-	4,663
Noncurrent liabilities:			
Due within one year	1,908,042	-	1,908,042
Due in more than one year	5,925,235	-	5,925,235
	<u>9,724,568</u>	<u>1,130,845</u>	<u>10,855,413</u>
Total liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	8,853,271	5,416,828	14,270,099
Restricted for:			
Debt service	13,758,939	-	13,758,939
Capital projects	3,079,761	-	3,079,761
Economic development	3,357,807	-	3,357,807
Public works	1,045,740	-	1,045,740
Unrestricted	(6,434,540)	1,702,671	(4,731,869)
	<u>\$ 23,660,978</u>	<u>\$ 7,119,499</u>	<u>\$ 30,780,477</u>
Total net assets			

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

**City of Grand Terrace
Statement of Activities
For the year ended June 30, 2010**

<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	\$ 1,684,775	\$ 56,006	\$ -	\$ -
Public safety	2,018,266	244,329	146,395	-
Public works	1,429,113	65,594	475,564	308,329
Economic development	5,731,970	162,948	9,990	-
Cultural and recreation	1,418,134	963,197	-	1,733
Interest on long-term debt	615,824	-	-	-
Total governmental activities	<u>12,898,082</u>	<u>1,492,074</u>	<u>631,949</u>	<u>310,062</u>
Business-type activity:				
Waste water disposal	<u>1,419,978</u>	<u>1,518,320</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,318,060</u>	<u>\$ 3,010,394</u>	<u>\$ 631,949</u>	<u>\$ 310,062</u>

General revenues:

- Property taxes, levied for general purposes
- Property taxes, tax increment, restricted
- Franchise taxes
- Sales taxes
- Motor vehicle in lieu taxes
- Public service taxes
- Unrestricted investment earnings
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

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
\$ (1,628,769)	\$ -	\$ (1,628,769)
(1,627,542)	-	(1,627,542)
(579,626)	-	(579,626)
(5,559,032)	-	(5,559,032)
(453,204)	-	(453,204)
(615,824)	-	(615,824)
<u>(10,463,997)</u>	<u>-</u>	<u>(10,463,997)</u>
<u>-</u>	<u>98,342</u>	<u>98,342</u>
1,450,019	-	1,450,019
7,894,018	-	7,894,018
444,172	-	444,172
779,616	-	779,616
36,918	-	36,918
96,550	-	96,550
73,326	15,331	88,657
78,392	-	78,392
257,454	(257,454)	-
<u>11,110,465</u>	<u>(242,123)</u>	<u>10,868,342</u>
646,468	(143,781)	502,687
<u>23,014,510</u>	<u>7,263,280</u>	<u>30,277,790</u>
<u>\$ 23,660,978</u>	<u>\$ 7,119,499</u>	<u>\$ 30,780,477</u>

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Fund Financial Statements

**City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2010**

	General	Community Redevelopment Low Income Housing
ASSETS		
Cash and investments	\$ 3,467,965	\$ 1,309,418
Cash and investments with fiscal agents	-	-
Interest receivable	3,501	925
Accrued revenues	135,338	414
Due from other funds	13,509	-
Due from other governments	169,244	-
Advances to other funds	267,622	300,205
Loans receivable	2,936	90,630
Notes receivable	-	688,600
Property held for resale	-	640,166
	\$ 4,060,115	\$ 3,030,358
Total assets	\$ 4,060,115	\$ 3,030,358
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 148,124	\$ 2,611
Accrued liabilities	22,944	2,175
Due to other funds	-	-
Due to other governments	-	84,864
Advances from other funds	4,606,950	-
Deferred revenue	2,527	90,630
Refundable deposits	-	-
	4,780,545	180,280
Total liabilities	4,780,545	180,280
Fund balances:		
Reserved	-	1,628,971
Unreserved:		
Unreserved, reported in:		
General fund	(720,430)	-
Special revenue funds	-	1,221,107
Capital projects fund	-	-
Debt service funds	-	-
	(720,430)	2,850,078
Total fund balances (deficit)	(720,430)	2,850,078
Total liabilities and fund balances	\$ 4,060,115	\$ 3,030,358

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

Community Redevelopment Capital Projects	Community Redevelopment Debt Service	Public Financing Authority	Total Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 9,205,144	\$ -	\$ 1,593,892	\$ 15,576,419
-	1,300,000	-	-	1,300,000
13	9,940	-	1,402	15,781
-	-	-	31,785	167,537
-	37,798	-	-	51,307
-	-	-	84,066	253,310
-	4,306,745	-	-	4,874,572
-	-	-	-	93,566
-	-	-	-	688,600
3,447,151	-	-	-	4,087,317
<u>\$ 3,447,164</u>	<u>\$ 14,859,627</u>	<u>\$ -</u>	<u>\$ 1,711,145</u>	<u>\$ 27,108,409</u>
\$ 58,730	\$ -	\$ -	\$ 21,910	\$ 231,375
3,253	-	-	75,130	103,502
37,798	-	-	13,509	51,307
-	1,005,251	-	-	1,090,115
267,622	-	-	-	4,874,572
-	-	-	22,552	115,709
-	-	-	4,663	4,663
<u>367,403</u>	<u>1,005,251</u>	<u>-</u>	<u>137,764</u>	<u>6,471,243</u>
3,596,323	5,606,745	-	-	10,832,039
-	-	-	-	(720,430)
-	-	-	1,577,914	2,799,021
(516,562)	-	-	(4,533)	(521,095)
-	8,247,631	-	-	8,247,631
<u>3,079,761</u>	<u>13,854,376</u>	<u>-</u>	<u>1,573,381</u>	<u>20,637,166</u>
<u>\$ 3,447,164</u>	<u>\$ 14,859,627</u>	<u>\$ -</u>	<u>\$ 1,711,145</u>	<u>\$ 27,108,409</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, 2010**

Fund balances of governmental funds		\$ 20,637,166
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.		11,019,743
Some liabilities are not due and payable in the current period and therefore are not reported in funds. Those liabilities consist of:		
Bonds payable	\$ (5,320,000)	
Less: deferred charge on refunding	212,795	
Less: costs of issuance	183,273	
Plus: premium received on issuance	(47,800)	
Capital leases	(2,166,472)	
Other payable	(250,490)	
Accrued interest payable	(95,437)	
Long-term compensated absences payable	(221,644)	
OPEB obligation	(290,156)	
	(7,995,931)	(7,995,931)
Net assets of governmental activities		<u>\$ 23,660,978</u>

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, 2010

	General	Community Redevelopment Low Income Housing
REVENUES		
Taxes	\$ 2,244,785	\$ 1,579,178
Licenses and permits	574,745	-
Intergovernmental	119,141	-
Charges for services	1,121,986	-
Fines and forfeitures	26,515	-
Use of money and property	54,639	30,023
Developer fees	-	-
Other	605,275	-
	<u>4,747,086</u>	<u>1,609,201</u>
Total revenues		
EXPENDITURES		
Current:		
General government	1,388,716	-
Public safety	1,714,582	-
Public works	793,347	-
Economic development	-	865,489
Cultural and recreation	1,188,173	-
Supplemental ERAF payment	-	-
Pass-through payments	-	-
Debt service:		
Principal	24,089	-
Interest and other charges	4,730	-
Capital outlay	236,165	333,868
	<u>5,349,802</u>	<u>1,199,357</u>
Total expenditures		
Excess (deficiency) of revenues over expenditures	<u>(602,716)</u>	<u>409,844</u>
OTHER FINANCING SOURCES (USES)		
Issuance of debt	-	-
Transfers in	571,288	-
Transfers out	(181,987)	(731,198)
	<u>389,301</u>	<u>(731,198)</u>
Total other financing sources (uses)		
Net change in fund balances	(213,415)	(321,354)
Fund balances (deficit) - beginning	<u>(507,015)</u>	<u>3,171,432</u>
Fund balances (deficit) - ending	<u>\$ (720,430)</u>	<u>\$ 2,850,078</u>

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

Community Redevelopment Capital Projects	Community Redevelopment Debt Service	Public Financing Authority	Total Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 6,314,840	\$ -	\$ -	\$ 10,138,803
-	-	-	-	574,745
-	-	-	832,416	951,557
-	-	-	-	1,121,986
-	-	-	216,430	242,945
50,993	48,298	-	7,766	191,719
-	-	-	60,066	60,066
-	-	2,208,223	-	2,813,498
<u>50,993</u>	<u>6,363,138</u>	<u>2,208,223</u>	<u>1,116,678</u>	<u>16,095,319</u>
-	-	-	-	1,388,716
-	-	-	285,525	2,000,107
-	-	-	786,981	1,580,328
485,011	-	-	-	1,350,500
-	-	-	-	1,188,173
-	2,179,087	-	-	2,179,087
-	2,082,561	-	-	2,082,561
-	4,205,111	2,122,705	-	6,351,905
-	576,618	131,574	-	712,922
337,722	-	-	-	907,755
<u>822,733</u>	<u>9,043,377</u>	<u>2,254,279</u>	<u>1,072,506</u>	<u>19,742,054</u>
<u>(771,740)</u>	<u>(2,680,239)</u>	<u>(46,056)</u>	<u>44,172</u>	<u>(3,646,735)</u>
-	2,162,000	-	-	2,162,000
401,454	1,006,069	-	503,968	2,482,779
(85,234)	(540,101)	(397,381)	(289,424)	(2,225,325)
<u>316,220</u>	<u>2,627,968</u>	<u>(397,381)</u>	<u>214,544</u>	<u>2,419,454</u>
(455,520)	(52,271)	(443,437)	258,716	(1,227,281)
<u>3,535,281</u>	<u>13,906,647</u>	<u>443,437</u>	<u>1,314,665</u>	<u>21,864,447</u>
<u>\$ 3,079,761</u>	<u>\$ 13,854,376</u>	<u>\$ -</u>	<u>\$ 1,573,381</u>	<u>\$ 20,637,166</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, 2010**

Net change in fund balances - total governmental funds **\$ (1,227,281)**

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.

This activity is reconciled as follows:

Cost of assets capitalized, less disposals at net book value	\$ 583,636	
Depreciation expense	<u>(516,614)</u>	67,022

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 long-term debt	\$ 4,130,000	
Principal payments on capital leases	99,200	
Issuance of long-term debt	(2,162,000)	
Costs of issuance on new debt	<u>62,628</u>	2,129,828

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	(66,846)	
Amortization of premium	23,899	
Increase in OPEB obligation	(148,156)	
Other expenses	(26,147)	
Increase in compensated absences payable	(30,904)	
Decrease in accrued interest payable on long-term debt	<u>31,451</u>	<u>(323,101)</u>

Change in net assets of governmental activities **\$ 646,468**

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

**City of Grand Terrace
Statement of Net Assets
Proprietary Fund
June 30, 2010**

	<u>Business-type Activity</u> <u>Waste Water Disposal</u>
ASSETS	
Current assets:	
Cash and investments	\$ 2,730,386
Interest receivable	2,850
Accrued revenues	100,280
Total current assets	<u>2,833,516</u>
Noncurrent assets:	
Capital assets:	
Sewer system	7,415,106
Less accumulated depreciation	<u>(1,998,278)</u>
Total noncurrent assets	<u>5,416,828</u>
Total assets	<u>8,250,344</u>
LIABILITIES	
Current liabilities:	
Accounts payable	100,092
Accrued liabilities	7,793
Due to other governments	<u>1,022,960</u>
Total liabilities	<u>1,130,845</u>
NET ASSETS	
Invested in capital assets	5,416,828
Unrestricted	<u>1,702,671</u>
Total net assets	<u><u>\$ 7,119,499</u></u>

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, 2010

	Business-type Activity
	Waste Water Disposal
OPERATING REVENUES	
Charges for services	\$ 1,518,020
Connection fees	300
	1,518,320
OPERATING EXPENSES	
Personnel services	56,355
Employee benefits	29,100
Depreciation	88,570
Contract services	1,212,337
Repairs and maintenance	33,616
	1,419,978
Operating income	98,342
NONOPERATING REVENUES	
Interest income	15,331
	113,673
Income before transfers	113,673
Transfers out	(257,454)
	(143,781)
Change in net assets	(143,781)
Total net assets - beginning	7,263,280
	7,263,280
Total net assets - ending	\$ 7,119,499

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, 2010**

	Business-type Activity
	Waste Water Disposal
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,516,529
Cash payments to suppliers	(1,549,515)
Cash payments to employees for services	(84,537)
Other operating revenues	300
Net cash used for operating activities	(117,223)
Cash Flows From Noncapital Financing Activities:	
Transfers to other funds	(257,454)
Cash Flows From Investing Activities:	
Interest income	20,624
Net decrease in cash and cash equivalents	(354,053)
Cash and cash equivalents - beginning	3,084,439
Cash and cash equivalents - ending	\$ 2,730,386
Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating income	\$ 98,342
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	88,570
Increase in assets:	
Accrued revenues	(1,491)
Increase (decrease) in liabilities:	
Accounts payable	(306,262)
Accrued liabilities	918
Due to other governments	2,700
	(304,055)
Net cash used for operating activities	\$ (117,223)

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

**City of Grand Terrace
Statement of Fiduciary Assets and Liabilities
June 30, 2010**

	Agency Fund
ASSETS	
Cash and investments	\$ 344,235
Total assets	\$ 344,235
 LIABILITIES	
Accounts payable	\$ 41,967
Refundable deposits	302,268
Total liabilities	\$ 344,235

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, 2010**

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, 2010**

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, 2010

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 *Public Financing Authority* is used for the accumulation of resources to be used for the repayment of City debt.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

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

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.

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."

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

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

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.

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 considers 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, 2010

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, 2010

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, 2010**

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

b. Deficit Fund Balances

As of June 30, 2010 the following funds have deficit fund balances:

	<u>Amount</u>
General Fund	\$ (720,430)
Special Revenue Fund:	
Traffic Safety	(39,974)
Capital Projects Funds:	
Barton/Colton Bridge	(4,533)

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 Funds:			
Gas tax	\$ 322,076	\$ 289,000	\$ (33,076)
Traffic Safety	90,231	7,970	(82,261)
Debt Service Fund:			
Community Redevelopment Debt Service	9,043,377	4,395,928	(4,647,449)

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 18,306,805
Cash and investments with fiscal agents	1,300,000
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>344,235</u>
Total cash and investments	<u><u>\$ 19,951,040</u></u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 1,133
Deposits with financial institutions	(116,293)
Investments	<u>20,066,200</u>
Total cash and investments	<u><u>\$ 19,951,040</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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
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, 2010

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, 2010**

Note 2: Cash and Investments (continued)

Investment Type	Amount	12 Months or Less	13 to 24 Months
Money Market Mutual Fund	\$ 344,068	\$ 344,068	\$ -
Certificates of Deposit	1,081,040	1,081,040	-
Local Agency Investment Fund (LAIF)	13,479,611	13,479,611	-
Local Gov. Invest. Pool (CAMP)	3,861,481	3,861,481	-
Held by Trustee:			
Money Market Funds	1,300,000	1,300,000	-
Total	\$ 20,066,200	\$ 20,066,200	\$ -

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	\$ 344,068	N/A	N/A
Certificates of Deposit	1,081,040	N/A	N/A
Local Agency Investment Fund (LAIF)	13,479,611	N/A	N/A
Local Gov. Invest. Pool (CAMP)	3,861,481	N/A	N/A
Held by Trustee:			
Money Market Funds	1,300,000	AAAm	AAA
Total	\$ 20,066,200		

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. During the fiscal year ended June 30, 2010, the City did not hold any investments in any one issuer (other than Mutual Funds and External Investment Pools) that represent 5% or more of total City's investments.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

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, 2010, the City had deposits with financial institutions in excess of federal depository insurance limits of \$68 held in collateralized accounts.

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, 2010, the carrying amount (at amortized cost) of the pool was \$69,441,630,091 and the estimated fair value of the pool was \$69,555,776,591. The City's proportionate share of the pool's market value (as determined by LAIF) as of June 30, 2010, was \$13,479,611. 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, 2010**

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, 2010 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
CRA Debt Service Fund	CRA Capital Projects Fund	\$ 37,798
General Fund	Nonmajor governmental funds	8,976
General Fund	Nonmajor governmental funds	4,533
		\$ 51,307

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
		\$ 4,874,572

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, 2010**

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	Nonmajor Governmental Funds	\$ 36,384
	Waste Water Disposal Fund	157,454
	CRA Capital Projects Fund	33,780
	CRA Debt Service Fund	190,101
	CRA Low Income Housing Fund	122,510
	Gas Tax Fund	31,059
	(11)	571,288
CRA Capital Projects Fund	CRA Debt Service Fund	(2) 350,000
CRA Capital Projects Fund	CRA Capital Projects Fund	(11) 51,454
		401,454
CRA Debt Service Fund	CRA Low Income Housing Fund	(3) 608,688
CRA Debt Service Fund	Public Financing Authority	(9) 397,381
		1,006,069
Nonmajor Governmental Funds	General Fund	(1) 138,185
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(4) 45,000
Gas Tax Fund	General Fund	(5) 34,742
Gas Tax Fund	Waste Water Disposal Fund	(6) 100,000
Nonmajor Governmental Funds	General Fund	(7) 9,060
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(7) 58,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(8) 43,984
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(10) 3,214
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(11) 71,783
		503,968
Total Interfund Transfers		\$ 2,482,779

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

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

- (1) These transfers were made to finance segregated services in the COPS Fund
- (2) The transfers were made to cover the cash balance in the CRA Capital Projects Fund.
- (3) This transfer was made for debt service payments due on the 2004 Tax Allocation Bonds.
- (4) These transfers were made to fund an additional position.
- (5) This transfer was made to move sweep fees to offset street sweeping expenditures.
- (6) This transfer was made for sewer-related street repair
- (7) This transfer was made for the match and UPRR Contract on Barton Bridge Project.
- (8) This transfer was made for the match for the Bike Lane Project.
- (9) This transfer was made to close out the 97 COP.
- (10) This transfer was made for street repair projects.
- (11) These transfers were made for cost allocation.

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, 2010, is \$2,936.

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, 2010, is \$90,630.

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, 2010, is \$688,600.

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, 2010 is \$640,166.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 6: Property Held for Resale (continued)

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, 2010 is \$3,447,151.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,665,149	\$ 46,230	\$ -	\$ 1,711,379
Construction in Progress	283,066	24,041	(283,066)	24,041
Total capital assets, not being depreciated	<u>1,948,215</u>	<u>70,271</u>	<u>(283,066)</u>	<u>1,735,420</u>
Capital assets, being depreciated:				
Buildings	5,749,751	519,230	-	6,268,981
Machinery & equipment	804,972	-	-	804,972
Vehicles	560,831	-	-	560,831
Improvements other than buildings	3,831,468	105,727	-	3,937,195
Infrastructure	2,916,793	171,474	-	3,088,267
Total capital assets, being depreciated	<u>13,863,815</u>	<u>796,431</u>	<u>-</u>	<u>14,660,246</u>
Less accumulated depreciation for:				
Buildings	(2,156,456)	(120,987)	-	(2,277,443)
Machinery & equipment	(525,315)	(35,191)	-	(560,506)
Vehicles	(417,208)	(28,492)	-	(445,700)
Improvements other than buildings	(1,417,551)	(193,237)	-	(1,610,788)
Infrastructure	(342,779)	(138,707)	-	(481,486)
Total accumulated depreciation	<u>(4,859,309)</u>	<u>(516,614)</u>	<u>-</u>	<u>(5,375,923)</u>
Total capital assets, being depreciated, net	<u>9,004,506</u>	<u>279,817</u>	<u>-</u>	<u>9,284,323</u>
Governmental activities capital assets, net	<u>\$ 10,952,721</u>	<u>\$ 350,088</u>	<u>\$ (283,066)</u>	<u>\$ 11,019,743</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

Note 7: Capital Assets (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activity:				
Capital assets, being depreciated:				
Sewer mains	\$ 4,023,129	\$ -	\$ -	\$ 4,023,129
Laterals	1,890,943	-	-	1,890,943
Manholes	1,298,760	-	-	1,298,760
Improvements	202,274	-	-	202,274
Total capital assets, being depreciated	<u>7,415,106</u>	<u>-</u>	<u>-</u>	<u>7,415,106</u>
Less accumulated depreciation for:				
Sewer mains	(1,113,945)	(44,701)	-	(1,158,646)
Laterals	(436,042)	(21,010)	-	(457,052)
Manholes	(330,224)	(14,431)	-	(344,655)
Improvements	(29,497)	(8,428)	-	(37,925)
Total accumulated depreciation	<u>(1,909,708)</u>	<u>(88,570)</u>	<u>-</u>	<u>(1,998,278)</u>
Business-type activity capital assets, net	<u>\$ 5,505,398</u>	<u>\$ (88,570)</u>	<u>\$ -</u>	<u>\$ 5,416,828</u>

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

Governmental activities:	
General government	\$ 90,852
Public safety	18,159
Public works	172,215
Economic development	5,427
Culture and recreation	<u>229,961</u>
Total depreciation expense - governmental activities	<u>\$ 516,614</u>

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 8: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
1997 Refunding Certificates of Participation	\$ 2,520,000	\$ -	\$ (2,520,000)	\$ -	\$ -
2004 Refunding Tax Allocation Bonds	6,930,000	-	(1,610,000)	5,320,000	1,670,000
Less deferred amounts:					
On refunding	(319,193)	-	106,398	(212,795)	-
Plus premium on issue	71,699	-	(23,899)	47,800	-
Total bonds payable	<u>9,202,506</u>	<u>-</u>	<u>(4,047,501)</u>	<u>5,155,005</u>	<u>1,670,000</u>
Capital leases:					
Zion National Bank	-	2,162,000	(75,111)	2,086,889	157,362
HVAC lease	103,672	-	(24,089)	79,583	25,269
Total capital leases	<u>103,672</u>	<u>2,162,000</u>	<u>(99,200)</u>	<u>2,166,472</u>	<u>182,631</u>
OPEB obligation	142,000	148,390	(234)	290,156	-
Compensated absences	190,740	150,699	(119,795)	221,644	55,411
Total long term liabilities	<u>\$ 9,638,918</u>	<u>\$ 2,461,089</u>	<u>\$ (4,266,730)</u>	<u>\$ 7,833,277</u>	<u>\$ 1,908,042</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. The 1997 Refunding Certificates of Participation were refunded on September 1, 2009 from the proceeds of the 2009 Zions First National Bank lease agreement and additional City funds.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 8: Long-Term Liabilities (continued)

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
2011	\$ 1,670,000	\$ 161,925
2012	1,720,000	104,625
2013	1,930,000	36,188
Total	<u>\$ 5,320,000</u>	<u>\$ 302,738</u>

c. Lease Payable

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	<u>(44,916)</u>
Total	<u>\$ 125,084</u>

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 8: Long-Term Liabilities (continued)

The minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, are as follows:

Year Ending June 30,	Payments
2011	\$ 28,819
2012	28,819
2013	28,820
Total minimum lease payments	86,458
Less: amounts representing interest	(6,875)
Present value of minimum lease payments	\$ 79,583

Zions Lease

On August 28, 2009, the City entered into a Lease Agreement (Lease) with Zions First National Bank in order to refinance the City of Grand Terrace Refunding Certificates of Participation, Issue of 1997, which was issued to finance city hall and other public improvements. The City used the proceeds of the Lease \$2,162,000 and funds on hand of \$358,000 to current refund the \$2,520,000 of outstanding 1997 Certificates of Participation. Under the Lease, the City is to lease property to Zions and in return Zions will lease the property back to the City in consideration of the payment by the City of semiannual lease payments commencing March 1, 2010 through September 1, 2020 at 4.76% interest.

Debt service payments to maturity for the 2009 Zions National Bank lease are as follows:

Year Ending June 30,	Principal	Interest
2011	\$ 157,362	\$ 97,485
2012	164,942	89,906
2013	172,887	81,961
2014	181,213	73,633
2015	189,943	64,906
2016-2020	1,096,080	178,157
2021	124,462	2,962
Total	\$ 2,086,889	\$ 589,010

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

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 contributes 5% of the 7% required of the employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 17.060% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2010, the City's annual pension cost of \$319,879 for PERS was equal to the City's required contribution. The required contribution was determined as part of the June 30, 2007, actuarial calculation using the entry age normal actuarial cost method.

THREE YEAR TREND INFORMATION FOR PERS			
Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net Pension obligation
06/30/08	\$ 348,888	100%	\$ -
06/30/09	\$ 367,122	100%	\$ -
06/30/10	\$ 319,879	100%	\$ -

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

Note 10: Other Post Employment Benefits

Plan Description

The City provides a medical plan coverage for retirees. This coverage is available for employees who satisfy the requirements for retirement under the California Public Employees Retirement System (PERS), which is age 50 or older with at least five years of State of public agency service. The healthcare coverage provided by PERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

Medical plan benefits are provided through PERS, as permitted by the Public Employees' Medical and Hospital and Care Act (PEMHCA). As a PEMHCA employer, the City has elected the unequal contribution method, where the contribution will be increased annually over twenty years until it reaches the same employer contribution as active employee medical plan coverage.

Funding Policy

The contribution requirements of the City are established and may be amended by the City Council. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2009-10, the City contributed \$234 to the plan. The first premium was paid in July, 2009.

Annual OPEB Cost and NET OPEB Obligation

The City's annual other OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>June 30, 2010</u>
Annual required contribution	\$ 146,828
Interest on net OPEB obligation	6,390
Adjustment to annual required contribution	<u>(4,828)</u>
Annual OPEB cost (expense)	148,390
Contributions made	<u>(234)</u>
Increase in net OPEB obligation	148,156
Net OPEB obligation – beginning of year	<u>142,000</u>
Net OPEB obligation – end of year	<u><u>\$ 290,156</u></u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

Note 10: Other post Employment Benefits (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	N/A	N/A	N/A
June 30, 2009	\$ 142,000	0%	\$ 142,000
June 30, 2010	\$ 148,156	0%	\$ 290,156

Funded Status and Progress

The funded status of the plan as of July 1, 2008 (the most recent valuation) was as follows:

Actuarial accrued liability (AAL)	\$ 1,406,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,406,000</u>
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 2,014,286
UAAL as a percentage of covered payroll	69.80%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Method. The actuarial assumptions included a 4.5 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by increments of 1.0 percent per year to an ultimate rate of 5.0 percent after the sixth year.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

Note 11: Residential Mortgage Revenue Bonds

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

	Outstanding Balance
La Verne/Grand Terrace Housing Financing Agency \$38,625,000 1984 Series A Residential Mortgage Revenue Bonds	\$ 3,760,000

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.

Note 12: 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	\$ -	\$ -	\$ 149,172	\$ -	\$ -	\$ 149,172
Debt service	-	-	-	1,300,000	-	1,300,000
Long-term advances receivable	-	300,205	-	4,306,745	-	4,606,950
Long-term housing note receivable	-	688,600	-	-	-	688,600
Property held for resale	-	640,166	3,447,151	-	-	4,087,317
Total Reservations	\$ -	\$ 1,628,971	\$ 3,596,323	\$ 5,606,745	\$ -	\$ 10,832,039

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 13: 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 119 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). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member's primary deposit; costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000. Losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll. Cost of covered claims from \$5,000,000 to \$50,000,000 are currently paid by excess insurance. Costs of covered claims for subsidence losses from \$15,000,000 to \$25,000,000 are paid by excess insurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate. Administrative expenses are paid from the Authority's investment earnings.

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

**City of Grand Terrace
Notes to Financial Statements
June 30, 2010**

Note 13: Risk Management (continued)

c. Purchased Insurance

Property Insurance The City of Grand Terrace participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. 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. The City of Grand Terrace property currently has all-risk property insurance protection in the amount of \$12,961,600. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

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 \$0. 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 14: 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, 2010, was \$2,082,561. 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 \$110,362 to the State of California's Education Revenue Augmentation Fund (ERAF) for the fiscal year ended June 30, 2010.

Note 15: Contingencies

As of June 30, 2010, 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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 16: **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.

Note 17: **Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax and the supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Grand Terrace was \$132,040.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the state had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value, and as a result, no gain or loss was recorded.

Note 18: **Supplemental Educational Revenue Augmentation Fund**

On July 24, 2009, the State Legislature passed Assembly Bill (AB)X4-26, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The City's (Agency's) share of this revenue shift was \$2,179,087 for fiscal year 2009-2010 and \$448,211 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2010 with the Debt Service Fund.

City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 18: Supplemental Educational Revenue Augmentation Fund (continued)

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate ABX4-26, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed the lawsuit on October 20, 2009. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments. While the State made adjustments in ABX4-26 to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional. In May 2010, the Superior Court upheld the legality of ABX4-26. In August 2010, the CRA filed an appeal with the Third District Court.

Required Supplementary Information

Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,481,500	\$ 2,412,345	\$ 2,244,785	\$ (167,560)
Licenses and permits	654,800	654,800	574,745	(80,055)
Intergovernmental	1,050,582	137,339	119,141	(18,198)
Charges for services	1,184,817	1,184,817	1,121,986	(62,831)
Fine and forfeitures	30,750	30,750	26,515	(4,235)
Use of money and property	98,500	98,500	54,639	(43,861)
Other	779,725	779,726	605,275	(174,451)
Total revenues	5,280,674	5,298,277	4,747,086	(551,191)
EXPENDITURES				
Current:				
General government	1,387,993	1,356,343	1,388,716	(32,373)
Public safety	1,843,856	1,758,410	1,714,582	43,828
Public works	1,220,087	1,036,815	793,347	243,468
Cultural and recreation	885,570	1,205,722	1,188,173	17,549
Debt service:				
Principal	24,089	24,089	24,089	-
Interest	4,730	4,730	4,730	-
Capital outlay	238,753	238,753	236,165	2,588
Total expenditures	5,605,078	5,624,862	5,349,802	275,060
Excess (deficiency) of revenues over (under) expenditures	(324,404)	(326,585)	(602,716)	(276,131)
OTHER FINANCING SOURCES (USES)				
Transfers in	568,152	568,152	571,288	3,136
Transfers out	(185,918)	(194,978)	(181,987)	12,991
Total other financing sources (uses)	382,234	373,174	389,301	16,127
Net change in fund balance	57,830	46,589	(213,415)	(260,004)
Fund balance (deficit) - beginning of year	(507,015)	(507,015)	(507,015)	-
Fund balance (deficit) - end of year	\$ (449,185)	\$ (460,426)	\$ (720,430)	\$ (260,004)

**Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
Community Redevelopment Low Income Housing
Special Revenue Fund
For the year ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Tax increment	\$ 1,446,200	\$ 1,446,200	\$ 1,579,178	\$ 132,978
Use of money and property	133,399	133,399	30,023	(103,376)
Total revenues	<u>1,579,599</u>	<u>1,579,599</u>	<u>1,609,201</u>	<u>29,602</u>
EXPENDITURES				
Current:				
Economic development	1,247,907	1,234,415	865,489	368,926
Capital outlay				
Project improvement costs	-	-	333,868	(333,868)
Total expenditures	<u>1,247,907</u>	<u>1,234,415</u>	<u>1,199,357</u>	<u>35,058</u>
Excess (deficiency) of revenues over (under) expenditures	<u>331,692</u>	<u>345,184</u>	<u>409,844</u>	<u>64,660</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(755,259)	(755,259)	(731,198)	24,061
Total other financing sources (uses)	<u>(755,259)</u>	<u>(755,259)</u>	<u>(731,198)</u>	<u>24,061</u>
Net change in fund balance	(423,567)	(410,075)	(321,354)	88,721
Fund balance - beginning of year	<u>3,171,432</u>	<u>3,171,432</u>	<u>3,171,432</u>	<u>-</u>
Fund balance - end of year	<u>\$ 2,747,865</u>	<u>\$ 2,761,357</u>	<u>\$ 2,850,078</u>	<u>\$ 88,721</u>

**Required Supplementary Information
City of Grand Terrace
Other Postemployment Benefits Plan
Schedule of Funding Progress**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b-a)/c]
7/1/2008	\$ -	\$ 1,406,000	\$ 1,406,000	0.00%	\$ 2,014,286	69.80%

**Nonmajor Governmental Funds
Combining Statements**

**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
ASSETS					
Cash and investments	\$ 843,796	\$ 64,355	\$ 227,949	\$ -	\$ 70,476
Interest receivable	778	64	221	-	66
Accrued revenues	-	-	-	-	-
Due from other governments	-	-	-	8,976	3,500
	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,976</u>	<u>3,500</u>
Total assets	<u>\$ 844,574</u>	<u>\$ 64,419</u>	<u>\$ 228,170</u>	<u>\$ 8,976</u>	<u>\$ 74,042</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 26
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	8,976	-
Deferred revenue	-	-	-	-	-
Refundable deposits	4,663	-	-	-	-
	<u>4,663</u>	<u>-</u>	<u>-</u>	<u>8,976</u>	<u>-</u>
Total liabilities	<u>4,663</u>	<u>-</u>	<u>-</u>	<u>8,976</u>	<u>26</u>
Fund Balances:					
Unreserved, reported in:					
Special revenue funds	839,911	64,419	228,170	-	74,016
Capital projects funds	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>839,911</u>	<u>64,419</u>	<u>228,170</u>	<u>-</u>	<u>74,016</u>
Total liabilities and fund balances	<u>\$ 844,574</u>	<u>\$ 64,419</u>	<u>\$ 228,170</u>	<u>\$ 8,976</u>	<u>\$ 74,042</u>

Special Revenue Funds

<u>State Gas Tax</u>	<u>Traffic Safety</u>	<u>Facilities Development</u>	<u>Measure I</u>	<u>Terrace Pines Landscape and Lighting District</u>	<u>Total Special Revenue Funds</u>
\$ 42,567	\$ 24,350	\$ 205,350	\$ 96,335	\$ 18,439	\$ 1,593,617
7	13	193	60	-	1,402
-	9,233	-	-	-	9,233
53,056	8,694	-	9,698	142	84,066
<u>\$ 95,630</u>	<u>\$ 42,290</u>	<u>\$ 205,543</u>	<u>\$ 106,093</u>	<u>\$ 18,581</u>	<u>\$ 1,688,318</u>
\$ 12,766	\$ 8,694	\$ -	\$ -	\$ 149	\$ 21,635
1,560	73,570	-	-	-	75,130
-	-	-	-	-	8,976
-	-	-	-	-	-
-	-	-	-	-	4,663
<u>14,326</u>	<u>82,264</u>	<u>-</u>	<u>-</u>	<u>149</u>	<u>110,404</u>
81,304	(39,974)	205,543	106,093	18,432	1,577,914
-	-	-	-	-	-
<u>81,304</u>	<u>(39,974)</u>	<u>205,543</u>	<u>106,093</u>	<u>18,432</u>	<u>1,577,914</u>
<u>\$ 95,630</u>	<u>\$ 42,290</u>	<u>\$ 205,543</u>	<u>\$ 106,093</u>	<u>\$ 18,581</u>	<u>\$ 1,688,318</u>

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**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Capital Projects Funds			Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Bike Lane	Streets	Barton/ Colton Bridge		
ASSETS					
Cash and investments	\$ -	\$ 275	\$ -	\$ 275	\$ 1,593,892
Interest receivable	-	-	-	-	1,402
Accrued revenues	-	5,335	17,217	22,552	31,785
Due from other governments	-	-	-	-	84,066
	\$ -	\$ 5,610	\$ 17,217	\$ 22,827	\$ 1,711,145
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 275	\$ -	\$ 275	\$ 21,910
Accrued liabilities	-	-	-	-	75,130
Due to other funds	-	-	4,533	4,533	13,509
Deferred revenue	-	5,335	17,217	22,552	22,552
Refundable deposits	-	-	-	-	4,663
	-	5,610	21,750	27,360	137,764
Fund Balances:					
Unreserved, reported in:					
Special revenue funds	-	-	-	-	1,577,914
Capital projects funds	-	-	(4,533)	(4,533)	(4,533)
	-	-	(4,533)	(4,533)	1,573,381
Total fund balances (deficit)	-	-	(4,533)	(4,533)	1,573,381
	\$ -	\$ 5,610	\$ 17,217	\$ 22,827	\$ 1,711,145

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2010

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
REVENUES					
Intergovernmental	\$ -	\$ -	\$ -	\$ 102,840	\$ 13,839
Fines and forfeitures	-	-	-	-	-
Use of money and property	4,153	361	1,227	-	341
Developer fees	53,994	3,502	506	-	-
Total revenues	<u>58,147</u>	<u>3,863</u>	<u>1,733</u>	<u>102,840</u>	<u>14,180</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	285,525	-
Public works	-	10,580	39,517	-	297
Total expenditures	<u>-</u>	<u>10,580</u>	<u>39,517</u>	<u>285,525</u>	<u>297</u>
Excess (deficiency) of revenues over (under) expenditures	<u>58,147</u>	<u>(6,717)</u>	<u>(37,784)</u>	<u>(182,685)</u>	<u>13,883</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	183,185	-
Transfers out	<u>(7,826)</u>	<u>(3,464)</u>	<u>(7,697)</u>	<u>(500)</u>	<u>(41)</u>
Total other financing sources (uses)	<u>(7,826)</u>	<u>(3,464)</u>	<u>(7,697)</u>	<u>182,685</u>	<u>(41)</u>
Net change in fund balances	50,321	(10,181)	(45,481)	-	13,842
Fund balances (deficit) - beginning	<u>789,590</u>	<u>74,600</u>	<u>273,651</u>	<u>-</u>	<u>60,174</u>
Fund balances (deficit) - ending	<u>\$ 839,911</u>	<u>\$ 64,419</u>	<u>\$ 228,170</u>	<u>\$ -</u>	<u>\$ 74,016</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	Terrace Pines Landscape and Lighting District	Total Special Revenue Funds
\$ 323,214	\$ -	\$ -	\$ 138,110	\$ 11,629	\$ 589,632
-	216,430	-	-	-	216,430
60	95	1,056	415	58	7,766
-	-	2,064	-	-	60,066
<u>323,274</u>	<u>216,525</u>	<u>3,120</u>	<u>138,525</u>	<u>11,687</u>	<u>873,894</u>
-	-	-	-	-	285,525
<u>322,076</u>	<u>90,231</u>	<u>-</u>	<u>790</u>	<u>6,578</u>	<u>470,069</u>
<u>322,076</u>	<u>90,231</u>	<u>-</u>	<u>790</u>	<u>6,578</u>	<u>755,594</u>
<u>1,198</u>	<u>126,294</u>	<u>3,120</u>	<u>137,735</u>	<u>5,109</u>	<u>118,300</u>
134,742	-	-	-	-	317,927
<u>(99,173)</u>	<u>(56,838)</u>	<u>-</u>	<u>(112,984)</u>	<u>(901)</u>	<u>(289,424)</u>
<u>35,569</u>	<u>(56,838)</u>	<u>-</u>	<u>(112,984)</u>	<u>(901)</u>	<u>28,503</u>
36,767	69,456	3,120	24,751	4,208	146,803
<u>44,537</u>	<u>(109,430)</u>	<u>202,423</u>	<u>81,342</u>	<u>14,224</u>	<u>1,431,111</u>
<u>\$ 81,304</u>	<u>\$ (39,974)</u>	<u>\$ 205,543</u>	<u>\$ 106,093</u>	<u>\$ 18,432</u>	<u>\$ 1,577,914</u>

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2010

	Capital Projects Funds			Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Bike Lane	Streets	Barton/ Colton Bridge		
REVENUES					
Intergovernmental	\$ 98,187	\$ -	\$ 144,597	\$ 242,784	\$ 832,416
Fines and forfeitures	-	-	-	-	216,430
Use of money and property	-	-	-	-	7,766
Developer fees	-	-	-	-	60,066
Total revenues	98,187	-	144,597	242,784	1,116,678
EXPENDITURES					
Current:					
Public safety	-	-	-	-	285,525
Public works	103,360	74,438	139,114	316,912	786,981
Total expenditures	103,360	74,438	139,114	316,912	1,072,506
Excess (deficiency) of revenues over (under) expenditures	(5,173)	(74,438)	5,483	(74,128)	44,172
OTHER FINANCING SOURCES (USES)					
Transfers in	47,198	71,783	67,060	186,041	503,968
Transfers out	-	-	-	-	(289,424)
Total other financing sources (uses)	47,198	71,783	67,060	186,041	214,544
Net change in fund balances	42,025	(2,655)	72,543	111,913	258,716
Fund balances (deficit) - beginning	(42,025)	2,655	(77,076)	(116,446)	1,314,665
Fund balances (deficit) - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,533)</u>	<u>\$ (4,533)</u>	<u>\$ 1,573,381</u>