

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

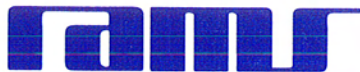
**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

June 30, 2010

Community Redevelopment Agency of the City of Grand Terrace

Table of Contents

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Notes to Financial Statements	17
Required Supplementary Information	
Budgetary Comparison Schedule - Major Special Revenue Fund	31
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32
Findings and Recommendations	34



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT B. MEMORY, C.P.A. (1945-2009)

OF COUNSEL
JAY H. ZERCHER, C.P.A.

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of the City of Grand Terrace
Grand Terrace, California

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California (the "Agency"), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2010, on our consideration of the Community Redevelopment Agency of the City of Grand Terrace, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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.

Rogers, Anderson, Malady & Scott, CPA

December 1, 2010

Management's Discussion and Analysis

Our discussion and analysis of the Community Redevelopment Agency of the City of Grand Terrace (the "Agency") financial performance for the fiscal year ended June 30, 2010 provides an overview of year ending results based on the government-wide statements, an analysis on the Agency's overall financial position, and results of operations to assist users in evaluating the Agency's financial position. In addition, it shows the result of the activities during the year for long term debt. Please read it in conjunction with the Agency's financial statements.

FINANCIAL HIGHLIGHTS

The Agency recorded \$6,915,622 of expenditures on programs and projects in the government-wide statements (\$11,065,467 on the fund statements) including:

Administration and economic development costs – Personnel, legal, consulting, redevelopment plan amendment costs, general development and economic expenditures - \$750,500. In addition, \$600,000 was paid to the City of Grand Terrace in a contractual residual receipts agreement guarantee with the Agency. The Agency paid \$300,000 for the current fiscal year 2009-10 and a second \$300,000 payment for a previous period residual receipts agreement guarantee which was incurred but not paid until FY 2009-10.

High School and public infrastructure improvements – Through a partnership with the Colton Unified School District, property was assembled and sold to the District for the new high school and businesses were relocated. The Agency has assisted the District with relocation of a 48-inch water line and will contribute funds toward completion of a storm drain at the site.

Senior Center and Senior Housing – The project includes a new 7,000 square foot senior center (up from the existing 4,500 square feet) and 120 one- and two-bedroom units for seniors. One-hundred and eight (108) units are restricted for household incomes at or below 60% of the area median income adjusted for family size. The project was completed and final Agency funding and retention in the amount of \$469,357 was paid in the current fiscal year.

Affordable Housing Programs – Although there is currently no new activity, the agency is administering a portfolio of low and moderate income loans:

- Low and Moderate Home Improvement Loan Program -outstanding value \$90,630
- Low and Moderate 2nd Mortgage Program -outstanding value \$688,600.

Property acquisition and land improvements for projects – Property acquisition for both the freeway-oriented, 120-acre project (former Outdoor Adventure site) and the Town Square commercial project have been completed in partnership with private development partners. In addition, the Agency is pursuing additional opportunities while sales prices are low to assemble property for projects at other locations that will provide new jobs for residents. The Agency currently owns approximately 39 acres for commercial development and public uses.

- Purchase of .87 acre lot on Barton Road for future projects - \$200,926
- Demolition of old Circle K building at Agency owned property 22747 Barton Road
- Demolition of an unsafe building at Agency owned property on Vista Grande Ave.

Other projects – expenditures in the current fiscal year include:

- Community Message Board - \$66,210
- Grand Terrace Road infrastructure rehab - \$24,040
- Senior Center Kitchen project - \$10,068
- Baseball field replacement project - \$44,326

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

Code Enforcement Program – The Agency has continued its support of the Code Enforcement Program to ensure the preservation of both residential and commercial neighborhoods and eliminate substandard housing. In addition to complaint response, during 2006, a residential inspection program was established for rental housing. Any substandard housing and property maintenance violations observed are required to be corrected.

Commercial Exterior Improvement Program – The Agency is working with property owners to provide financial assistance to improve building facades and properties. \$52,356 was expended in the current fiscal year.

Neighborhood Improvement Grant Program – The Agency is providing limited financial assistance to improve the exterior of older homes in the City. \$31,295 was expended in the current fiscal year. The maximum grant amount is \$1,000 for qualified residents, and the funds may be used to purchase materials for exterior upgrades to residential property, such as paint and landscaping materials.

Landscape Beautification Projects – The Agency is assisting landscaping project public improvements along certain parts of Grand Terrace Road.

Debt Service

Long Term Debt – the Agency made lease payments to Zions 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 recorded the net payoff of the 1997 Certificates of Participation as a principal payment of debt and recorded the issuance of the Zions lease as other financing source. Principal payments of long term debt are not shown in the government-wide statements.

Pass-through payments – the Agency made contractual and statutory 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.

SERAF and ERAF – 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.

Redevelopment Plan Amendment

The Agency Board adopted CRA Resolution 2010-01, Amended and Revised Redevelopment Plan on January 12, 2010 and the City Council adopted Ordinance 250 on May 11, 2010, adopting Amendment No. 6 to the Redevelopment Plan for the Grand Terrace Community Redevelopment Project Area. Such amendment will:

- Extend the time limit for payment of indebtedness and receipt of taxes to September 27, 2032 in the original project area and July 15, 2034 in the revised project area.
- Increase the tax increment revenue limit from \$70 million to \$225 million.
- Increase the amount of outstanding bonded debt from \$15 million to \$75 million.

Other

Assessed values in the project area decreased 6.1% over the prior year.

On the economic financial resources (government-wide) basis, the Agency's total net assets were in surplus position of \$12,630,157 and on the current resources (fund financial statements) basis the Agency's fund balances were in a surplus position of \$19,784,215 at the end of the year. The lower net assets position on the government wide basis derives from the fact that the Agency produces no capital assets yet reduces net assets for current and future indebtedness under existing bond agreements and capital leases. The non-current portion of these liabilities is not shown under the fund financial statements.

On the economic financial resources (government-wide) basis, the Agency reported a change in net assets of \$1,158,700 and on the current resources (fund financial statements) basis reported a change in fund balance of \$(829,145) for the year. This difference is due primarily to principal payments on debt being higher than the proceeds from issuance of new debt. It is important to note that payments to retire bond principal reduce liabilities and therefore increase net assets on the government-wide basis, whereas payments to retire bond principal are considered expenditures and decrease fund balances under the fund financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts – management's discussion and analysis (this portion), the basic financial statements, and required supplementary information. The basic financial statements include the government-wide and fund financial statements. The government-wide financial statements include the *statement of net assets* and *statement of activities*. These provide information about the activities of the Agency as a whole and present a long-term view of the Agency's finances. Fund financial statements explain how these services were financed in the short-term as well as what remains for future spending. The fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds and other funds.

REPORTING THE AGENCY AS A WHOLE

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The *statement of net assets* and the *statement of activities* report information about the Agency as a whole and about its activities in a way to answer this question. These statements include all assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Agency's *net assets* and *changes in net assets*. Net assets are the difference between assets (resources) and liabilities (obligations), which is one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net assets are an indication of whether its *financial health* is improving or deteriorating. However, consideration of other non-financial factors, such as changes in the Agency's tax increment to assess the overall health of the Agency, is necessary.

REPORTING THE AGENCY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

TABLE 1

Net Assets

	Governmental Activities	
	2010	2009
Current and restricted assets	\$ 17,395,307	\$ 18,267,675
Land held for resale	4,087,317	3,886,391
Total assets	<u>21,482,624</u>	<u>22,154,066</u>
Long-term liabilities outstanding	5,414,532	7,452,506
Other liabilities	3,437,935	3,230,103
Total liabilities	<u>8,852,467</u>	<u>10,682,609</u>
Restricted	19,688,778	20,486,472
Unrestricted	<u>(7,058,621)</u>	<u>(9,015,015)</u>
Total net assets	<u>\$ 12,630,157</u>	<u>\$ 11,471,457</u>

TABLE 2

Changes in Net Assets

	Governmental Activities	
	2010	2009
GENERAL REVENUES:		
Property tax increment	\$ 7,894,018	\$ 8,942,753
Investment earnings	129,314	231,858
Miscellaneous	-	35,700
Intergovernmental	50,990	-
Total revenues	<u>8,074,322</u>	<u>9,210,311</u>
PROGRAM EXPENSES:		
Community development	3,820,070	1,939,409
Pass-through payments	2,082,561	2,341,265
Project improvement costs	671,590	9,925,158
Interest on long-term debt	341,401	468,331
Total expenses	<u>6,915,622</u>	<u>14,674,163</u>
Change in net assets	<u>\$ 1,158,700</u>	<u>\$ (5,463,852)</u>

Revenues – Statement of Activities

The total revenue from governmental activities was \$8,074,322. Redevelopment tax increment comprised \$7,894,018 or 97.8 percent of the total revenue of the Agency. Twenty percent of gross increment is restricted to low and moderate income housing programs. After pass-through to other agencies, the Agency realized net increment of \$5,811,457, a decrease of 13.12% over last year.

Expenses – Statement of Activities

Overall expenses of the Agency totaled \$6,915,622. Expenses specific to other community development activity, including planning, code enforcement and housing activities, totaled \$3,820,070 or 55.2 percent of total expenses. Pass-through agreements consist of tax increment that is deducted from our gross increment and distributed to other agencies by the County of San Bernardino. The agency is required to report tax increment at the gross amount so that the calculations for the 20 percent set aside restricted for low and moderate income housing activities is distinguishable. This pass-through amounted to \$2,082,561 or 30.1 percent of total expenses. Project Improvement costs amounted to \$671,590, or 9.7 percent of the total. Making up the remainder of expenses were interest on debt service (\$341,401 or 4.9 percent).

Net Assets – Statement of Activities

The Agency's net assets increased \$1,158,700 during the year as a result of lower spending on project improvement costs. This change is reflected in the statement of activities.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the Agency's government, reporting the Agency's operations in more detail than the government-wide financial statements. The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The Agency's governmental funds reported combined fund balances at June 30, 2010 of \$19,784,215, a decrease of more than 4% from last fiscal year.

TABLE 3

Fund Financial Statements – Fund Balances

	Governmental Activities	
	2010	2009
Reserved for:		
Encumbrances	\$ 149,172	\$ 147,574
Debt service	1,300,000	1,300,546
Long-term advances receivable	4,606,950	4,606,950
Long-term notes receivable	688,600	713,000
Land held for resale	4,087,317	3,886,391
Total reserved fund balance	<u>10,832,039</u>	<u>10,654,461</u>
Unreserved, reported in:		
Special revenue fund	1,221,107	1,517,653
Debt service fund	8,247,631	8,298,948
Capital projects fund	(516,562)	142,298
Total unreserved fund balances	<u>8,952,176</u>	<u>9,958,899</u>
Total fund balances	<u>\$ 19,784,215</u>	<u>\$ 20,613,360</u>

Fund Balance Analysis by Fund

The Special Revenue Fund revenues were \$1,609,201 and expenditures and financing uses were \$1,930,555. Fund balance decreased by \$321,354 to \$2,850,078. The decrease primarily related to various transfers to other funds.

The Debt Service Fund revenues and financing sources were \$8,991,106, and expenditures were \$9,043,377. Fund balance decreased by \$52,271 to \$13,854,376.

The Capital Projects Fund revenues and financing sources were 400,993 and expenditures and financing uses were \$856,513. Fund balance decreased by \$455,520 to \$3,079,761.

Major Special Revenue Fund Budgetary Highlights

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

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

Actual revenues in the Housing Fund were \$29,602 above revised estimates. This is primarily due to increase in tax increment. Actual tax increment exceeded the estimate by \$132,978, while investment earnings were \$103,376 under final projections. Program expenditures were under final budget by \$35,058, resulting in a budgeted surplus of \$64,660 and an actual decrease to fund balance of \$321,354.

DEBT ADMINISTRATION

At year-end, the Agency's governmental activities had \$7,241,894 in outstanding bonds, loans and notes.

TABLE 4

Outstanding Debt, at Year-End

	Governmental Activities	
	2010	2009
Refunding tax allocation bonds	\$ 5,320,000	\$ 6,930,000
Certificates of participation	-	2,520,000
Premium on bonds	47,800	71,699
Deferred charges	(212,795)	(319,193)
Lease agreement	2,086,889	-
Total outstanding debt	<u>\$ 7,241,894</u>	<u>\$ 9,202,506</u>

ECONOMIC FACTORS

Although delayed by legal challenges and the general economic recession, the Agency is progressing with projects in 2009-10. Work is continuing on the Town Center Project and Freeway Project. The general economy of the Inland Empire region and especially the housing industry continued to decline and the foreclosures are still high. San Bernardino County's median new home price was down 1.7% in the second quarter of 2010 compared to the previous year. New home sales fell 14.5% countywide, while existing home sales fell 11.6%. The Inland Empire regional unemployment rate was at 14.4% in June, 2010.

The general economy for Grand Terrace approximates the regional statistics with some exceptions. Taxable sales at June 30, 2010 decreased 10.1% compared to the previous year while taxable sales increased countywide by 4.96%. Assessed property values for 2009-10 decreased 5.13% overall in the City and decreased 6.13% in the project area. Sales value of single family residences sold from January 1, 2010 to August 31, 2010 actually increased 15.1% compared to 11.9% countywide. Thirty properties in the City, as of September 2010, are secured lender owned listings.

The continuing State of California budget crisis continues to have a potential effect on all cities, special districts and redevelopment agencies. The State of California passed the FY 2009-10 budget, that includes ABx4-26, which will raid \$2.05 billion from redevelopment funds this year. A lawsuit was filed by the Community Redevelopment Association (CRA) challenging the constitutionality of ABx4-26 as part of the state budget. This is the second straight year that the Community Redevelopment Agency has participated in lawsuits against the state for ERAF transfers from agencies. Last year's challenge was successful and an appeal was not pursued by the state. However, the Sacramento County Superior Court upheld ABx4-26. The City of Grand Terrace Community Redevelopment Agency share of ABx4-26 is \$2,179,087 in FY 2009-10 and \$448,211 in FY 2010-11.

The Community Redevelopment Association is appealing the decision in the Third Appellate District and contends that State seizure of redevelopment funds to balance the State's budget violates Article XVI, Section 16 of the Constitution on multiple counts. For one, the Constitution requires that redevelopment funds can be used only to finance specified redevelopment activities. Second, taking of redevelopment funds could unconstitutionally impair contracts, particularly covenants pledging future tax revenues to repay bonds.

State voters passed ballot initiative Proposition 22 - Prohibit State from Taking Some Local Funds during the November 2nd statewide election. This new initiative should eliminate the type of state appropriation of redevelopment agency funds, as was done with ABx4-26, in future years.

Notwithstanding the current economic conditions, the community of Grand Terrace is stable and well maintained. The community was proud to be recognized by Money Magazine as No. 92 out of 100 in their annual "Best Places to Live" article in 2007.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Government-Wide Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Statement of Net Assets
June 30, 2010

ASSETS

Cash and investments	\$ 10,514,562
Cash and investments with fiscal agent	1,300,000
Interest receivable	10,878
Accrued revenue	414
Due from City of Grand Terrace	4,606,950
Loans receivable	90,630
Notes receivable	688,600
Property held for resale	4,087,317
Deferred charges	<u>183,273</u>
 Total assets	 <u>21,482,624</u>

LIABILITIES

Accounts payable and other current liabilities	66,769
Accrued interest payable	95,437
Due to other governments	1,090,115
Due to City of Grand Terrace	267,622
Deferred revenue	90,630
Non-current liabilities:	
Due within one year	1,827,362
Due in more than one year	<u>5,414,532</u>
 Total liabilities	 <u>8,852,467</u>

NET ASSETS

Restricted for:	
Community development	2,850,078
Capital projects	3,079,761
Debt service	13,758,939
Unrestricted (deficit)	<u>(7,058,621)</u>
 Total net assets	 <u><u>\$ 12,630,157</u></u>

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

Community Redevelopment Agency of the City of Grand Terrace
Statement of Activities
For the Year Ended June 30, 2010

PROGRAM EXPENSES

Governmental activities:	
Community development	\$ 3,820,070
Pass-through payments	2,082,561
Project improvement costs	671,590
Interest on long-term debt	<u>341,401</u>
Total program expenses	<u>6,915,622</u>

GENERAL REVENUES

Taxes:	
Incremental property taxes	7,894,018
Investment earnings	129,314
Intergovernmental	<u>50,990</u>
Total general revenues	<u>8,074,322</u>
Change in net assets	1,158,700
Net assets, beginning of year	<u>11,471,457</u>
Net assets, end of year	<u><u>\$ 12,630,157</u></u>

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

Fund Financial Statements

**Community Redevelopment Agency of the City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2010**

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,309,418	\$ 9,205,144	\$ -	\$ 10,514,562
Cash and investments with fiscal agent	-	1,300,000	-	1,300,000
Interest receivable	925	9,940	13	10,878
Accrued revenue	414	-	-	414
Due from other funds	-	37,798	-	37,798
Due from City of Grand Terrace	300,205	4,306,745	-	4,606,950
Loans receivable	90,630	-	-	90,630
Notes receivable	688,600	-	-	688,600
Property held for resale	640,166	-	3,447,151	4,087,317
Total assets	\$ 3,030,358	\$ 14,859,627	\$ 3,447,164	\$ 21,337,149
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,611	\$ -	\$ 58,730	\$ 61,341
Accrued liabilities	2,175	-	3,253	5,428
Due to other funds	-	-	37,798	37,798
Due to other governments	84,864	1,005,251	-	1,090,115
Due to City of Grand Terrace	-	-	267,622	267,622
Deferred revenue	90,630	-	-	90,630
Total liabilities	180,280	1,005,251	367,403	1,552,934
Fund Balances:				
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 notes receivable	688,600	-	-	688,600
Property held for resale	640,166	-	3,447,151	4,087,317
Unreserved, reported in:				
Special revenue fund	1,221,107	-	-	1,221,107
Debt service fund	-	8,247,631	-	8,247,631
Capital projects fund	-	-	(516,562)	(516,562)
Total fund balances	2,850,078	13,854,376	3,079,761	19,784,215
Total liabilities and fund balances	\$ 3,030,358	\$ 14,859,627	\$ 3,447,164	\$ 21,337,149

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

**Community Redevelopment Agency of the City of Grand Terrace
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2010**

Total fund balances of governmental funds	\$ 19,784,215
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities--both current and long-term--are reported in the statement of net assets. Balances at June 30, 2010 are:

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 lease	(2,086,889)
Accrued interest payable	<u>(95,437)</u>
Net assets of governmental activities	<u><u>\$ 12,630,157</u></u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010**

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Tax increment	\$ 1,579,178	\$ 6,314,840	\$ -	\$ 7,894,018
Use of money and property	30,023	48,298	50,993	129,314
Total revenues	<u>1,609,201</u>	<u>6,363,138</u>	<u>50,993</u>	<u>8,023,332</u>
EXPENDITURES				
Current:				
Economic development	865,489	-	485,011	1,350,500
Supplemental ERAF shift	-	2,179,087	-	2,179,087
Pass-through payments	-	2,082,561	-	2,082,561
Debt Service:				
Principal	-	4,205,111	-	4,205,111
Interest and other charges	-	576,618	-	576,618
Capital outlay:				
Project improvement costs	<u>333,868</u>	<u>-</u>	<u>337,722</u>	<u>671,590</u>
Total expenditures	<u>1,199,357</u>	<u>9,043,377</u>	<u>822,733</u>	<u>11,065,467</u>
Excess of revenues over (under) expenditures	<u>409,844</u>	<u>(2,680,239)</u>	<u>(771,740)</u>	<u>(3,042,135)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	-	2,162,000	-	2,162,000
Transfers in (out)	(608,688)	258,688	350,000	-
Transfers from (to) the City of Grand Terrace	<u>(122,510)</u>	<u>207,280</u>	<u>(33,780)</u>	<u>50,990</u>
Total other financing sources (uses)	<u>(731,198)</u>	<u>2,627,968</u>	<u>316,220</u>	<u>2,212,990</u>
Net change in fund balances	(321,354)	(52,271)	(455,520)	(829,145)
Fund balances, beginning of year	<u>3,171,432</u>	<u>13,906,647</u>	<u>3,535,281</u>	<u>20,613,360</u>
Fund balances, end of year	<u>\$ 2,850,078</u>	<u>\$ 13,854,376</u>	<u>\$ 3,079,761</u>	<u>\$ 19,784,215</u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2010**

Net change in fund balances of governmental funds \$ (829,145)

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

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance of debt	(2,162,000)
Cost of issuance of debt	62,628
Principal payments on debt	4,205,111

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

Amortization of deferred charge on refunding	(106,398)
Amortization of costs of issuance	(66,846)
Amortization of premium	23,899
Change in accrued interest expense	<u>31,451</u>

Change in net assets of governmental activities \$ 1,158,700

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

Notes to Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

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

Description of the reporting entity

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

Reporting Entity:

Oversight Unit:

City of Grand Terrace

Component Units:

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

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

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

As of June 30, 2010, the Grand Terrace Project Area was the only project area formed by the Agency.

Government-wide and fund financial statements

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The Agency reports the following major governmental funds:

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

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Cash and investments

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the Agency does not have any business-type activities.

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

Property taxes

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

Property held for resale

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop blighted properties. The Agency records these parcels as land held for resale in its financial records. The land is being carried in the Special Revenue Fund and Capital Projects Fund at net realizable value, which is equal to cost. At June 30, 2010, net realizable value for land held for resale totaled \$3,447,151 in the Capital Projects Fund and \$640,166 in the Special Revenue Fund with these amounts offset by a reservation of fund balance.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

Long-term obligations

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

Fund equity

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

Use of estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary data

General Budget Policies

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

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

Encumbrances

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 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	\$ 10,514,562
Cash and investments with fiscal agents	<u>1,300,000</u>
 Total	 <u><u>\$ 11,814,562</u></u>

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

Pooled cash with the City of Grand Terrace	\$ (65,566)
Investments pooled with the City of Grand Terrace	<u>11,880,128</u>
 Total	 <u><u>\$ 11,814,562</u></u>

Authorized investments

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

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

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

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments (continued)

<u>Investment Type</u>	<u>Amount</u>	<u>12 Months or Less</u>
Money Market Mutual Fund	\$ 193,981	\$ 193,981
Certificates of Deposit	609,476	609,476
Local Agency Investment Fund (LAIF)	7,599,620	7,599,620
Local Gov. Invest. Pool (CAMP)	2,177,051	2,177,051
Held by Trustee:		
Money Market Funds	<u>1,300,000</u>	<u>1,300,000</u>
Total	<u>\$ 11,880,128</u>	<u>\$ 11,880,128</u>

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Information about the minimum rating required by the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each type of investment held by the Agency can be found below.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Actual Rating</u>
Money Market Mutual Fund	\$ 193,981	N/A	N/A
Certificates of Deposit	609,476	N/A	N/A
Local Agency Investment Fund (LAIF)	7,599,620	N/A	N/A
Local Gov. Invest. Pool (CAMP)	2,177,051	N/A	N/A
Held by Trustee:			
Money Market Funds	<u>1,300,000</u>	<u>AAAm</u>	<u>AAA</u>
Total	<u>\$ 11,880,128</u>		

Concentration of credit risk

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits. For amount of deposits held in excess of federal depository insurance limits, see the City of Grand Terrace's Annual Financial Report.

Investments in State Investment Pool

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

Pooled cash

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 3: Due from City of Grand Terrace and Due to City of Grand Terrace

Nullified Pass-Through Agreement

The Agency entered into a settlement agreement with County of San Bernardino on March 6, 1980, which included full pass-through of taxes allocated to City of Grand Terrace. In 1997, the Agency determined that such pass through to the City of Grand Terrace was, at that time, in violation of the Health and Safety Code. The Agency voluntarily took the necessary steps to correct such error by restating all financial statements of the Agency and reclassifying the pass-through expenditures as a receivable from the City. The tax increment revenue on the City's books was reclassified to a payable to the Agency.

Borrowings from the Redevelopment Agency

Between 1994 and 1999, the City borrowed funds from the Agency as documented through the budget appropriation process.

Other Transactions

In 2001, the Agency transferred property to the City and recorded a receivable from the City. In 2003, the City transferred funds to the Agency for property acquisition.

The activity on Due from City of Grand Terrace is as follows:

Date	Tax Increment Misallocation	Loan to General Fund	Other	Interest Posted	Payments (Credits)	Balance Due
1980 -						
06/30/97	\$ 4,326,428	\$ -	\$ -	\$ 283,496	\$ (2,596,296)	\$ 2,013,628
06/30/94	-	650,000	-	-	-	650,000
06/30/95	-	750,000	-	-	-	750,000
06/30/97	-	393,684	-	-	-	393,684
06/30/98	-	432,822	-	-	-	432,822
06/30/99	-	225,036	-	-	-	225,036
06/30/01	-	-	141,780	-	-	141,780
Total	\$ 4,326,428	\$ 2,451,542	\$ 141,780	\$ 283,496	\$ (2,596,296)	\$ 4,606,950

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 3: Due from City of Grand Terrace and Due to City of Grand Terrace (continued)

The activity on Due to City of Grand Terrace is as follows:

Date	Other	Payments (Credits)	Balance Due
06/30/03	\$ (538,838)	\$ 271,216	\$ (267,622)
Total	<u>\$ (538,838)</u>	<u>\$ 271,216</u>	<u>\$ (267,622)</u>

On June 22, 2010, the Agency adopted Resolution 2010-04 and the City adopted Resolution 2010-15, in which the cumulative interagency borrowings are memorialized and sets forth a repayment plan by the City to the Agency subject to available funds.

Note 4: Loans Receivable

The Agency has provided deferred rehabilitation loans to qualifying low and moderate income households from its 20 percent set-aside funds. A corresponding deferred revenue is recorded accordingly. The balance at June 30, 2010 is \$90,630.

Note 5: Property Held for Resale

Special Revenue Fund

This amount represents the costs associated with the purchase and renovation of low and moderate income housing held for resale. Fund balance has been reserved for this amount. The balance at June 30, 2010 is \$640,166.

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 6: Notes Receivable

The amount of \$688,600 in notes receivable is related to sales of low and moderate income housing. The notes are payable on or before the sale or refinance of the subject property, and are secured by second deeds of trust.

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 7: Long-term Debt

a. *1997 Refunding Certificates of Participation*

The Agency has accepted the responsibility of making the debt service payments for the 1997 Refunding Certificates of Participation for the past several years. The 1997 issuance was a refunding of the 1991 Lease-Revenue Bonds. The proceeds of the 1991 issuance were used to construct a childcare center, the Pico Park project, and the Grand Terrace parkside improvement project. The 1997 Refunding Certificates of Participation were refunded on September 1, 2009 from the proceeds of a new lease agreement and additional City funds.

b. *2004 Refunding Tax Allocation Bonds*

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

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

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

Year Ending June 30,	Principal	Interest
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>

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 7: Long-term Debt (continued)

c. *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	<u>\$ 2,086,889</u>	<u>\$ 589,010</u>

d. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2010:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
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
Total capital leases	<u>-</u>	<u>2,162,000</u>	<u>(75,111)</u>	<u>2,086,889</u>	<u>157,362</u>
Total long term liabilities	<u>\$ 9,202,506</u>	<u>\$ 2,162,000</u>	<u>\$(4,122,612)</u>	<u>\$ 7,241,894</u>	<u>\$ 1,827,362</u>

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 8: Interfund Transfers

Interfund transfers for the year ended June 30, 2010 are as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
Capital Projects	Special Revenue	\$ 350,000
Debt Service	Special Revenue	<u>258,688</u>
	Total	<u><u>\$ 608,688</u></u>

The transfer from the Debt Service Fund was made to cover the negative cash balance in the Capital Projects Fund.

The transfer from the Special Revenue Fund into the Debt Service Fund was made for debt service payments due on the 2004 Tax Allocation Bonds.

Note 9: Agreements With Various Taxing Agencies

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the Agency has entered into pass-through agreements with various governmental agencies to pass-through portions of tax increment funds received by the Agency, attributable to the area within the territorial limits of the other agencies. The amount passed through for the fiscal year ended June 30, 2010, was \$2,082,561. These payments were recorded as expenditures in the Debt Service Fund.

In addition, the Agency was required to transfer tax increment in the amount of \$110,362 to the State of California's Education Revenue Augmentation Fund (ERAF) for the fiscal year ended June 30, 2010.

Note 10: 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.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2010

Note 10: 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.

Note 11: Joint Venture

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

Note 12: Contingencies

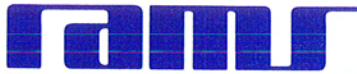
As of June 30, 2010, in the opinion of the Agency, there are no outstanding matters, which would have a material effect on the financial position of the Agency.

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

Required Supplementary Information

Required Supplementary Information
Community Redevelopment Agency of the City of Grand Terrace
Budgetary Comparison Schedule - Major Special Revenue Fund
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
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 of revenues over expenditures	 <u>331,692</u>	 <u>345,184</u>	 <u>409,844</u>	 <u>64,660</u>
 OTHER FINANCING USES				
Transfers out	(613,577)	(613,577)	(608,688)	4,889
Transfers to the City of Grand Terrace	(141,682)	(141,682)	(122,510)	19,172
 Total other financing 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>



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT B. MEMORY, C.P.A. (1945-2009)

OF COUNSEL
JAY H. ZERCHER, C.P.A.

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

NANCY O'RAFFERTY, C.P.A.
BRADFORD A. WELEBIR, C.P.A.
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KATIE L. MILLSOM, C.P.A.
JONATHAN R. KUHN, C.P.A.
PAPA MATAR THIAW, C.P.A.
MAYA S. IVANOVA, C.P.A.
CHRISTOPHER MONTOYA, C.P.A.
DANIELLE E. ODGERS, C.P.A.

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

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

We have audited the financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace (the Agency), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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CERTIFIED PUBLIC ACCOUNTANTS

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompany findings and recommendations as Finding 2010-01, that we consider to be significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying findings and recommendations section of the report as finding number 2010-02.

We noted certain matters that we reported to management of the City of Grand Terrace, California, in a separate letter dated December 1, 2010.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

Rogers, Anderson, Malachuk & Scott, LLP

December 1, 2010

**Community Redevelopment Agency of the City of Grand Terrace
Findings and Recommendations
June 30, 2010**

SIGNIFICANT DEFICIENCY

Finding 2010-01

Bank Reconciliations

Observation

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh.

Recommendation

We recommend that all bank accounts be reconciled each month.

Management Response

Finance Director is only accountant in Finance Department and performs that function in a three person department. Finance had a temporary director for four months and was without the Account Technician for four months. Monthly reconciliations are certainly the best standard however, that function does receive a lower priority during budget, year end and other busy times during the year. However, Staff will reconcile the General and Payroll account on a timelier basis.

Staff instituted a new procedure in 2010 to increase efficiency and speed of bank reconciliations by posting daily cash receipts individually to the cash general ledger to mirror with the actual bank deposit versus posting deposits by batch method over a certain block of time.

Since the installation of the new Eden accounting system in 2002, Finance has been posting all cash receipts as general journals. This method makes research and reconciliation more time consuming and difficult. Therefore, Staff instituted a new procedure in 2010 to utilize the "Receipt Ledger" of the accounting system rather than posting all cash receipts as general journals.

A change in methodology in performing bank reconciliations was also instituted to perform monthly "entire" cash reconciliation rather than the general and payroll accounts only.

**Community Redevelopment Agency of the City of Grand Terrace
Findings and Recommendations
June 30, 2010**

COMPLIANCE FINDINGS

Finding 2010-02

Criteria

Pursuant to California Health and Safety Code, Section 33080, the Agency must produce and present the following annual reports to its legislative body and the State Controller's office within six months of the end of the previous fiscal year:

- a- Independent auditor's report on financial statements
- b- Independent auditor's report on legal compliance
- c- Annual Report of Financial Transactions of Community Redevelopment Agencies
- d- Housing activities report
- e- Blight progress report
- f- Loan report (if applicable)
- g- Property report (if applicable)

Condition

For the fiscal year ended June 30, 2009, the Agency did not submit to the legislative body the following reports by the due date of December 31, 2009:

- e- Blight Progress Report
- g- Property Report

Recommendation

Therefore, we recommend that in the future periods the Agency prepare and present all required annual reports to the legislative body and State Controller's office before December 31, in order to comply with California Health and Safety Code, Section 33000.

**Community Redevelopment Agency of the City of Grand Terrace
Findings and Recommendations
June 30, 2010**

COMPLIANCE FINDINGS

Finding 2010-02 (continued)

Agency Response

The draft FY 2008-09 Annual Redevelopment Agency reports were originally agendized for the December 8, 2009 meeting but were continued to February 23, 2010 to obtain further information and clarification of the agency loan with the City. All final required reports were presented to the Agency Board and approved on February 23, 2010.

The CRA Audited Financial Statements, Housing and Community Development Report and Redevelopment Report of Financial Transactions were filed with the State Controller by December 31, 2009.

Presenting final annual reports to the Agency Board is difficult because there is generally only the first meeting in December available to do so. This means that all reports must be finalized by the end of November, which is very difficult.

However, the Agency will present drafts of all reports to the Board, if final reports are not available, by December 31 of each year.