

CITY OF GRAND TERRACE, CALIFORNIA

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2011



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

**City of Grand Terrace
Annual Financial Report
For the year ended June 30, 2011**

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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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Terrace, California (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 the 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 activities, each major fund, and the aggregate remaining fund information of the City of Grand Terrace as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in the Notes to Financial Statements, as of December 29, 2011, all redevelopment agencies within the State of California (the Community Redevelopment Agency of the City of Grand Terrace is a material component in the City's financial statements) will be eliminated effective February 1 2012, as a result of certain legislative actions enacted by the California State Legislature.

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During the year under audit, the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed on 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining 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, Malody & Scott, LLP

January 17, 2012

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, 2011. 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, 2011, net assets for the City of Grand Terrace were \$29,590,203 compared to net assets of \$28,141,320 at June 30, 2010.

A summary of the government-wide Statement of Net Assets at June 30, 2011 and June 30, 2010 are as follows:

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 42,481,575	\$ 22,365,803	\$ 2,580,411	\$ 2,833,516	\$ 45,061,986	\$ 25,199,319
Capital assets, net	11,425,206	11,019,743	5,328,258	5,416,828	16,753,464	16,436,571
Total assets	<u>53,906,781</u>	<u>33,385,546</u>	<u>7,908,669</u>	<u>8,250,344</u>	<u>61,815,450</u>	<u>41,635,890</u>
Other liabilities	4,514,862	4,530,448	798,172	1,130,845	5,313,034	5,661,293
Long-term liabilities	26,912,213	7,833,277	-	-	26,912,213	7,833,277
Total liabilities	<u>31,427,075</u>	<u>12,363,725</u>	<u>798,172</u>	<u>1,130,845</u>	<u>32,225,247</u>	<u>13,494,570</u>
Invested in capital assets, net of debt	9,441,365	8,853,271	5,328,258	5,416,828	14,769,623	14,270,099
Restricted	37,421,417	18,633,655	-	-	37,421,417	18,633,655
Unrestricted	(24,383,076)	(6,465,105)	1,782,239	1,702,671	(22,600,837)	(4,762,434)
Total net assets	<u>\$ 22,479,706</u>	<u>\$ 21,021,821</u>	<u>\$ 7,110,497</u>	<u>\$ 7,119,499</u>	<u>\$ 29,590,203</u>	<u>\$ 28,141,320</u>

\$14,769,623 (49.9%) 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 \$37,421,417 represents resources that are subject to external restrictions on how they may be used. The resulting net deficit of \$22,600,837 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. Redevelopment Agency bond proceeds received in June 2011 is the primary reason for the large increase in the restricted net assets as well as the large decrease in unrestricted net assets for the fiscal year.

A summary of the government-wide Statement of Activities for the year ended June 30, 2011 and 2010 are as follows:

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues and transfers						
Program revenues:						
Charges for services	\$ 1,472,183	\$ 1,492,074	\$ 1,486,213	\$ 1,518,320	\$ 2,958,396	\$ 3,010,394
Operating contributions and grants	884,198	631,949	-	-	884,198	631,949
Capital contributions and grants	740,808	310,062	-	-	740,808	310,062
General revenues:						
Property tax	7,878,434	8,289,049	-	-	7,878,434	8,289,049
Sales tax	868,099	779,616	-	-	868,099	779,616
Motor vehicle in lieu	64,147	36,918	-	-	64,147	36,918
Other taxes	580,771	540,722	-	-	580,771	540,722
Other revenues	220,438	151,718	10,357	15,331	230,795	167,049
Transfers	107,939	257,454	(107,939)	(257,454)	-	-
Total revenues and transfers	12,817,017	12,489,562	1,388,631	1,276,197	14,205,648	13,765,759
Expenses						
General government	1,377,335	1,684,775	-	-	1,377,335	1,684,775
Public safety	2,193,407	2,018,266	-	-	2,193,407	2,018,266
Public works	1,826,365	1,429,113	-	-	1,826,365	1,429,113
Economic development	3,499,728	5,731,970	-	-	3,499,728	5,731,970
Cultural and recreation	1,349,274	1,418,134	-	-	1,349,274	1,418,134
Interest on long-term debt	1,113,023	615,824	-	-	1,113,023	615,824
Waste water treatment	-	-	1,397,633	1,419,978	1,397,633	1,419,978
Total expenses	11,359,132	12,898,082	1,397,633	1,419,978	12,756,765	14,318,060
Change in net assets	1,457,885	(408,520)	(9,002)	(143,781)	1,448,883	(552,301)
Beginning net assets	21,021,821	21,430,341	7,119,499	7,263,280	28,141,320	28,693,621
Ending net assets	\$ 22,479,706	\$ 21,021,821	\$ 7,110,497	\$ 7,119,499	\$ 29,590,203	\$ 28,141,320

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 \$1,448,883 during the fiscal year. Taken separately, governmental activities net assets increased by \$1,457,885 while business-type activities net assets decreased by \$9,002. Total expenses of \$12,756,765 were offset by total revenues of \$14,205,648. In the Statement of Activities, expenditures do not include the cost of assets capitalized during the year or payments made on principal of outstanding debt. Depreciation is shown for governmental funds on this table, but the expense is not recorded in each individual fund. On the revenue side, redevelopment loan proceeds are excluded since they have no effect on net assets.

After the deduction of capitalized assets, the next largest component in changes to net assets is the actual increase or decrease in fund balances resulting from operations. For governmental funds there was a net increase of \$19,812,955. Of this amount, a net increase of \$18,356,271 is attributable to the Redevelopment Agency, a net increase of \$503,660 to the nonmajor funds, with the difference being a net increase to the General Fund of \$953,024.

Governmental Activities

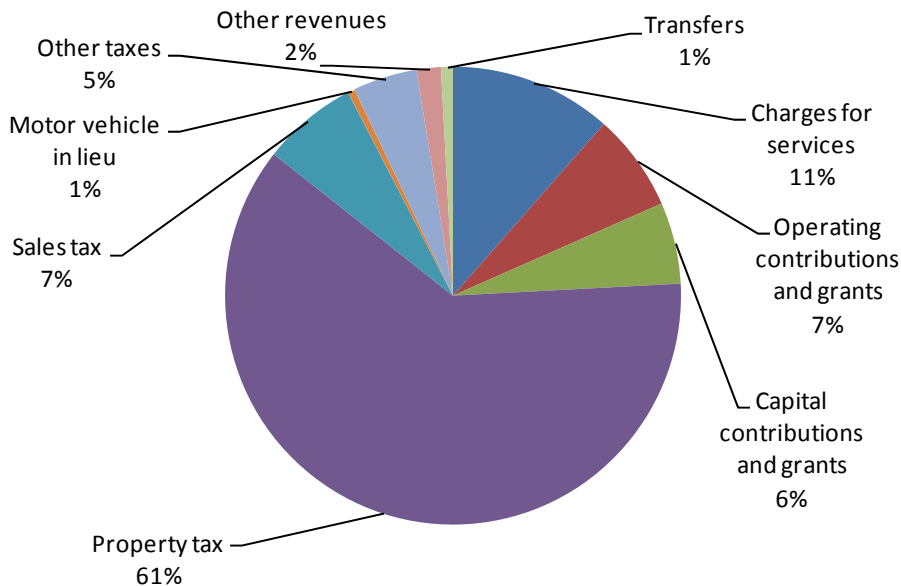
The following table shows the cost of each of the City’s major programs and their net cost after subtracting fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City taxpayers by each of the programs.

Net Cost of Governmental Activities

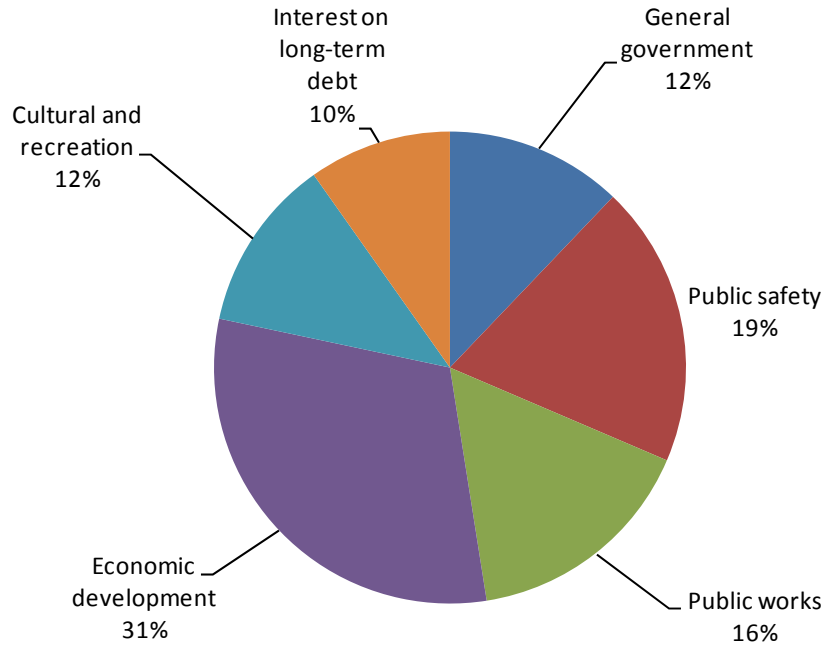
	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,377,335	\$ 1,288,419	\$ 1,684,775	\$ 1,628,769
Public safety	2,193,407	1,965,978	2,018,266	1,627,542
Public works	1,826,365	207,380	1,429,113	579,626
Economic development	3,499,728	3,273,140	5,731,970	5,559,032
Cultural and recreation	1,349,274	414,003	1,418,134	453,204
Interest on long-term debt	1,113,023	1,113,023	615,824	615,824
Total	\$ 11,359,132	\$ 8,261,943	\$ 12,898,082	\$ 10,463,997

This table shows the cost of all governmental activities this year was \$11,359,132. General tax dollars paid for approximately 85.6 percent of this cost. Fees, grants and contributions funded the balance of the cost of governmental activities.

Revenues by Source - Governmental Activities \$12,817,017



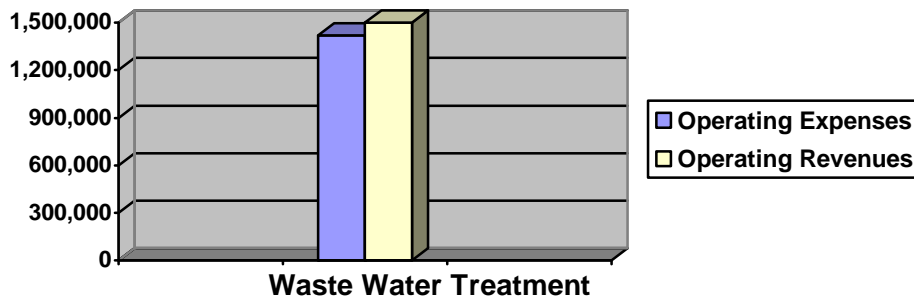
Expenses by Function - Governmental Activities - \$11,359,132



Business-Type Activity

Total revenues of the City's business-type activities, which consist only of the Waste Water Treatment Fund, were \$1,496,570. Revenues decreased by \$37,081 or 2.4 percent in fiscal year 2010 - 2011. Of this amount, operating revenues decreased by 2.1 percent and investment earnings decreased by \$4,974. Expenses decreased by \$22,345 or 1.5 percent from \$1,419,978 in fiscal year 2009 - 2010 to \$1,397,633 in fiscal year 2010 - 2011. The cost of waste water treatment by the City of Colton amounted to \$1,193,540 or 85.4 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, unassigned fund balance of the General Fund increased \$953,024 to \$202,029 from a deficit of \$750,995 at June 30, 2010. Total fund balance in all Governmental Funds was \$37,810,964.

General Fund Revenues and Expenditures amounted to:

	2010 - 11	2009 - 10 (as restated)	Increase (Decrease) in Fund Balance
Revenues	\$ 5,544,275	\$ 4,730,405	\$ 813,870
Expenditures	(5,160,094)	(5,349,802)	189,708
Other Sources (Uses)	568,843	389,301	179,542
Net Change in Fund Balance	953,024	(230,096)	1,183,120
Beginning Fund Balance, as restated	(750,995)	(520,899)	(230,096)
Ending Fund Balance	<u>\$ 202,029</u>	<u>\$ (750,995)</u>	<u>\$ 953,024</u>

The significant highlights in activities, revenues and expenditures of the City's General Fund from the prior year are as follows:

- General Fund revenues and transfers in exceeded expenditures and transfers out by \$953,024. Total fund revenue increased by \$813,870 or 17.2 percent from FY 2009 -10. The increase was primarily due to one time revenue recognition. Total expenditures decreased by \$189,708 from the FY 2009 -10 primarily due to budget reductions. Other Sources and (Uses) increased \$179,542 compared to FY 2009-10. The increase was primarily due to one time revenue recognition.
- Property tax received decreased 4.07 percent from \$1,448,489 to \$1,389,542.
- Sales tax and MLV–in-lieu increased 14.1 percent from \$816,534 to \$932,246.
- Charges for services overall remained close to the previous year at \$1,021,634. Building and Planning fees increased 79% to \$153,717 from only \$85,824 in FY 2009-10. Child Care Center revenues actually decreased 3.5 percent to \$925,419.
- City expended \$105,462 from unassigned fund balance due to emergency clean up and repairs to City streets and right of ways due to December 2010 winter storm damage. The City applied for emergency grant funds, however, only \$22,340 was received during the year. The City is unlikely to recover the difference.
- Use of money and property category increased by 49.2 percent to \$81,555.

- General Fund recognized one time revenue of \$1,036,754 in FY 2010-11 consisting of:
 - \$132,000 Sale of Property to Redevelopment Agency for Habitat for Humanity project
 - \$819,235 Transfer-in of resources from Redevelopment Agency as reimbursement for infrastructure project undertaken by City
 - \$85,519 PERS credits taken during the year in lieu of contribution payments due for the employee retirement system as a result of prior year earnings restatements
- General Fund overall operating expenditures decreased a net 3.5 percent over the prior year, due to various budget reductions. The City is continuing many budget reduction measures instituted in previous years such as a 10 percent employee salary furlough, elimination and deferral of some employee benefits, deferral of merit increases, accounting changes and reallocation of some employee salaries to other funds. Total law enforcement expenditures equate to 39.8% percent of the net General Fund operating expenditures. The next largest General Fund cost center is Child Care Center representing 16.38 percent of net General Fund operating expenditures.

Other major governmental funds include the Grand Terrace Community Redevelopment Agency Capital Project Funds and the Community Redevelopment Agency Debt Service Fund.

The significant highlights of activities, revenues and expenditures of the Grand Terrace Community Redevelopment Agency funds from the prior year are as follows:

Property acquisition and land improvements for projects

Property acquisition for the freeway-oriented project east of Interstate 215 is an on-going effort. The Agency opened escrow on a 14.22 acre parcel in June 2011, which closed escrow in fiscal year 2011-12. The purchase price was \$1,393,702 for the parcel, located on the north side of Van Buren Street, east of I-215. Phase 1 of the Town Square commercial project was largely completed during this fiscal year in partnership with private development partners. The official grand opening occurred in August 2011.

Grand Terrace Community Redevelopment Agency – other projects – expenditures and encumbrances in the current fiscal year include:

Other public benefit projects:

- Grand Terrace Road, installation of new landscaping - \$37,940
- Reconstruction of Grand Terrace Road between Barton Road and Vivienda Avenue - \$43,133 CRA contribution
- Senior Center Kitchen facility was upgraded for commercial use at a cost of \$160,419 using agency funds of \$55,419 and CDGB funds of \$105,000.
- Construction of a new baseball field at Pico Park to replace one of the fields - \$438,120
- Construction of street and landscaping improvements, Michigan Street, Barton Road, and La Paix - \$608,712
- Through a partnership with the Colton Unified School District, the Agency contributed \$130,000 of redevelopment funds toward completion of a storm drain at the site of the future Grand Terrace High School
- Conceptual design for the west side park (for grant application and community meetings) - \$10,715

- Commercial Exterior Improvement Program – The Agency is working with property owners to provide financial assistance to improve building facades and properties. \$52,214 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. \$9,682 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.
- Economic Development – The Agency executed a \$1.2 million Economic Development Agreement with Stater Bros. Markets in September 2010.

Long Term Debt – the Grand Terrace Community Redevelopment Agency made lease payments to Zions Bank in the amount of \$254,847 under an underlying debt assumption related to the refinancing of the 1997 Certificates of Participation and made payments of \$1,831,925 for debt obligations of the 2004 CRA Tax Allocation Bonds. Principal payments of long term debt are not shown in the government-wide statements. On June 16, 2011, the Agency issued \$15,175,000 of 2011 Series A Tax Allocation Bonds and \$5,650,000 of 2011 Series B Taxable Tax Allocation Bonds. The bond issuance resulted in net project funds to the agency of \$18,539,311 plus \$1,757,800 held as a reserve for bondholders by the trustee.

Pass-through payments – the Grand Terrace Community Redevelopment Agency made contractual and statutory payments to overlapping taxing agencies in the current fiscal year in the amount of \$2,262,609. The total includes a statutory pass-through payment to the City of Grand Terrace in the amount of \$80,767.

SERAF and ERAF – in accordance with ABx4-26, the Grand Terrace Community Redevelopment Agency remitted \$448,636 to the County Auditor-Controller for its share of mandated Supplemental Educational Revenue Augmentation Fund (SERAF) in May 2011. The Agency was also responsible for \$77,874 in statutory Educational Revenue Augmentation Fund (ERAF) liability at June 30, 2011.

Nonmajor Funds

The Nonmajor funds, as listed in the table of contents of this report, include Gas Tax, Measure I, the Capital Improvement Funds, and most of the special revenue funds.

Capital Assets

As of June 30, 2011, the City had invested \$16,753,464 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 Statement No. 34 from including the valuation of old city infrastructure.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,579,379	\$ 1,711,379	\$ -	\$ -	\$ 1,579,379	\$ 1,711,379
Buildings	3,835,936	3,991,538	-	-	3,835,936	3,991,538
Improvements	2,128,609	2,326,407	155,921	164,349	2,284,530	2,490,756
Equipment	210,531	244,466	-	-	210,531	244,466
Vehicles	126,430	115,131	-	-	126,430	115,131
Infrastructure	2,720,067	2,606,781	-	-	2,720,067	2,606,781
Sewer mains	-	-	2,819,782	2,864,483	2,819,782	2,864,483
Sewer laterals	-	-	1,412,881	1,433,891	1,412,881	1,433,891
Sewer manholes	-	-	939,674	954,105	939,674	954,105
Construction in progress	824,254	24,041	-	-	824,254	24,041
Total	\$ 11,425,206	\$ 11,019,743	\$ 5,328,258	\$ 5,416,828	\$ 16,753,464	\$ 16,436,571

Long-Term Debt

At the end of the current fiscal year, the City had debt outstanding of \$27,168,193. Of this amount, \$24,475,000 represents outstanding bonds, \$1,983,841 represents outstanding leases, and \$709,352 other debt comprised of an OPEB obligation and compensated absences payable. \$1,886,083 of all debt is due and payable within one year.

Outstanding Debt Governmental Activities

The City's total debt increased by \$19,169,921 (239 percent) during the current fiscal year, due the Grand Terrace Community Redevelopment Agency issuance of tax allocation bond debt during the fiscal year. The bonds are secured by property tax increment and are not a liability of the City's revenue stream. The City adopted GASB Statement No. 45 and recognizes a liability of \$444,393 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.

The City changed how it reports the General Fund Balance on its budget in FY 2010-11 to be in line with GASB Statement No. 34 reporting. The City has returned to report the General Fund budget the same way it reports the General Fund balance on the Annual Financial Report.

Under the GASB Statement No. 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.

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, 2011**

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and investments	\$ 33,566,631	\$ 2,351,254	\$ 35,917,885
Cash and investments with fiscal agents	3,068,450	-	3,068,450
Interest receivable	15,732	2,153	17,885
Accrued revenue	209,691	227,004	436,695
Due from other governments	290,207	-	290,207
Loans receivable	84,983	-	84,983
Notes receivable	688,600	-	688,600
Property held for resale	4,087,317	-	4,087,317
Deferred charges	469,964	-	469,964
Capital assets:			
Land and construction in progress	2,403,633	-	2,403,633
Other capital assets, net of depreciation	9,021,573	5,328,258	14,349,831
 Total assets	 <u>53,906,781</u>	 <u>7,908,669</u>	 <u>61,815,450</u>
LIABILITIES			
Accounts payable	350,744	104,654	455,398
Insurance payable	87,100	-	87,100
Accrued liabilities	79,022	8,058	87,080
Accrued interest payable	253,698	-	253,698
Due to other governments	3,634,237	685,460	4,319,697
Deferred revenue	105,398	-	105,398
Refundable deposits	4,663	-	4,663
Noncurrent liabilities:			
Due within one year	1,886,083	-	1,886,083
Due in more than one year	25,026,130	-	25,026,130
 Total liabilities	 <u>31,427,075</u>	 <u>798,172</u>	 <u>32,225,247</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,441,365	5,328,258	14,769,623
Restricted for:			
Debt service	10,314,491	-	10,314,491
Community development	22,953,621	-	22,953,621
Low-mod income housing	2,454,480	-	2,454,480
Public works	1,698,825	-	1,698,825
Unrestricted	(24,383,076)	1,782,239	(22,600,837)
 Total net assets	 <u>\$ 22,479,706</u>	 <u>\$ 7,110,497</u>	 <u>\$ 29,590,203</u>

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

**City of Grand Terrace
Statement of Activities
For the year ended June 30, 2011**

<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	\$ 1,377,335	\$ 88,916	\$ -	\$ -
Public safety	2,193,407	95,658	131,771	-
Public works	1,826,365	133,872	752,427	732,686
Economic development	3,499,728	226,588	-	-
Cultural and recreation	1,349,274	927,149	-	8,122
Interest on long-term debt	1,113,023	-	-	-
Total governmental activities	<u>11,359,132</u>	<u>1,472,183</u>	<u>884,198</u>	<u>740,808</u>
Business-type activity:				
Waste water disposal	<u>1,397,633</u>	<u>1,486,213</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,756,765</u>	<u>\$ 2,958,396</u>	<u>\$ 884,198</u>	<u>\$ 740,808</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
- Use of money and property
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning, as restated

Net assets - ending

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

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

Governmental Activities	Business-type Activity	Total
\$ (1,288,419)	\$ -	\$ (1,288,419)
(1,965,978)	-	(1,965,978)
(207,380)	-	(207,380)
(3,273,140)	-	(3,273,140)
(414,003)	-	(414,003)
(1,113,023)	-	(1,113,023)
<u>(8,261,943)</u>	<u>-</u>	<u>(8,261,943)</u>
<u>-</u>	<u>88,580</u>	<u>88,580</u>
1,372,205	-	1,372,205
6,506,229	-	6,506,229
474,666	-	474,666
868,099	-	868,099
64,147	-	64,147
106,105	-	106,105
52,728	10,357	63,085
167,710	-	167,710
107,939	(107,939)	-
<u>9,719,828</u>	<u>(97,582)</u>	<u>9,622,246</u>
1,457,885	(9,002)	1,448,883
<u>21,021,821</u>	<u>7,119,499</u>	<u>28,141,320</u>
<u>\$ 22,479,706</u>	<u>\$ 7,110,497</u>	<u>\$ 29,590,203</u>

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Fund Financial Statements

**City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2011**

	General	Community Redevelopment Capital Projects
ASSETS		
Cash and investments	\$ 3,298,366	\$ 19,344,306
Cash and investments with fiscal agents	-	10,637
Interest receivable	2,689	3,656
Accrued revenue	156,593	-
Due from other funds	48,113	-
Due from other governments	194,453	-
Advances to other funds	-	-
Loans receivable	896	-
Notes receivable	-	-
Property held for resale	-	3,447,151
	-	3,447,151
Total assets	\$ 3,701,110	\$ 22,805,750
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 71,823	\$ 257,355
Accrued liabilities	35,070	39,170
Due to other funds	-	-
Due to other governments	-	-
Advances from other funds	3,388,094	-
Deferred revenue	4,094	-
Refundable deposits	-	-
	-	-
Total liabilities	3,499,081	296,525
Fund balances:		
Restricted for:		
Public works	-	-
Low-mod income housing	-	-
Debt service	-	-
Community development	-	22,509,225
Unassigned	202,029	-
Total fund balances	202,029	22,509,225
Total liabilities and fund balances	\$ 3,701,110	\$ 22,805,750

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

Community Redevelopment Debt Service	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 8,325,791	\$ 2,598,168	\$ 33,566,631
3,057,813	-	3,068,450
7,278	2,109	15,732
-	53,098	209,691
-	484,073	532,186
19,126	76,628	290,207
3,219,889	168,205	3,388,094
-	84,087	84,983
-	688,600	688,600
-	640,166	4,087,317
<u>\$ 14,629,897</u>	<u>\$ 4,795,134</u>	<u>\$ 45,931,891</u>

\$ -	\$ 21,566	\$ 350,744
-	4,782	79,022
448,636	83,550	532,186
3,613,072	21,165	3,634,237
-	-	3,388,094
-	127,887	131,981
-	4,663	4,663
<u>4,061,708</u>	<u>263,613</u>	<u>8,120,927</u>

-	1,698,825	1,698,825
-	2,454,480	2,454,480
10,568,189	-	10,568,189
-	444,396	22,953,621
-	(66,180)	135,849
<u>10,568,189</u>	<u>4,531,521</u>	<u>37,810,964</u>
<u>\$ 14,629,897</u>	<u>\$ 4,795,134</u>	<u>\$ 45,931,891</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, 2011**

Fund balances of governmental funds \$ 37,810,964

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. 11,425,206

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

Bonds payable	\$ (24,475,000)	
Less: deferred charge on refunding	106,397	
Less: costs of issuance	469,964	
Less: discount on issuance	173,484	
Plus: premium received on issuance	(23,901)	
Capital leases	(1,983,841)	
Other payable	(87,100)	
Accrued interest payable	(253,698)	
Long-term compensated absences payable	(264,959)	
OPEB obligation	<u>(444,393)</u>	(26,783,047)

Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of net assets. 26,583

Net assets of governmental activities \$ 22,479,706

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, 2011

	General	Community Redevelopment Capital Projects
REVENUES		
Taxes	\$ 2,257,640	\$ -
Licenses and permits	640,154	-
Intergovernmental	141,325	-
Charges for services	1,183,131	-
Fines and forfeitures	14,925	-
Use of money and property	81,555	63,983
Developer fees	-	-
Other	1,225,545	1,013
Total revenues	5,544,275	64,996
EXPENDITURES		
Current:		
General government	1,254,978	-
Public safety	2,012,248	-
Public works	783,766	-
Economic development	-	597,372
Cultural and recreation	1,080,283	-
Pass-through payments	-	-
Debt service:		
Principal	25,269	-
Interest and other charges	3,550	-
Cost of issuance	-	354,407
Capital outlay:		
Project improvement costs	-	2,154,415
Total expenditures	5,160,094	3,106,194
Excess (deficiency) of revenues over expenditures	384,181	(3,041,198)
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of assets	132,000	-
Issuance of debt	-	19,067,200
Discount on issuance	-	(173,484)
Transfers in	475,679	4,098,713
Transfers out	(38,836)	(121,767)
Total other financing sources (uses)	568,843	22,870,662
Net change in fund balances	953,024	19,829,464
Fund balances (deficit) - beginning, as restated	(750,995)	2,679,761
Fund balances - ending	\$ 202,029	\$ 22,509,225

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

Community Redevelopment Debt Service	Total Non-Major Governmental Funds	Total Governmental Funds
\$ 5,204,983	\$ 1,301,246	\$ 8,763,869
-	-	640,154
-	1,017,104	1,158,429
-	-	1,183,131
-	80,757	95,682
30,074	13,504	189,116
-	474,791	474,791
-	118,572	1,345,130
<u>5,235,057</u>	<u>3,005,974</u>	<u>13,850,302</u>
-	-	1,254,978
-	163,000	2,175,248
-	865,319	1,649,085
49,978	493,352	1,140,702
-	-	1,080,283
2,262,609	-	2,262,609
1,827,362	-	1,852,631
868,713	-	872,263
-	-	354,407
-	132,181	2,286,596
<u>5,008,662</u>	<u>1,653,852</u>	<u>14,928,802</u>
<u>226,395</u>	<u>1,352,122</u>	<u>(1,078,500)</u>
-	-	132,000
1,757,800	-	20,825,000
-	-	(173,484)
619,301	349,664	5,543,357
<u>(4,140,163)</u>	<u>(1,134,652)</u>	<u>(5,435,418)</u>
<u>(1,763,062)</u>	<u>(784,988)</u>	<u>20,891,455</u>
(1,536,667)	567,134	19,812,955
<u>12,104,856</u>	<u>3,964,387</u>	<u>17,998,009</u>
<u>\$ 10,568,189</u>	<u>\$ 4,531,521</u>	<u>\$ 37,810,964</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, 2011**

Net change in fund balances - total governmental funds \$ 19,812,955

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	\$ 963,514	
Depreciation expense	<u>(558,051)</u>	405,463

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	\$ 1,852,631	
Issuance of long-term debt	(20,825,000)	
Discount on issuance	173,484	
Costs of issuance on new debt	<u>354,407</u>	(18,444,478)

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	(67,716)	
Amortization of premium	23,899	
Increase in OPEB obligation	(154,237)	
Decrease in insurance payable	163,390	
Increase in compensated absences payable	(43,315)	
Increase in accrued interest payable on long-term debt	<u>(158,261)</u>	(342,638)

Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of activities.

		<u>26,583</u>
Change in net assets of governmental activities		<u><u>\$ 1,457,885</u></u>

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

**City of Grand Terrace
Statement of Net Assets
Proprietary Fund
June 30, 2011**

	Business-type Activity
	Waste Water Disposal
ASSETS	
Current assets:	
Cash and investments	\$ 2,351,254
Interest receivable	2,153
Accrued revenue	227,004
Total current assets	2,580,411
Noncurrent assets:	
Capital assets:	
Sewer system	7,415,106
Less accumulated depreciation	(2,086,848)
Total noncurrent assets	5,328,258
Total assets	7,908,669
LIABILITIES	
Current liabilities:	
Accounts payable	104,654
Accrued liabilities	8,058
Due to other governments	685,460
Total liabilities	798,172
NET ASSETS	
Invested in capital assets	5,328,258
Unrestricted	1,782,239
Total net assets	\$ 7,110,497

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, 2011

	<u>Business-type Activity</u> <u>Waste Water Disposal</u>
OPERATING REVENUES	
Charges for services	\$ 1,485,913
Connection fees	<u>300</u>
Total operating revenues	<u>1,486,213</u>
OPERATING EXPENSES	
Personnel services	51,222
Employee benefits	27,378
Depreciation	88,570
Contract services	1,227,377
Repairs and maintenance	2,735
Other expenses	<u>351</u>
Total operating expenses	<u>1,397,633</u>
Operating income	<u>88,580</u>
NONOPERATING REVENUES	
Interest income	<u>10,357</u>
Income before transfers	98,937
Transfers out	<u>(107,939)</u>
Change in net assets	(9,002)
Total net assets - beginning	<u>7,119,499</u>
Total net assets - ending	<u><u>\$ 7,110,497</u></u>

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, 2011**

	Business-type Activity <u>Waste Water Disposal</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,359,189
Cash payments to suppliers	(1,563,401)
Cash payments to employees for services	(78,335)
Other operating revenues	300
Net cash used for operating activities	<u>(282,247)</u>
Cash Flows From Noncapital Financing Activities:	
Transfers to other funds	<u>(107,939)</u>
Net cash used for noncapital financing activities	<u>(107,939)</u>
Cash Flows From Investing Activities:	
Interest income	<u>11,054</u>
Net cash provided by investing activities	<u>11,054</u>
Net decrease in cash and cash equivalents	(379,132)
Cash and cash equivalents - beginning	<u>2,730,386</u>
Cash and cash equivalents - ending	<u>\$ 2,351,254</u>
Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating income	\$ 88,580
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	88,570
(Increase) decrease in assets:	
Accrued revenues	(126,724)
Increase (decrease) in liabilities:	
Accounts payable	4,562
Accrued liabilities	265
Due to other governments	<u>(337,500)</u>
Net cash used for operating activities	<u>\$ (282,247)</u>

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

**City of Grand Terrace
Statement of Fiduciary Assets and Liabilities
June 30, 2011**

	Agency Fund
ASSETS	
Cash and investments	\$ 301,380
Accrued revenue	1,209
Total assets	\$ 302,589
 LIABILITIES	
Accounts payable	\$ 3,035
Refundable deposits	299,554
Total liabilities	\$ 302,589

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, 2011

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. Also, please see Note 17 for additional information on the CRA.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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, 2011

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

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

The City reports the following major proprietary fund:

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

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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

Additionally, the City reports the following fund type:

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

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

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

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

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

Other Accounting Policies

Receivables and payables

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

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

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

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.

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.

Assets	Years
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, 2011

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

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the year ended June 30, 2011. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The City has not designated any level of authority for assigning fund balance; therefore, the City Council can assign fund balance.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is the City's policy to consider committed amounts as being restricted first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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. 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, 2011**

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

b. Deficit fund balances

As of June 30, 2011 the following funds have deficit fund balances:

	Amount
Special Revenue Funds:	
Traffic Safety	\$ (27,513)
CDBG	(7,551)
Capital Projects Fund:	
Barton/Colton Bridge	(31,116)

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:

Fund	Expenditures	Appropriations	Excess
Non-major fund:			
Special Revenue Fund:			
AB 3229 COPS	\$ 99,595	\$ 99,500	\$ (95)

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 35,917,885
Cash and investments with fiscal agents	3,068,450
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>301,380</u>
Total cash and investments	<u><u>\$ 39,287,715</u></u>

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

Cash on hand	\$ 394
Deposits with financial institutions	500,017
Investments	<u>38,787,304</u>
Total cash and investments	<u><u>\$ 39,287,715</u></u>

Authorized investments

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

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

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

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, 2011**

Note 2: Cash and Investments (continued)

Investment Type	Amount	12 Months or Less	13 to 24 Months
Money Market Mutual Fund	\$ 1,081,031	\$ 1,081,031	\$ -
Passbook Savings Account	250,031	250,031	-
Certificates of Deposit	94,000	94,000	-
Local Agency Investment Fund (LAIF)	30,424,613	30,424,613	-
Local Gov. Invest. Pool (CAMP)	3,869,179	3,869,179	-
Held by Trustee:			
Money Market Funds	3,068,450	3,068,450	-
Total	\$ 38,787,304	\$ 38,787,304	\$ -

Disclosures relating to credit risk

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

Investment Type	Amount	Minimum Legal Rating	Actual Rating
Money Market Mutual Fund	\$ 1,081,031	N/A	N/A
Passbook Savings Account	250,031	N/A	N/A
Certificates of Deposit	94,000	N/A	N/A
Local Agency Investment Fund (LAIF)	30,424,613	N/A	N/A
Local Gov. Invest. Pool (CAMP)	3,869,179	N/A	N/A
Held by Trustee:			
Money Market Funds	3,068,450	AAAm	AAAm / A+
Total	\$ 38,787,304		

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, 2011, 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, 2011**

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, 2011, the City had deposits with financial institutions in excess of federal depository insurance limits of \$490,189 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, 2011, the carrying amount (at amortized cost) of the pool was \$66,384,617,119 and the estimated fair value of the pool was \$66,489,270,507. The City's proportionate share of the pool's market value (as determined by LAIF) as of June 30, 2011, was \$30,424,613. 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.

Local Government Investment Pool

The City is a voluntary participant in the Local Government Investment Pool, "CAMP" (California Asset Management Program). CAMP is a California Joint Powers Authority, established to provide public agencies with professional investment services, and is directed by a Board of Trustees, which is made up of experienced local government finance directors and treasurers. The CAMP Pool is a permitted investment for all local agencies under California Government Code Section 53601(p).

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 2: Cash and Investments (continued)

The City reports its share in the investment pool at the estimated fair market value. As of June 30, 2011, the City's share of the pool (as determined by CAMP) is \$3,869,179. Included in the CAMP's investment portfolio are US treasury notes, bonds, bills or certificates of indebtedness or other obligations of the United States, federal agency or US government-sponsored enterprise obligations, participations or other instruments, repurchase agreements, bills of exchange or time drafts, negotiable certificates of deposits, commercial paper of prime quality of the highest ranking or of the highest letter and number rating.

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, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 48,113
Nonmajor Governmental Funds	CRA Debt Service Fund	448,636
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>35,437</u>
		<u><u>\$ 532,186</u></u>

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

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 168,205
CRA Debt Service Fund	General Fund	<u>3,219,889</u>
		<u><u>\$ 3,388,094</u></u>

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 99,523
	Waste Water Disposal Fund	107,939
	CRA Capital Projects Fund	121,767
	CRA Debt Service Fund	146,450
	(1)	<u>475,679</u>
CRA Capital Projects Fund	Nonmajor Governmental Funds	(2) 105,000
	CRA Debt Service Fund	(3) 3,993,713
		<u>4,098,713</u>
CRA Debt Service Fund	Nonmajor Governmental Funds	(4) 619,301
		<u>619,301</u>
Nonmajor Governmental Funds	General Fund	(5) 38,836
	Nonmajor Governmental Funds	(6) 163,359
	Nonmajor Governmental Funds	(7) 147,469
		<u>349,664</u>
Total Interfund Transfers		<u>\$ 5,543,357</u>

- (1) These transfers were made for cost allocation.
- (2) These transfers were made for the partial funding for the senior kitchen project.
- (3) These transfers were made to finance project improvement costs in the Capital Projects Fund.
- (4) These transfers were made for debt service payments due on the 2004 Tax Allocation Bonds.
- (5) These transfers were to help fund street sweeping and various roads expenditures.
- (6) These transfers were for the SANBAG stimulus projects funding.
- (7) These transfers were for the partial funding of the Grand Terrace Road rehabilitation project.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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, 2011, is \$896.

Community Redevelopment Low-Moderate 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, 2011, is \$84,087.

Note 5: Notes Receivable

Community Redevelopment Low-Moderate 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, 2011, is \$688,600.

Note 6: Property Held for Resale

Community Redevelopment Low-Moderate Income Housing Fund

This amount represents the costs associated with the purchase and renovation of low and moderate income housing held for resale. The balance at June 30, 2011 is \$640,166.

Community Redevelopment Capital Projects Fund

This amount represents the costs associated with the purchase of vacant land held for future development. The balance at June 30, 2011 is \$3,447,151.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,711,379	\$ -	\$ (132,000)	\$ 1,579,379
Construction in Progress	24,041	1,063,638	(263,425)	824,254
 Total capital assets, not being depreciated	 1,735,420	 1,063,638	 (395,425)	 2,403,633
Capital assets, being depreciated:				
Buildings	6,268,981	-	-	6,268,981
Machinery & equipment	804,972	-	-	804,972
Vehicles	560,831	31,876	-	592,707
Improvements other than buildings	3,937,195	-	-	3,937,195
Infrastructure	3,088,267	263,425	-	3,351,692
 Total capital assets, being depreciated	 14,660,246	 295,301	 -	 14,955,547
Less accumulated depreciation for:				
Buildings	(2,277,443)	(155,602)	-	(2,433,045)
Machinery & equipment	(560,506)	(33,935)	-	(594,441)
Vehicles	(445,700)	(20,577)	-	(466,277)
Improvements other than buildings	(1,610,788)	(197,798)	-	(1,808,586)
Infrastructure	(481,486)	(150,139)	-	(631,625)
 Total accumulated depreciation	 (5,375,923)	 (558,051)	 -	 (5,933,974)
 Total capital assets, being depreciated, net	 9,284,323	 (262,750)	 -	 9,021,573
 Governmental activities capital assets, net	 \$ 11,019,743	 \$ 800,888	 \$ (395,425)	 \$ 11,425,206

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type Activities:				
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	(1,158,646)	(44,701)	-	(1,203,347)
Laterals	(457,052)	(21,010)	-	(478,062)
Manholes	(344,655)	(14,431)	-	(359,086)
Improvements	(37,925)	(8,428)	-	(46,353)
Total accumulated depreciation	<u>(1,998,278)</u>	<u>(88,570)</u>	<u>-</u>	<u>(2,086,848)</u>
Business-type activity capital assets, net	<u>\$ 5,416,828</u>	<u>\$ (88,570)</u>	<u>\$ -</u>	<u>\$ 5,328,258</u>

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

Governmental activities:	
General government	\$ 88,195
Public safety	18,159
Public works	177,280
Economic development	5,426
Culture and recreation	<u>268,991</u>
Total depreciation expense - governmental activities	<u>\$ 558,051</u>

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 8: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
2004 Refunding Tax Allocation Bonds	\$ 5,320,000	\$ -	\$ (1,670,000)	\$ 3,650,000	\$ 1,720,000
2011 Tax Allocation Bonds, Series A	-	15,175,000	-	15,175,000	-
2011 Tax Allocation Bonds, Series B	-	5,650,000	-	5,650,000	-
Less: deferred amounts on refunding	(212,795)	-	106,398	(106,397)	(106,397)
Discount on bonds issued	-	(173,484)	-	(173,484)	(9,110)
Plus: premium on issue	47,800	-	(23,899)	23,901	23,901
Total bonds payable	<u>5,155,005</u>	<u>20,651,516</u>	<u>(1,587,501)</u>	<u>24,219,020</u>	<u>1,628,394</u>
Capital leases:					
Zions National Bank	2,086,889	-	(157,362)	1,929,527	164,942
HVAC Lease	79,583	-	(25,269)	54,314	26,507
Total capital leases	<u>2,166,472</u>	<u>-</u>	<u>(182,631)</u>	<u>1,983,841</u>	<u>191,449</u>
OPEB Obligation	290,156	155,057	(820)	444,393	-
Compensated Absences	221,644	150,759	(107,444)	264,959	66,240
Total long-term liabilities	<u>\$ 7,833,277</u>	<u>\$20,957,332</u>	<u>\$ (1,878,396)</u>	<u>\$ 26,912,213</u>	<u>\$ 1,886,083</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 8: Long-Term Liabilities (continued)

Governmental Activities:

a. 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
2012	\$ 1,720,000	\$ 104,625
2013	1,930,000	36,188
Total	\$ 3,650,000	\$ 140,813

b. 2011A Tax Allocation Bonds

In June of 2011, the Agency issued the \$15,175,000 Community Redevelopment Project Area Tax Allocation Bonds, Issue of 2011A. The Bonds were issued to finance public improvement projects pursuant to the Redevelopment Plan and for other redevelopment activities of the Agency. Interest varies from 2.00% to 6.00% and is payable semiannually on March 1 and September 1, commencing September 1, 2011. Principal payments are due annually commencing September 1, 2012 through September 1, 2033. The Bonds are payable from and secured by a pledge of Tax Increment, less amounts required to make payments under the Pass-Through Agreements, annual debt service of the 2004 Bonds and the Housing Set-Aside amount.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 8: Long-Term Liabilities (continued)

Debt service payments to maturity for the 2011A Tax Allocation Bonds are as follows:

Year Ending June 30,	Principal	Interest
2012	\$ -	\$ 598,610
2013	260,000	839,196
2014	280,000	832,396
2015	285,000	823,921
2016	295,000	813,746
2017-2021	1,660,000	3,876,110
2022-2026	2,105,000	3,408,240
2027-2031	5,600,000	2,363,100
2032-2034	4,690,000	432,900
Total	<u>\$ 15,175,000</u>	<u>\$ 13,988,219</u>

c. 2011B Taxable Tax Allocation Bonds

In June of 2011, the Agency issued the \$5,650,000 Community Redevelopment Project Area Taxable Tax Allocation Bonds, Issue of 2011B. The Bonds were issued for the purpose of acquiring land for resale and development in the Project Area. Interest varies from 7.10% to 7.70% and is payable semiannually on March 1 and September 1, commencing September 1, 2011. Principal payments are due annually commencing September 1, 2012 through September 1, 2026. The Bonds are payable from and secured by a pledge of Tax Increment, less amounts required to make payments under the Pass-Through Agreements, annual debt service of the 2004 Bonds and the Housing Set-Aside Amount.

Debt service payments to maturity for the 2011B Taxable Tax Allocation Bonds are as follows:

Year Ending June 30,	Principal	Interest
2012	\$ -	\$ 298,019
2013	220,000	411,280
2014	235,000	395,128
2015	255,000	377,732
2016	270,000	359,095
2017-2021	1,680,000	1,466,390
2022-2026	2,395,000	718,218
2027	595,000	22,907
Total	<u>\$ 5,650,000</u>	<u>\$ 4,048,769</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 8: Long-Term Liabilities (continued)

d. Lease Payable

HVAC Lease

In 2007, the City entered into a lease to purchase a 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>(56,231)</u>
Total	<u><u>\$ 113,769</u></u>

The minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Year Ending June 30,	Payments
2012	\$ 28,819
2013	<u>28,820</u>
Total minimum lease payments	57,639
Less: amounts representing interest	<u>(3,325)</u>
Present value of minimum lease payments	<u><u>\$ 54,314</u></u>

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 of \$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.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 8: Long-Term Liabilities (continued)

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

Year Ending June 30,	Principal	Interest
2012	\$ 164,942	\$ 89,906
2013	172,887	81,961
2014	181,213	73,633
2015	189,943	64,906
2016	199,091	55,756
2017-2021	1,021,451	125,362
Total	<u>\$ 1,929,527</u>	<u>\$ 491,524</u>

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 8% of their annual covered salary. The City contributes 5% of the 8% 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 16.810% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 9: City Employees Retirement Plan (continued)

Annual pension cost

For 2011, the City's annual pension cost of \$301,174 for PERS was equal to the City's required contribution. The required contribution was determined as part of the June 30, 2008, 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
06/30/09	\$ 367,122	100%	\$ -
06/30/10	\$ 319,879	100%	\$ -
06/30/11	\$ 301,174	100%	\$ -

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 or public agency service. The healthcare coverage provided by PERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 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 2010-11, the City contributed \$820 to the plan.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 10: Other Post Employment Benefits (continued)

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 No. 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:

	June 30, 2011
Annual required contribution	\$ 152,206
Interest on net OPEB obligation	13,057
Adjustment to annual required contribution	(10,206)
Annual OPEB cost (expense)	155,057
Contributions made	(820)
Increase in net OPEB obligation	154,237
Net OPEB obligation – beginning of year	290,156
Net OPEB obligation – end of year	\$ 444,393

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, 2009	\$ 142,000	0%	\$ 142,000
June 30, 2010	\$ 148,156	0%	\$ 290,156
June 30, 2011	\$ 155,057	1%	\$ 444,393

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)	\$ 1,406,000
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 1,911,101
UAAL as a percentage of covered payroll	73.57%

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 10: Other Post Employment Benefits (continued)

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% per year to an ultimate rate of 5.0 percent after the sixth year.

Note 11: Residential Mortgage Revenue Bonds

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

	<u>Outstanding Balance</u>
La Verne/Grand Terrace Housing Financing Agency \$38,625,000 1984 Series A Residential Mortgage Revenue Bonds	<u>\$ 3,410,000</u>

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

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 12: Risk Management

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

a. Description of self-insurance pool pursuant to joint powers agreement

The City of Grand Terrace is a member of the California Joint Powers Insurance Authority (the "Authority"). The Authority is composed of 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, 2011

Note 12: 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 13: Agreements With Other Taxing Agencies

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the CRA has entered into pass-through agreements with various governmental agencies to pass-through portions of tax increment funds received by the CRA, attributable to the area within the territorial limits of the other agencies. The amount passed through for the fiscal year ended June 30, 2011, was \$2,262,609. 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 \$77,874 to the State of California's Education Revenue Augmentation Fund (ERAF), and \$448,636 to the Supplemental Education Revenue Augmentation Fund, as described below, for the fiscal year ended June 30, 2011.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 14: Contingencies

As of June 30, 2011, in the opinion of the City Administration and its legal counsel, there are no outstanding matters, which would have a material effect on the financial position of the City.

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

Note 15: Proposition 218

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

Note 16: 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 \$448,636 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 2011 with the Debt Service Fund.

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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 17: Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each agency would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the agency "may use any available funds not otherwise obligated for other uses" to make this payment. The Agency intends to use available monies of its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the Federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 17: Recent Changes in Legislation Affecting California Redevelopment Agencies (continued)

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

On December 29, 2011, the Supreme Court upheld AB X1 26 to abolish redevelopment agencies and ABX1 27 to be unconstitutional. With this determination, effective February 1, 2012, all redevelopment agencies within the state will be eliminated. The City of Grand Terrace will assume the position of Successor Agency for the Community Redevelopment Agency as of February 1, 2012. The City has also elected to assume control of the Low/Mod housing functions of the former redevelopment agency. An oversight board will be appointed to oversee the expeditious wind down of the affairs of the former redevelopment agency by the Successor Agency. The financial ramifications of this change are not known at this time.

Note 18: Prior Period Restatements

During the year ended June 30, 2011, the City was notified by the San Bernardino County Auditor-Controller of an error in the tax apportionment calculation for the 2008-09 and 2009-10 fiscal years. According to the County, the City had received excess revenues of \$2,295,360 for the two fiscal years as mentioned above, which should have been paid to San Bernardino Valley Municipal Water District. Because of the overpayment, the City overstated certain pass-through payments in the amount of \$56,203, for a net adjustment of \$2,239,157. For the Fund Financial Statements, 20% of the excess apportionment was charged to the CRA Special Revenue Low-Mod Housing Fund, as the transfers to the Fund were overstated for those fiscal years. The City has entered into an agreement with the District to repay the apportionments received in error in ten annual installments.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2011**

Note 18: Prior Period Restatements (continued)

In a prior fiscal year, the City understated an amount payable to a pass-through entity in the amount of \$400,000. The City increased the amount payable to this entity.

Government-Wide Statements	<u>Governmental Activities</u>
Net assets, beginning of year, as previously stated	\$ 23,660,978
Tax apportionment error	(2,239,157)
Correction of pass through payable	<u>(400,000)</u>
Net assets, beginning of year, as restated	<u><u>\$ 21,021,821</u></u>

Fund Financial Statements	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Fund balance, beginning of year, as previously stated	\$ (720,430)	\$ 2,850,078	\$ 13,854,376	\$ 3,079,761
Tax apportionment error	(30,565)	(459,072)	(1,749,520)	-
Correction of pass through payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>
Fund balance, beginning of year, as restated	<u><u>\$ (750,995)</u></u>	<u><u>\$ 2,391,006</u></u>	<u><u>\$ 12,104,856</u></u>	<u><u>\$ 2,679,761</u></u>

Required Supplementary Information

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Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,166,825	\$ 2,315,844	\$ 2,257,640	\$ (58,204)
Licenses and permits	578,710	578,710	640,154	61,444
Intergovernmental	95,177	95,177	141,325	46,148
Charges for services	1,166,813	1,178,813	1,183,131	4,318
Fine and forfeitures	29,350	29,350	14,925	(14,425)
Use of money and property	61,664	61,664	81,555	19,891
Other	301,000	331,000	1,225,545	894,545
Total revenues	4,399,539	4,590,558	5,544,275	953,717
EXPENDITURES				
Current:				
General government	1,278,595	1,297,836	1,254,978	42,858
Public safety	2,035,916	2,035,916	2,012,248	23,668
Public works	890,557	871,436	783,766	87,670
Cultural and recreation	1,152,471	1,103,530	1,080,283	23,247
Debt service:				
Principal	-	-	25,269	(25,269)
Interest	-	-	3,550	(3,550)
Total expenditures	5,357,539	5,308,718	5,160,094	148,624
Excess (deficiency) of revenues over (under) expenditures	(958,000)	(718,160)	384,181	1,102,341
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	132,000	132,000	-
Transfers in	554,207	554,207	475,679	(78,528)
Transfers out	(35,480)	(35,480)	(38,836)	(3,356)
Total other financing sources (uses)	518,727	650,727	568,843	(81,884)
Net change in fund balance	(439,273)	(67,433)	953,024	1,020,457
Fund balance (deficit) - beginning of year, as restated	(750,995)	(750,995)	(750,995)	-
Fund balance (deficit) - end of year	<u>\$ (1,190,268)</u>	<u>\$ (818,428)</u>	<u>\$ 202,029</u>	<u>\$ 1,020,457</u>

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

Year Ending	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]
6/30/2010	7/1/2008	\$ -	\$ 1,406,000	\$ 1,406,000	0.00%	\$ 2,014,286	69.80%
6/30/2011	7/1/2008	\$ -	\$ 1,406,000	\$ 1,406,000	0.00%	\$ 1,911,101	73.57%

**Nonmajor Governmental Funds
Combining Statements**

**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
ASSETS					
Cash and investments	\$ 1,297,779	\$ 66,849	\$ 236,108	\$ -	\$ 51,228
Interest receivable	1,035	53	184	-	39
Accrued revenue	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	11,324	2,943
Advances to other funds	-	-	-	-	-
Loans receivable	-	-	-	-	-
Notes receivable	-	-	-	-	-
Property held for resale	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,298,814</u>	<u>\$ 66,902</u>	<u>\$ 236,292</u>	<u>\$ 11,324</u>	<u>\$ 54,210</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	11,324	-
Due to other governments	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Refundable deposits	4,663	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>4,663</u>	<u>-</u>	<u>-</u>	<u>11,324</u>	<u>-</u>
Fund balances:					
Restricted for:					
Public works	1,294,151	66,902	-	-	54,210
Low-mod income housing	-	-	-	-	-
Community development	-	-	236,292	-	-
Unassigned	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	<u>1,294,151</u>	<u>66,902</u>	<u>236,292</u>	<u>-</u>	<u>54,210</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,298,814</u>	<u>\$ 66,902</u>	<u>\$ 236,292</u>	<u>\$ 11,324</u>	<u>\$ 54,210</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	CDBG	Terrace Pines Landscape and Lighting District	CRA Low Income Housing	Total Special Revenue Funds
\$ 61,694	\$ -	\$ 172,540	\$ 147,616	\$ -	\$ 4,807	\$ 527,721	\$ 2,566,342
37	11	127	114	-	-	509	2,109
-	9,233	-	-	-	-	65	9,298
-	-	35,437	-	-	-	448,636	484,073
39,574	7,268	-	10,425	-	312	4,782	76,628
-	-	-	-	-	-	168,205	168,205
-	-	-	-	-	-	84,087	84,087
-	-	-	-	-	-	688,600	688,600
-	-	-	-	-	-	640,166	640,166
<u>\$ 101,305</u>	<u>\$ 16,512</u>	<u>\$ 208,104</u>	<u>\$ 158,155</u>	<u>\$ -</u>	<u>\$ 5,119</u>	<u>\$ 2,562,771</u>	<u>\$ 4,719,508</u>
\$ 10,691	\$ 8,588	\$ -	\$ -	\$ 378	\$ 149	\$ 260	\$ 20,066
2,003	-	-	-	-	-	2,779	4,782
-	35,437	-	-	7,173	-	-	53,934
-	-	-	-	-	-	21,165	21,165
-	-	-	-	-	-	84,087	84,087
-	-	-	-	-	-	-	4,663
<u>12,694</u>	<u>44,025</u>	<u>-</u>	<u>-</u>	<u>7,551</u>	<u>149</u>	<u>108,291</u>	<u>188,697</u>
88,611	-	-	158,155	-	4,970	-	1,666,999
-	-	-	-	-	-	2,454,480	2,454,480
-	-	208,104	-	-	-	-	444,396
-	(27,513)	-	-	(7,551)	-	-	(35,064)
<u>88,611</u>	<u>(27,513)</u>	<u>208,104</u>	<u>158,155</u>	<u>(7,551)</u>	<u>4,970</u>	<u>2,454,480</u>	<u>4,530,811</u>
<u>\$ 101,305</u>	<u>\$ 16,512</u>	<u>\$ 208,104</u>	<u>\$ 158,155</u>	<u>\$ -</u>	<u>\$ 5,119</u>	<u>\$ 2,562,771</u>	<u>\$ 4,719,508</u>

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**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	Capital Projects Funds		Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Streets	Barton / Colton Bridge		
ASSETS				
Cash and investments	\$ 31,826	\$ -	\$ 31,826	\$ 2,598,168
Interest receivable	-	-	-	2,109
Accrued revenue	-	43,800	43,800	53,098
Due from other funds	-	-	-	484,073
Due from other governments	-	-	-	76,628
Advances to other funds	-	-	-	168,205
Loans receivable	-	-	-	84,087
Notes receivable	-	-	-	688,600
Property held for resale	-	-	-	640,166
	<u>-\$ 31,826</u>	<u>\$ 43,800</u>	<u>\$ 75,626</u>	<u>\$ 4,795,134</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 1,500	\$ 1,500	\$ 21,566
Accrued liabilities	-	-	-	4,782
Due to other funds	-	29,616	29,616	83,550
Due to other governments	-	-	-	21,165
Deferred revenue	-	43,800	43,800	127,887
Refundable deposits	-	-	-	4,663
	<u>-</u>	<u>74,916</u>	<u>74,916</u>	<u>263,613</u>
Fund balances:				
Restricted for:				
Public works	31,826	-	31,826	1,698,825
Low-mod income housing	-	-	-	2,454,480
Community development	-	-	-	444,396
Unassigned	-	(31,116)	(31,116)	(66,180)
	<u>31,826</u>	<u>(31,116)</u>	<u>710</u>	<u>4,531,521</u>
Total fund balances (deficit)	<u>31,826</u>	<u>(31,116)</u>	<u>710</u>	<u>4,531,521</u>
	<u>\$ 31,826</u>	<u>\$ 43,800</u>	<u>\$ 75,626</u>	<u>\$ 4,795,134</u>
Total liabilities and fund balances	<u>\$ 31,826</u>	<u>\$ 43,800</u>	<u>\$ 75,626</u>	<u>\$ 4,795,134</u>

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2011

	Special Revenue Funds				
	Street Improvement	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	100,000	14,151
Fines and forfeitures	-	-	-	-	-
Use of money and property	4,446	249	881	95	219
Developer fees	463,540	2,234	7,241	-	-
Other	-	-	-	-	-
Total revenues	467,986	2,483	8,122	100,095	14,370
EXPENDITURES					
Current:					
Public safety	-	-	-	99,595	-
Public works	-	-	-	-	32,549
Economic development	-	-	-	-	-
Capital outlay:					
Project improvement costs	-	-	-	-	-
Total expenditures	-	-	-	99,595	32,549
Excess (deficiency) of revenues over (under) expenditures	467,986	2,483	8,122	500	(18,179)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(13,746)	-	-	(500)	(1,627)
Total other financing sources (uses)	(13,746)	-	-	(500)	(1,627)
Net change in fund balances	454,240	2,483	8,122	-	(19,806)
Fund balances (deficit) - beginning, as restated	839,911	64,419	228,170	-	74,016
Fund balances (deficit) - ending	<u>\$ 1,294,151</u>	<u>\$ 66,902</u>	<u>\$ 236,292</u>	<u>\$ -</u>	<u>\$ 54,210</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	CDBG	Terrace Pines Landscape and Lighting District	CRA Low Income Housing	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,301,246	\$ 1,301,246
320,721	-	-	316,680	252,468	13,084	-	1,017,104
-	80,517	-	-	-	240	-	80,757
180	(126)	785	600	-	-	6,175	13,504
-	-	1,776	-	-	-	-	474,791
-	-	-	-	-	-	-	-
<u>320,901</u>	<u>80,391</u>	<u>2,561</u>	<u>317,280</u>	<u>252,468</u>	<u>13,324</u>	<u>1,307,421</u>	<u>2,887,402</u>
-	63,405	-	-	-	-	-	163,000
308,916	-	-	70,000	7,550	23,034	-	442,049
-	-	-	-	-	-	493,352	493,352
-	-	-	-	-	-	132,181	132,181
<u>308,916</u>	<u>63,405</u>	<u>-</u>	<u>70,000</u>	<u>7,550</u>	<u>23,034</u>	<u>625,533</u>	<u>1,230,582</u>
<u>11,985</u>	<u>16,986</u>	<u>2,561</u>	<u>247,280</u>	<u>244,918</u>	<u>(9,710)</u>	<u>681,888</u>	<u>1,656,820</u>
38,836	-	-	-	-	-	887	39,723
(43,514)	(4,525)	-	(195,218)	(252,469)	(3,752)	(619,301)	(1,134,652)
<u>(4,678)</u>	<u>(4,525)</u>	<u>-</u>	<u>(195,218)</u>	<u>(252,469)</u>	<u>(3,752)</u>	<u>(618,414)</u>	<u>(1,094,929)</u>
7,307	12,461	2,561	52,062	(7,551)	(13,462)	63,474	561,891
81,304	(39,974)	205,543	106,093	-	18,432	2,391,006	3,968,920
<u>\$ 88,611</u>	<u>\$ (27,513)</u>	<u>\$ 208,104</u>	<u>\$ 158,155</u>	<u>\$ (7,551)</u>	<u>\$ 4,970</u>	<u>\$ 2,454,480</u>	<u>\$ 4,530,811</u>

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2011

	<u>Capital Projects Funds</u>		Total Capital Projects Funds	Total Nonmajor Governmental Funds
	<u>Streets</u>	Barton/ Colton Bridge		
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 1,301,246
Intergovernmental	-	-	-	1,017,104
Fines and forfeitures	-	-	-	80,757
Use of money and property	-	-	-	13,504
Developer fees	-	-	-	474,791
Other	<u>118,572</u>	<u>-</u>	<u>118,572</u>	<u>118,572</u>
Total revenues	<u>118,572</u>	<u>-</u>	<u>118,572</u>	<u>3,005,974</u>
EXPENDITURES				
Current:				
Public safety	-	-	-	163,000
Public works	396,687	26,583	423,270	865,319
Economic development	-	-	-	493,352
Capital outlay:				
Project improvement costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,181</u>
Total expenditures	<u>396,687</u>	<u>26,583</u>	<u>423,270</u>	<u>1,653,852</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(278,115)</u>	<u>(26,583)</u>	<u>(304,698)</u>	<u>1,352,122</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	309,941	-	309,941	349,664
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,134,652)</u>
Total other financing sources (uses)	<u>309,941</u>	<u>-</u>	<u>309,941</u>	<u>(784,988)</u>
Net change in fund balances	31,826	(26,583)	5,243	567,134
Fund balances (deficit) - beginning, as restated	<u>-</u>	<u>(4,533)</u>	<u>(4,533)</u>	<u>3,964,387</u>
Fund balances (deficit) - ending	<u>\$ 31,826</u>	<u>\$ (31,116)</u>	<u>\$ 710</u>	<u>\$ 4,531,521</u>