

CITY OF GRAND TERRACE, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Grand Terrace, California

Report on Financial Statements

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 City of Grand Terrace, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the Honorable Mayor and Members of the City Council
City of Grand Terrace, California

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, California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



To the Honorable Mayor and Members of the City Council
City of Grand Terrace, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 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* in considering the City's internal control over financial reporting and compliance.

Lance, Solt & Loughard, LLP

Brea, California
December 29, 2014

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Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the City of Grand Terrace provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. The information presented herein should be considered in conjunction with the City's financial statements identified in the accompanying table of contents.

Financial Highlights

- The assets of the City of Grand Terrace exceeded its liabilities at June 30, 2014, by \$23.6 million (net position). Of this amount \$3.1 million (unrestricted) may be used to meet the City's on-going obligations to citizens and creditors.
- The City's net position increased by \$1.3 million from the previous fiscal year. The transfer of Pico Park by grant deed from the Successor Agency to the City of Grand Terrace accounts for \$0.4 million of this increase.
- As of June 30, 2014, the City of Grand Terrace's governmental funds had reported combined ending fund balances of \$6.2 million, an increase of \$0.5 million. Of this total, approximately \$4.5 million, or 72.0% of the total fund balance, are either non-spendable or restricted due to the nature of the restriction.
- The total debt of the City showed a net decrease of \$0.29 million. The City's Other Post Employment Benefits (OPEB) Liability increased by \$0.26 million, while the City's Capital Lease obligation, California Joint Powers Insurance Authority (CJPIA) Retrospective Liability and Compensated Absences Liability decreased by \$0.18 million, \$0.21 million and \$0.15 million respectively.
- The General Fund had a year-end fund balance of \$1.9 million. This was an increase of \$0.4 million and an increase of 29.7% over Fiscal Year (FY) 2012- 13.

Using the Accompanying Financial Statements

Included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements explain 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 explain 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 provide additional explanatory information regarding the financial statements, as well as 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 Position 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 position and changes in net position that transpired during the fiscal year. The City's net position - 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 position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, however, should also be considered 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 Position and the Statement of Activities are divided into two types 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 fees for services to customers and records related such that all costs of services are accounted for in this fund.

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, the City establishes many other funds to help it control and manage financial resources for particular purposes or to demonstrate that it is meeting oversight responsibilities for using certain taxes, grants, or other money. The City's two types 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 remaining 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 to determine whether there are greater 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 Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities reported in the government-wide statements, but provides more detail and additional information, such as cash flows, for the proprietary fund. The City does 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. These activities are excluded 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 position may serve over time as a useful indicator of a government's financial position. At June 30, 2014, net position for the City of Grand Terrace was \$23,596,234; compared to net position of \$22,340,363 at June 30, 2013.

A summary of the government-wide Statement of Net Position at June 30, 2014 and June 30, 2013, are as follows:

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	7,933,432	9,285,442	2,629,192	2,589,325	10,562,624	11,874,767
Capital assets, net	12,345,148	12,181,837	5,062,548	5,151,118	17,407,696	17,332,955
Total assets	20,278,580	21,467,279	7,691,740	7,740,443	27,970,320	29,207,722
Other liabilities	1,226,028	3,639,478	505,350	510,509	1,731,378	4,149,987
Long-term liabilities	2,642,708	2,717,372	-	-	2,642,708	2,717,372
Total liabilities	3,868,736	6,356,850	505,350	510,509	4,374,086	6,867,359
Net investment in capital assets	10,934,663	10,590,137	5,062,548	5,151,118	15,997,211	15,741,255
Restricted	4,499,227	4,287,451	-	-	4,499,227	4,287,451
Unrestricted	975,954	232,841	2,123,842	2,078,816	3,099,796	2,311,657
Total net position	\$ 16,409,844	\$ 15,110,429	\$ 7,186,390	\$ 7,229,934	\$ 23,596,234	\$ 22,340,363

\$15,997,211 (67.8%) of the net position reflects the City's investment in capital assets, less any related debt used to acquire those assets that are still outstanding. Since these assets are used to provide services to the citizens they are not available for future spending. An additional \$4,499,227 represents resources that are subject to external restrictions on how they may be used.

A summary of the government-wide Statement of Activities for the year ended June 30, 2014 and 2013, are as follows:

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues and transfers						
Program revenues:						
Charges for services	1,843,798	1,535,255	1,533,755	1,653,497	3,377,553	3,188,752
Operating contributions and grants	418,608	1,385,675	-	-	418,608	1,385,675
Capital contributions and grants	29,447	75,804	-	-	29,447	75,804
General revenues:						
Property tax	3,257,105	2,298,949	-	-	3,257,105	2,298,949
Sales tax	1,359,930	890,016	-	-	1,359,930	890,016
Motor vehicle in lieu	-	5,395	-	-	-	5,395
Other taxes	504,125	812,951	-	-	504,125	812,951
Sales of property	24,971	19,643	2,214	-	27,185	19,643
Other revenues	81,426	219,044	-	4,987	81,426	224,031
Transfers	-	155,878	-	(155,878)	-	-
Total revenues and transfers	7,519,410	7,398,610	1,535,969	1,502,606	9,055,379	8,901,216
Expenses						
General government	1,315,202	1,553,552	-	-	1,315,202	1,553,552
Public safety	1,824,976	1,845,632	-	-	1,824,976	1,845,632
Public works	1,478,267	1,262,693	-	-	1,478,267	1,262,693
Economic development	5,426	10,592	-	-	5,426	10,592
Cultural and recreation	1,847,658	1,426,017	-	-	1,847,658	1,426,017
Interest on long-term debt	70,455	66,232	-	-	70,455	66,232
Waste water disposal	1,579,513	-	1,579,513	1,423,639	3,159,026	1,423,639
Total Expenses	8,121,497	6,164,718	1,579,513	1,423,639	9,701,010	7,588,357
Extraordinary item						
Loss on capital lease denied by DOF	-	(1,631,318)	-	-	-	(1,631,318)
Gain on asset transfers denied by DOF	438,680	-	-	-	438,680	-
Change in net position	1,416,106	(397,426)	(43,544)	78,967	1,372,562	(318,459)
Beginning net position	15,110,429	15,507,855	7,229,934	7,150,967	22,340,363	22,658,822
Restatement of Net Position	(116,691)	-	-	-	(116,691)	-
Ending net position	\$ 16,409,844	\$ 15,110,429	\$ 7,186,390	\$ 7,229,934	\$ 23,596,234	\$ 22,340,363

The increase or decrease in net position can provide an indication as to whether the overall financial position of the City improved or worsened during the year. From operations, total net position for the City increased by \$1,372,562 during the fiscal year. Taken separately, the net position of governmental activities increased by \$1,416,106 while the net position of business-type activities decreased by \$43,544. Total expenses of \$8,121,497 were offset by total revenues of \$9,055,379. 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.

After the deduction of capitalized assets, the next largest component in changes to net position is the actual increase or decrease in fund balances resulting from operations. For governmental funds there was a net increase of \$490,264. Of this amount, a net increase of \$222,058 is attributable to the nonmajor funds, a net decrease of \$202,112 to Capital Projects, a net decrease of \$10,263 to the Child Care Center, a net decrease of \$100 to the Housing Authority, a net increase of \$37,498 to the Street Improvement Fund, with the difference being a net increase to the General Fund of \$443,183.

Interest on long-term debt expenses decreased by \$4,223 or 6 percent compared to the prior year.

The \$70,455 in long-term debt interest charged to the General Fund during FY 2013- 14, was for the Zion Bank Capital lease.

Extraordinary item gains totaling \$438,680 is due to the gain on asset transfers from the Successor Agency to the City approved by the Department of Finance.

Governmental Activities

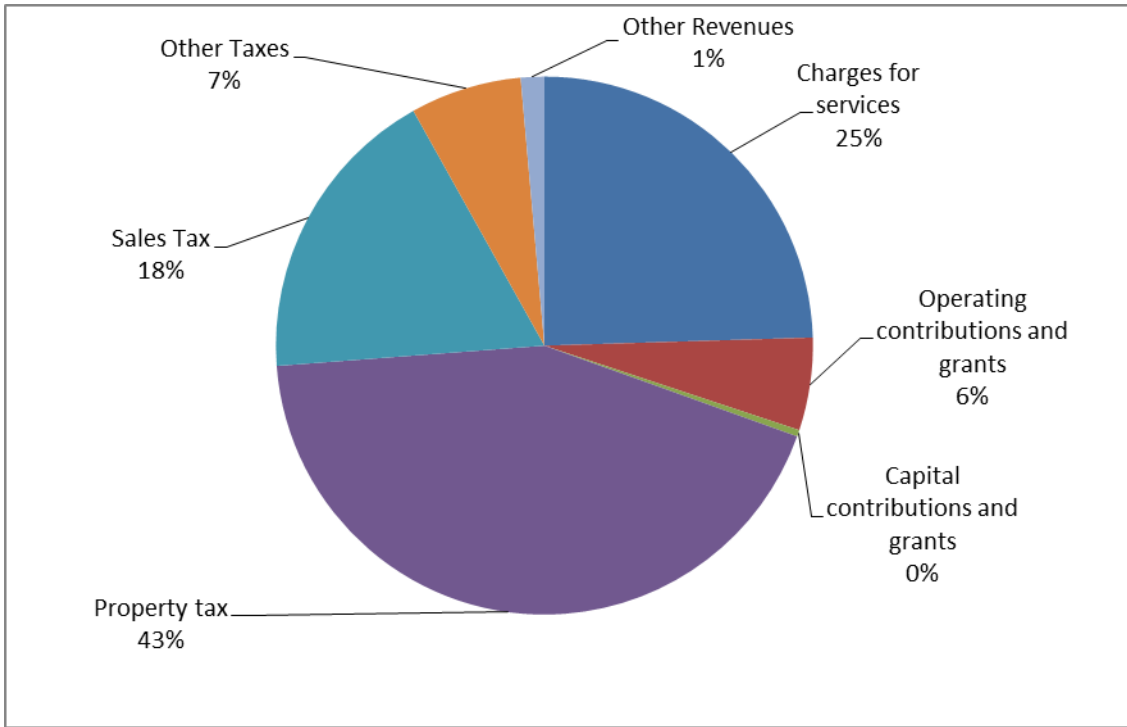
The following table shows the cost of each of the City’s major programs and their net cost after subtracting fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City taxpayers by each of the programs.

Net Cost of Governmental Activities

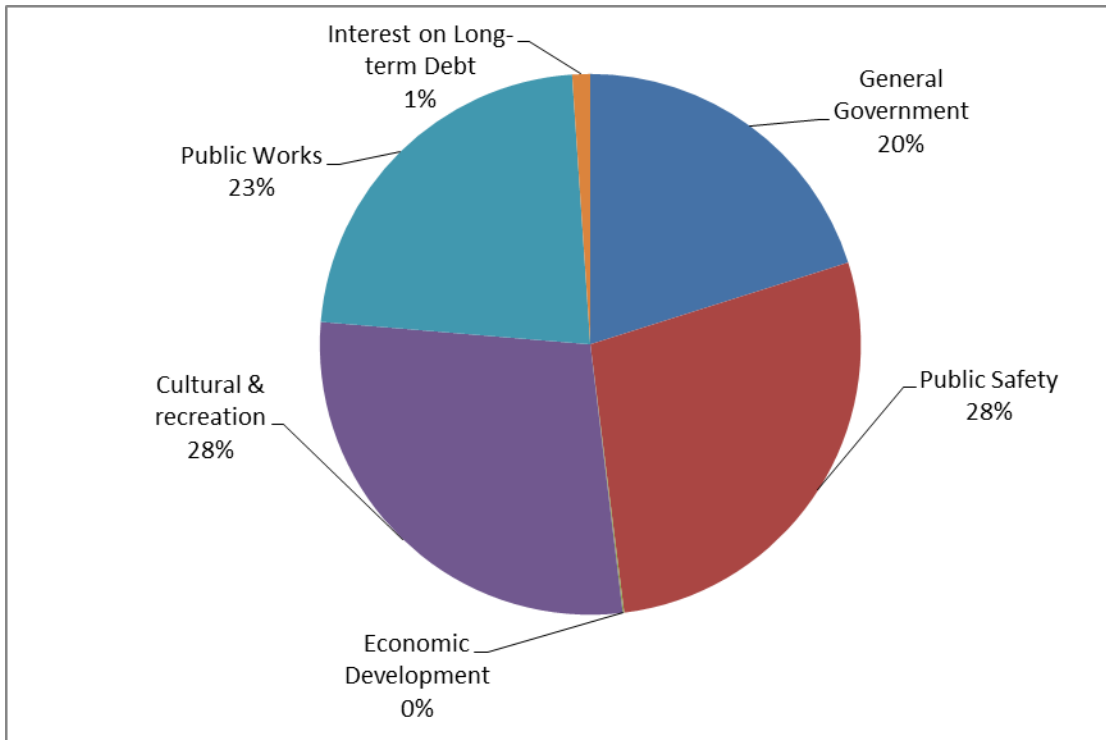
	2014		2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,315,202	\$ 1,158,744	\$ 1,553,552	\$ 1,518,301
Public safety	1,824,976	1,497,644	1,845,632	679,777
Public works	1,478,267	956,413	1,262,693	711,608
Economic development	5,426	5,426	10,592	(107,811)
Cultural and recreation	1,847,658	561,449	1,426,017	299,877
Interest on long-term debt	70,455	70,455	66,232	66,232
Total	\$ 6,541,984	\$ 4,250,131	\$ 6,164,718	\$ 3,167,984

This table shows the cost of all governmental activities this year was \$6,541,984. General tax dollars paid for approximately 65 percent of this cost. Fees, grants and contributions funded the balance of the cost of governmental activities.

Revenues by Source - Governmental Activities \$7,519,410



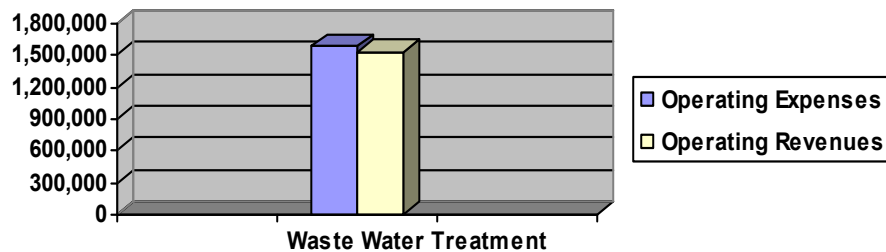
Expenses by Function - Governmental Activities - \$6,541,984



Business-Type Activity

Total revenues of the City's business-type activities, which consist only of the Waste Water Disposal Fund, were \$1,535,969. Revenues increased by \$33,363 or 2.0 percent in FY 2013-14, from \$1,502,606 in FY 2012-13. Operating expenses compared to the previous fiscal year increased \$155,874 (or 10.9 percent), from \$1,423,639 in FY 2012-13 - to \$1,579,513 in FY 2013-14. The main reason for this increase in expenses is the change in the treatment of overhead cost allocation charges (\$158,723), which were considered as operating expenses in FY 2013-14, as opposed to being considered as transfers out, which was the case in previous years. The cost of waste water disposal by the City of Colton (system operator) amounted to \$1,182,000 or 83.0 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, the fund balance of the General Fund increased \$443,183 to \$1,936,964 from a fund balance of \$1,493,781 at June 30, 2013. Total fund balance in all Governmental Funds was \$6,243,867.

General Fund Revenues and Expenditures amounted to:

	2013-14	2012-13	Increase (Decrease) in Fund Balance
Revenues	\$ 5,286,772	\$ 4,213,649	\$ 1,073,123
Expenditures	(4,761,050)	(3,883,675)	(877,375)
Other Sources (Uses)	(82,539)	376,847	(459,386)
Net Change in Fund Balance	443,183	706,821	(263,638)
Beginning Fund Balance, as restated	1,493,781	786,960	706,821
Ending Fund Balance	\$ 1,936,964	\$ 1,493,781	\$ 443,183

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 \$443,183. Total fund revenues increased by \$1,073,123 or 20.3 percent from FY 2012-13. This increase in total general fund revenues is attributable mainly to the increase in property tax revenues. Fines and forfeitures had a 4.3 percent share in the total revenue increase of the General Fund.
- Property taxes received increased by 41.2 percent from \$2,298,949 to \$3,245,294. This increase in property tax is attributable to the City's share of excess revenue distribution as a result of the Community Redevelopment Agency (CRA) dissolution totaling \$887,882 during FY 2013-14, of which \$616,484 is directly attributable to the accelerated loan repayment made by the General Fund to the Successor Agency.
- Sales tax and Sales tax-in-lieu decreased by 1.3 percent from \$971,549 to \$958,648.
- Charges for service, including licenses and permits in FY 2013-14 stayed at nearly the same level as FY 2012-13, decreasing by only \$7,090 or 0.9 percent.
- Fines and forfeitures had a net increase of \$181,043 from \$40,613 in FY 2012-13, to \$221,656 in FY 2013-14. The following one-time revenue items mainly contributed to the increase in revenues in this category: Workers' Compensation rebate on the Sheriff's Contract of \$112,054 and claims, judgments & settlements of \$54,323.
- The overall operating expenditures of the General Fund increased by a net 22.6 percent over the prior year - from \$3.9 million to \$4.8 million. This significant increase was attributable to an accelerated loan payment of \$1.09 million made by the General Fund to Successor Agency to repay previous loans made from the CRA to the City's General Fund. (The repayment was made to the County Auditor-Controller for subsequent distribution to the various taxing entities.) Offsetting this large expenditure were cost savings in various areas attributed to the City's ongoing cost reduction and control measures including continuation of a 10 percent employee salary reduction implemented via work furlough, elimination and deferral of some employee benefits, deferral of merit increases, and reallocation of some employee salaries to other funds.
- Of the total \$5,237,211 in General fund operating expenditures (before negative \$476,161 in overhead cost allocation charges), total general government expenditures represented 48.9% percent, 20.8 percent of which was a direct result of the accelerated loan payment made by the General Fund to the Successor Agency. Public works expenditures represented 13.6 percent and public safety expenditures represented 29.3 percent. The other 8.2 percent represented expenditures relating to cultural & recreation and debt service payments.

Other major governmental funds include the Street Improvement Fund, the Housing Authority Fund, the Child Care Center Fund, and the Capital Projects Fund.

The Street Improvement Fund had a net change of \$37,498 during the fiscal year.

The fund balance of the Housing Authority Fund decreased by \$100 during FY 2013- 14. This fund accounts for the housing assets as a result of the dissolution of community redevelopment agency of the City.

The Child Care Center Fund ended the fiscal year with a net change of (\$10,263), while the Capital Projects Fund had a net change of (\$202,112) at June 30, 2014.

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.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. In these cases, the City has a fiduciary responsibility and is acting as trustee. The Statement of Fiduciary Net Position, included in the Basic Financial Statements, separately reports all of the City's fiduciary activities. The City's fiduciary activities are reported in separate statements of fiduciary net position and statement of changes in fiduciary net position (Private Purpose Trust Fund- Successor Agency of the Former RDA only). Fiduciary funds are not reflected in the government- wide financial statements because the resources of those funds are not available to support the City's own programs. However, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes

Capital Assets

As of June 30, 2014, the City had invested \$17,332,955 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. The City is exempt by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 from including the valuation of City infrastructure developed prior to the implementation of GASB Statement No. 34.

**Capital Assets
(Net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,177,069	\$ 2,177,069	\$ -	\$ -	\$ 2,177,069	\$ 2,177,069
Buildings	3,369,131	3,524,732	-	-	3,369,131	3,524,732
Improvements	1,942,463	1,732,925	130,637	139,065	2,073,100	1,871,990
Equipment	178,152	156,470	-	-	178,152	156,470
Vehicles	63,673	74,644	-	-	63,673	74,644
Infrastructure	3,017,842	3,111,569	-	-	3,017,842	3,111,569
Sewer mains	-	-	2,685,679	2,730,380	2,685,679	2,730,380
Sewer laterals	-	-	1,349,851	1,370,861	1,349,851	1,370,861
Sewer manholes	-	-	896,381	910,812	896,381	910,812
Construction in progress	1,596,818	1,404,428	-	-	1,596,818	1,404,428
Total	\$ 12,345,148	\$ 12,181,837	\$ 5,062,548	\$ 5,151,118	\$ 17,407,696	\$ 17,332,955

Long-Term Debt

At the end of the current fiscal year, the City had debt outstanding of \$2,642,708. Of this amount, \$1,410,485 is owed to Zions National Bank for the Civic Center facility, and \$1,232,223 is comprised of other debt such as OPEB obligations and compensated absences payable. Of the total outstanding debt, \$215,476 is due and payable within one year.

**Outstanding Debt
Governmental Activities**

	2014	2013
Leases Payable -Zions National Bank	\$ 1,410,485	\$ 1,591,700
OPEB obligation	1,125,477	863,986
CJPIA Retrospective Liability	-	212,702
Compensated absences	106,746	261,686
Total outstanding debt	\$ 2,642,708	\$ 2,930,074

The City's total debt decreased by \$287,366 (9.8 percent) during the current fiscal year. The temporary deferral of the CJPIA retrospective liability owed to the Authority by its members, resulted in the City having no retrospective deposit due at June 30, 2014. The City adopted GASB Statement No. 45 and recognizes a liability of \$1,125,477 for retiree health benefits.

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

Economic Factors and Outlook for Future Years

Although the focus of this Annual Report is on the economic condition of the City as the fiscal year ended June 30, 2014, it is important for the City's financial management to report on current issues affecting the City and their economic impact on FY 2013-14, and future years.

Grand Terrace was incorporated in 1978 despite reservations of the San Bernardino Local Agency Formation Commission regarding the City's ability to sustain itself financially over the long term. In 1980, Grand Terrace formed a Community Redevelopment Agency (CRA), incorporating all of the City's 3.6 square miles into the CRA's one redevelopment project area. For the most part, from 1980 until the dissolution of all redevelopment agencies by the state Legislature in 2011, the City was able to survive on a combination of General Fund and redevelopment tax increment revenues. After the loss of redevelopment revenues, new light was shed on the structural imbalance between revenues and expenses contained in the City's General Fund. Since the dissolution of redevelopment, the City has struggled to remain solvent and has implemented many cost reduction and containment strategies, including reducing City Hall staff by approximately 67%, contracting out additional functions, such as Finance, Information Technology and park maintenance (in addition to law enforcement, legal services and animal services). With the slowly improving economy, a structurally-balanced budget for FY 2014-15, the adoption of a Vision and Strategic Plan, and a new focus on economic development, there is some hope the City can fiscally sustain itself, albeit at a much reduced organizational footprint than in years past.

Grand Terrace has a current population of approximately 12,285 and remains one of the smallest of the County of San Bernardino's twenty-four cities, with only the cities of Big Bear Lake and Needles being smaller than Grand Terrace. The City is geographically located in the Inland Empire (Riverside and San Bernardino counties) and experienced the full impact of the Great Recession along with the region as a whole. While largely a bedroom community, recent commercial development, new commercial development opportunities and a number of economic indicators have provided City Officials renewed optimism regarding the economic future of the City. Moreover, the City was able to settle litigation with the City of Colton, extricating itself from the wastewater business during a time when it was least able to carry out this function from staffing and organizational competency standpoints. As a result the City was provided a one-time infusion to its General Fund of \$400,000 and annual lease payments to the General Fund of \$300,000, and rising in proportion to future rate increases.

As a result of the improving economy, the completion of two national tenant drug stores and the retention, with brand new facilities, of the region's largest grocery store chain, a national auto parts store and the City's most successful full-service, sit-down restaurant, sales tax revenues to the City increased in 2013 by 32% over 2012. While the results are not yet in for 2014, the opening of the world's largest quick service restaurant in December 2014, and the anticipated development of the world's largest coffee house chain at a key traffic intersection in 2015, bodes well for continued improvement in this vital area. While the above developments are significant, perhaps the most significant project in the history of the City will be considered by the Grand Terrace City Council at its first meeting in 2015.

The City owns approximately 57-acres of undeveloped property along the I-215 freeway in the southwest area of the community and has been engaged in discussions with the Inland Empire's most significant development entity (and one of its oldest) to bring about a significant development project on the property in question. If the discussions result in an approved agreement for exclusive negotiations and, ultimately, a development agreement providing for a

significant mixed-use project, the project will certainly become the economic engine of the City. Furthermore, if adjacent, and nearby, properties are acquired by the development entity as envisioned, nearly 100-acres would be available for commercial, open space, entertainment, residential and industrial uses. With the right mix of tenants, the project could attract patrons from all of the cities of Grand Terrace, Colton, Loma Linda and the unincorporated community of Highgrove, large portions of the cities of San Bernardino, Redlands and Rialto and portions of northeast Riverside. With the newly-designed, and environmentally cleared, Barton Road Interchange, the project will have the potential to become a regional attraction for years to come.

The residential sector of Grand Terrace's local economy has shown recent signs of life as well. Planning Commission and City Council approvals were recently granted to a 17-lot single-family detached subdivision; ground-breaking ceremonies were recently conducted for the City's newest 14-lot single-family attached residential development; and, another 20-unit multi-family project is working its way through the development review and approval process. Grand Terrace's Median Home Value of \$292,600 was expected to increase by 11.9% in 2014. With the significant job creation potential of the Southwest Corridor Project discussed above, upward pressure on existing home values will continue to be exerted until some equilibrium is reached between supply and demand. Given the limited, undeveloped residentially zoned property in the City—The City's 2020 and Build-out (2035) Growth Projections indicate approximately 97 single and multi-family units can be built--there could be insufficient housing available when the Southwest Corridor project begins to pick up steam in the economic marketplace. This is why the residential component of the Southwest Corridor Project takes on added importance as, more than likely, additional housing will be needed as more jobs and commerce are created by the Project in the City.

In May 2014, the City Council adopted its 2030 Vision and 2020 Strategic Plan. This is the City's first ever adopted Vision. It contains five, specific goals, with Goal #1 "Ensuring our Fiscal Viability" underscored by Goal #3 "Promote Economic Development". The City's Five-Year Financial Analysis clearly shows the fiscal challenges awaiting the City in all of the remaining fiscal years covered by the Analysis and despite the development and approval of a structurally-balanced budget for FY 2014-15. Generally, economic opportunities do not align well with economic need, but the City has been presented an economic opportunity that, if fully exploited, could address most, if not all, of its economic needs for the reasonably foreseeable future. Steep fiscal challenges wait while the Southwest Corridor Project is being built, placed into service and begins to generate much needed revenues to the City. As such, continued budget discipline is required of Council and staff. Doing so will place Grand Terrace in the best possible position to benefit from today's economic opportunities that come into fruition tomorrow. Creating employment opportunities and job growth is important to the continued development of the community and creating the proper job/housing balance is key to Grand Terrace's economic success as a community and to the development of the City's tax revenue base in the future.

Contacting the City's Financial Management

This financial report is designed to provide the City's residents, businesses, customers, investors, creditors and other stakeholders with a general overview of the City's finances and to show the City's accountability for the money it receives. If there are questions about this report or if additional financial information is needed, please 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.grandterrace-ca.gov>.

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CITY OF GRAND TERRACE

STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 5,108,812	\$ 2,562,779	\$ 7,671,591
Receivables:			
Accounts	121,585	66,413	187,998
Notes and loans	748,492	-	748,492
Accrued interest	140	-	140
Due from other governments	1,117,913	-	1,117,913
Land held for resale	640,166	-	640,166
Retrospective deposit refund	196,324	-	196,324
Capital assets not being depreciated	3,773,887	-	3,773,887
Capital assets, net of depreciation	8,571,261	5,062,548	13,633,809
Total Assets	20,278,580	7,691,740	27,970,320
Liabilities:			
Accounts payable	181,487	3,720	185,207
Accrued liabilities	71,365	995	72,360
Accrued interest	22,076	-	22,076
Deposits payable	4,663	6,875	11,538
Due to other governments	946,437	493,760	1,440,197
Noncurrent liabilities:			
Due within one year	215,476	-	215,476
Due in more than one year	2,427,232	-	2,427,232
Total Liabilities	3,868,736	505,350	4,374,086
Net Position:			
Net investment in capital assets	10,934,663	5,062,548	15,997,211
Restricted for:			
Community development projects	2,391,541	-	2,391,541
Public works	2,091,103	-	2,091,103
Child care	16,583	-	16,583
Unrestricted	975,954	2,123,842	3,099,796
Total Net Position	\$ 16,409,844	\$ 7,186,390	\$ 23,596,234

CITY OF GRAND TERRACE

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 1,315,202	\$ 156,458	\$ -	\$ -
Public safety	1,824,976	105,963	221,369	-
Economic development	5,426	-	-	-
Cultural and recreation	1,847,658	1,286,209	-	-
Public works	1,478,267	295,168	197,239	29,447
Interest on long-term debt	70,455	-	-	-
Total Governmental Activities	6,541,984	1,843,798	418,608	29,447
Business-Type Activities:				
Waste Water Disposal	1,579,513	1,533,755	-	-
Total Business-Type Activities	1,579,513	1,533,755	-	-
Total Primary Government	\$ 8,121,497	\$ 3,377,553	\$ 418,608	\$ 29,447

General Revenues:

Taxes:

Property taxes, levied for general purpose

Sales taxes

Franchise taxes

Business licenses taxes

Use of money and property

Other

Extraordinary gain/(loss)

Total General Revenues and Extraordinary Items

Change in Net Position

Net Position at Beginning of Year

Restatement of Net Position

Net Position at End of Year

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,158,744)	\$ -	\$ (1,158,744)
(1,497,644)	-	(1,497,644)
(5,426)	-	(5,426)
(561,449)	-	(561,449)
(956,413)	-	(956,413)
(70,455)	-	(70,455)
(4,250,131)	-	(4,250,131)
-	(45,758)	(45,758)
-	(45,758)	(45,758)
(4,250,131)	(45,758)	(4,295,889)
3,257,105	-	3,257,105
1,359,930	-	1,359,930
427,914	-	427,914
76,211	-	76,211
24,971	2,214	27,185
81,426	-	81,426
438,680	-	438,680
5,666,237	2,214	5,668,451
1,416,106	(43,544)	1,372,562
15,110,429	7,229,934	22,340,363
(116,691)	-	(116,691)
\$ 16,409,844	\$ 7,186,390	\$ 23,596,234

CITY OF GRAND TERRACE

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Special Revenue Funds			
	General	Street Improvement	Housing Authority	Child Care Center
Assets:				
Cash and investments	\$ 2,651,332	\$ 1,074,698	\$ 22,131	\$ 19,201
Interest receivable	140	-	-	-
Accrued revenue	45,241	-	-	27,617
Due from other funds	296,513	-	-	-
Due from other governments	217,216	-	448,636	-
Advances to other funds	-	-	168,205	-
Notes and loans receivable	364	-	748,128	-
Property held for resale	-	-	640,166	-
Total Assets	\$ 3,210,806	\$ 1,074,698	\$ 2,027,266	\$ 46,818
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable	\$ 135,130	\$ -	\$ -	\$ 2,893
Accrued liabilities	45,235	-	-	24,329
Due to other funds	-	-	-	-
Due to other governments	925,272	-	21,165	-
Advances from other funds	168,205	-	-	-
Refundable deposits	-	4,663	-	-
Total Liabilities	1,273,842	4,663	21,165	27,222
Deferred Inflows of Resources:				
Unavailable revenues	-	-	79,128	3,013
Total Deferred Inflows of Resources	-	-	79,128	3,013
Fund Balances:				
Nonspendable:				
Advances to other funds	-	-	168,205	-
Notes and loans	364	-	748,128	-
Property held for resale	-	-	640,166	-
Restricted for:				
Community development	-	-	370,474	-
Public works	-	1,070,035	-	-
Child Care	-	-	-	16,583
Committed to:				
Committed to contingencies	600,000	-	-	-
Committed to equipment replacement	200,000	-	-	-
Committed to budget stabilization	402,091	-	-	-
Unassigned	734,509	-	-	-
Total Fund Balances	1,936,964	1,070,035	1,926,973	16,583
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,210,806	\$ 1,074,698	\$ 2,027,266	\$ 46,818

CITY OF GRAND TERRACE

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments	\$ 413	\$ 1,341,037	\$ 5,108,812
Interest receivable	-	-	140
Accrued revenue	-	48,727	121,585
Due from other funds	-	20,437	316,950
Due from other governments	338,803	113,258	1,117,913
Advances to other funds	-	-	168,205
Notes and loans receivable	-	-	748,492
Property held for resale	-	-	640,166
Total Assets	\$ 339,216	\$ 1,523,459	\$ 8,222,263
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 27,879	\$ 15,585	\$ 181,487
Accrued liabilities	-	1,801	71,365
Due to other funds	296,165	20,785	316,950
Due to other governments	-	-	946,437
Advances from other funds	-	-	168,205
Refundable deposits	-	-	4,663
Total Liabilities	324,044	38,171	1,689,107
Deferred Inflows of Resources:			
Unavailable revenues	207,148	-	289,289
Total Deferred Inflows of Resources	207,148	-	289,289
Fund Balances:			
Nonspendable:			
Advances to other funds	-	-	168,205
Notes and loans	-	-	748,492
Property held for resale	-	-	640,166
Restricted for:			
Community development	-	464,568	835,042
Public works	-	1,021,068	2,091,103
Child Care	-	-	16,583
Committed to:			
Committed to contingencies	-	-	600,000
Committed to equipment replacement	-	-	200,000
Committed to budget stabilization	-	-	402,091
Unassigned	(191,976)	(348)	542,185
Total Fund Balances	(191,976)	1,485,288	6,243,867
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 339,216	\$ 1,523,459	\$ 8,222,263

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CITY OF GRAND TERRACE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Fund balances of governmental funds		\$ 6,243,867
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,345,148
Some liabilities are not due and payable in the current period and therefore are not reported in funds. Those liabilities consist of:		
Lease payable	\$ (1,410,485)	
Accrued interest payable	(22,076)	
Long-term compensated absences payable	(106,746)	
OPEB Obligation	<u>(1,125,477)</u>	(2,664,784)
Retrospective deposit refund not available in the current period		196,324
Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of net position.		<u>289,289</u>
Net Position of governmental activities		<u><u>\$ 16,409,844</u></u>

CITY OF GRAND TERRACE

STATEMENTS OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			
	General	Street Improvement	Housing Authority	Child Care Center
Revenues:				
Taxes	\$ 4,203,943	\$ -	\$ -	\$ -
Intergovernmental	9,289	-	-	-
Charges for services	825,471	85,747	-	1,093,093
Use of money and property	22,065	958	22	19
Fines and forfeitures	221,656	-	-	-
Miscellaneous	4,348	-	20	975
Total Revenues	5,286,772	86,705	42	1,094,087
Expenditures:				
Current:				
General government	1,444,468	-	-	-
Public safety	1,708,441	-	-	-
Public works	840,123	49,207	-	-
Cultural and recreation	459,668	-	-	1,090,153
Debt service:				
Principal retirement	181,215	-	-	-
Interest and fiscal charges	73,634	-	-	-
Capital outlay:				
Project improvement costs	53,501	-	142	14,197
Total Expenditures	4,761,050	49,207	142	1,104,350
Excess (Deficiency) of Revenues Over (Under) Expenditures	525,722	37,498	(100)	(10,263)
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	(82,539)	-	-	-
Total Other Financing Sources (Uses)	(82,539)	-	-	-
Net Change in Fund Balances	443,183	37,498	(100)	(10,263)
Fund Balances, Beginning of Year	1,493,781	1,032,537	1,927,073	26,846
Fund Balances, End of Year	\$ 1,936,964	\$ 1,070,035	\$ 1,926,973	\$ 16,583

CITY OF GRAND TERRACE

STATEMENTS OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ -	\$ 413,092	\$ 4,617,035
Intergovernmental	-	317,048	326,337
Charges for services	-	16,050	2,020,361
Use of money and property	413	1,171	24,648
Fines and forfeitures	-	26,264	247,920
Miscellaneous	-	76,083	81,426
	<u>413</u>	<u>849,708</u>	<u>7,317,727</u>
Total Revenues			
Expenditures:			
Current:			
General government	-	-	1,444,468
Public safety	-	103,981	1,812,422
Public works	69	388,953	1,278,352
Cultural and recreation	-	-	1,549,821
Debt service:			
Principal retirement	-	-	181,215
Interest and fiscal charges	-	-	73,634
Capital outlay:			
Project improvement costs	202,456	217,255	487,551
	<u>202,525</u>	<u>710,189</u>	<u>6,827,463</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(202,112)</u>	<u>139,519</u>	<u>490,264</u>
Other Financing Sources (Uses):			
Transfers in	-	299,794	299,794
Transfers out	-	(217,255)	(299,794)
	<u>-</u>	<u>82,539</u>	<u>-</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	<u>(202,112)</u>	<u>222,058</u>	<u>490,264</u>
Fund Balances, Beginning of Year	<u>10,136</u>	<u>1,263,230</u>	<u>5,753,603</u>
Fund Balances, End of Year	<u><u>\$ (191,976)</u></u>	<u><u>\$ 1,485,288</u></u>	<u><u>\$ 6,243,867</u></u>

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CITY OF GRAND TERRACE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$	490,264
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
<p>This activity is reconciled as follows:</p>		
Cost of assets capitalized, less disposals at net book value	\$	455,023
Depreciation expense		(656,413)
		(201,390)
<p>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 position.</p>		
Principal payments on long-term debt		181,215
<p>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.</p>		
Change in OPEB obligation		(261,491)
Change in insurance payable		212,702
Change in compensated absences payable		154,940
Change in accrued interest payable on long-term debt		3,179
		109,330
Retrospective deposit refund not available in the current period		196,324
Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of activities.		201,683
Extraordinary gains and losses		438,680
Change in net position of governmental activities	\$	1,416,106

CITY OF GRAND TERRACE

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2014

	<u>Business-Type Activity</u>
	<u>Waste Water Disposal</u>
Assets:	
Current:	
Cash and investments	\$ 2,562,779
Accrued revenue	66,413
	<hr/>
Total Current Assets	2,629,192
Noncurrent:	
Capital assets:	
Sewer system	7,415,106
Less accumulated depreciation	(2,352,558)
	<hr/>
Total Noncurrent Assets	5,062,548
Total Assets	<u>\$ 7,691,740</u>
 Liabilities and Net Position	
Liabilities:	
Current:	
Accounts payable	\$ 3,720
Accrued liabilities	995
Deposits payable	6,875
Due to other governments	493,760
	<hr/>
Total Liabilities	505,350
 Net Position:	
Net investment in capital assets	5,062,548
Unrestricted	2,123,842
	<hr/>
Total Net Position	7,186,390
Total Liabilities and Net Position	<u>\$ 7,691,740</u>

CITY OF GRAND TERRACE

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Business-Type Activity</u>
	<u>Waste Water Disposal</u>
Operating Revenues:	
Charges for services	\$ 1,533,755
Total Operating Revenues	<u>1,533,755</u>
Operating Expenses:	
Personnel services	41,803
Employee benefits	22,490
Depreciation expense	88,570
Contract services	1,388,864
Repairs and maintenance	24,053
Other expenses	13,733
Total Operating Expenses	<u>1,579,513</u>
Operating Income (Loss)	<u>(45,758)</u>
Nonoperating Revenues (Expenses):	
Interest income	<u>2,214</u>
Total Nonoperating Revenues (Expenses)	<u>2,214</u>
Changes in Net Position	<u>(43,544)</u>
Net Position:	
Beginning of Year	<u>7,229,934</u>
End of Fiscal Year	<u><u>\$ 7,186,390</u></u>

CITY OF GRAND TERRACE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2014

	<u>Business-Type Activity</u>
	<u>Waste Water Disposal</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,919,989
Cash payments to suppliers	(1,431,409)
Cash paid to employees for services	(64,690)
	<u>423,890</u>
Net Cash Provided (Used) by Operating Activities	<u>423,890</u>
Cash Flows from Investing Activities:	
Interest received	2,214
	<u>2,214</u>
Net Cash Provided (Used) by Investing Activities	<u>2,214</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>426,104</u>
Cash and Cash Equivalents at Beginning of Year	2,136,675
Cash and Cash Equivalents at End of Year	<u>\$ 2,562,779</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (45,758)
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:	
Depreciation	88,570
(Increase) decrease in accounts receivable	266,134
(Increase) decrease in due from other governments	120,100
Increase (decrease) in accounts payable	(7,459)
Increase (decrease) in due to other governments	2,303
	<u>469,648</u>
Total Adjustments	<u>469,648</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 423,890</u>

CITY OF GRAND TERRACE

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2014

	<u>Agency Funds</u>	<u>Successor Agency Private Purpose Trust Fund</u>
Assets:		
Cash and investments	\$ 300,758	\$ 20,624,749
Cash and investments with fiscal agent	-	1,758,056
Receivables:		
Interest	-	3,108
Due from other governments	-	925,272
Land held for resale	-	4,842,472
Total Assets	<u>\$ 300,758</u>	<u>28,153,657</u>
Liabilities:		
Accounts payable	\$ 922	6,756
Accrued liabilities	-	3,871
Accrued interest	-	432,991
Due to other governments	-	2,215,544
Long-term liabilities:		
Due in one year	-	540,000
Due in more than one year	-	19,143,846
Due to external parties	299,836	-
Total Liabilities	<u>\$ 300,758</u>	<u>22,343,008</u>
Net Position:		
Held in trust for other purposes		<u>5,810,649</u>
Total Net Position		<u>\$ 5,810,649</u>

CITY OF GRAND TERRACE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2014

	Successor Agency Private Purpose Trust Fund
Additions:	
RPTTF distribution	\$ 1,406,775
Investment earnings	20,771
Contributions from City	1,086,857
	<hr/>
Total Additions	2,514,403
	<hr/>
Deductions:	
General	250,000
Debt service payments - interest	1,236,912
Payments of enforceable obligations	3,086,857
Other payments	49,087
	<hr/>
Total Deductions	4,622,856
	<hr/>
Extraordinary gain/(loss)	(438,680)
	<hr/>
Changes in Net Position	(2,547,133)
	<hr/>
Net Position - Beginning of the Year	8,675,843
	<hr/>
Restatements	(318,061)
	<hr/>
Net Position - Beginning of the Year, as Restated	8,357,782
	<hr/>
Net Position - End of the Year	\$ 5,810,649
	<hr/> <hr/>

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of Entity

The City of Grand Terrace (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 recreational activities, 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 a budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, component unit 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 City of Grand Terrace Public Financing Authority

The Grand Terrace Public Financing Authority (the Authority) was established on July 16, 1991, pursuant to a Joint Powers Agreement between the City of Grand Terrace and the former Community Redevelopment Agency of the City of Grand Terrace. The Authority was created to facilitate financing for public capital improvements benefiting the City and the former RDA. 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.

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

b. Government-Wide and Fund Financial Statements

The government-wide financial statements include a statement of net position 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 position 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 assessments, 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.

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 position. The statement of activities presents changes in net position. 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

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

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 Street Improvement Fund accounts for the fees used for street maintenance, right-of-way acquisition and street construction. Sources of revenue are traffic fines and forfeitures collected.
- The Child Care Center Fund accounts for the fully licensed child care program of the City, operated by experienced child care educators. The program provides a structured environment for physical, intellectual, and social development of the child.
- The Housing Authority Fund accounts for the housing assets transferred from the former redevelopment agency and Low and Moderate housing activities of the City. The fund activities are restricted to the same requirements as the former Low and Moderate Income Housing Fund of the Agency.
- The Capital Projects Fund accounts for costs of capital purchases and expenditures.

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

- The Private Purpose Trust Fund is used to account for the resources, obligations, and activities of the Successor Agency of the Redevelopment Agency of the City of Grand Terrace as directed by the Oversight Board to settle the affairs of the dissolved agency (see Note 15).
- The Agency Funds are used to account for the resources held by the City in a fiduciary capacity.

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.

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

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.

d. Other Accounting Policies

1. Receivables and Payables

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

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

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.

2. Cash and Cash Equivalents

For the 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.

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

3. 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.

4. 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.

5. Compensated Absences

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

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

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

6. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

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

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and the governmental Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position and the governmental Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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

9. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 expenditures are 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

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

unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

11. 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

12. 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 position. Bond premiums and discounts, 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.

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.

13. New Accounting Principles Adopted

In March 2012, the GASB issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The City has fully conformed to the requirements of this statement for the fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement 66, Technical Corrections – 2012 an amendment of GASB Statements No. 10 and No. 62, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for, operating lease payments that vary from a straight-line basis, the difference between the initial investment and the principal amount of a purchased loan, and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significant from a normal servicing fee rate. The City has fully conformed to the requirements of this statement for the fiscal year ending June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

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

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension plans – an amendment of GASB Statement No. 25, to improve the financial reporting requirements by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The City has fully conformed to the requirements of this statement for the fiscal year ending June 30, 2014.

14. Deficit Fund Balances

As of June 30, 2014, the following funds have deficit fund balances:

	<u>Amount</u>
Capital Projects Fund	\$ (191,976)
Capital Project/Bond Proceeds	(348)

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

15. Budget

The Barton /Colton Bridge and Capital Project/Bond Proceeds funds did not adopt a budget and therefore budgetary comparison information is not presented.

II. DETAILED NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 7,671,591
Statement of Fiduciary Net Position:	
Cash and Investments	20,925,507
Cash and Investments with Fiscal Agents	<u>1,758,056</u>
Total Cash and Investments	<u><u>\$ 30,355,154</u></u>

Cash and investments as of June 30, 2014, consist of the following:

Cash on Hand	\$ 1,035
Deposits with Financial Institutions	18,790,837
Investments	<u>11,563,282</u>
Total Cash and Investments	<u><u>\$ 30,355,154</u></u>

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 2: Cash and Investments (Continued)

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	6 years	None	None
Certificates of Deposit	7 years	None	None
Passbook Savings Accounts	8 years	30%	None
Securities Issued by Federal Agencies	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$ 50,000,000
Mutual Funds	N/A	20%	None
Pools and other Investment Structures	N/A	None	None

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 of Portfolio	Maximum Investment in One Issuer
Government Obligations	5 years	None	None
FHLB's	6 years	None	None
FHLMC's	7 years	None	None
Farm Credit Banks	8 years	30%	None
FNMA's	N/A	None	None
Financing Corp Debt Obligations	N/A	None	\$ 50,000,000
Certificates of Deposit	N/A	20%	None
Deposits fully Insured by FDIC	N/A	None	None
USAID Guaranteed Notes	N/A	None	None
Investment Agreements	N/A	None	None
Bankers Acceptances	N/A	None	None
Municipal Obligations rated Aaa	N/A	None	None
Commercial Paper rated P-1	N/A	None	None
Repurchase Agreements	N/A	None	None
Money Market Mutual Funds rated AAAM	N/A	None	None

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 2: Cash and Investments (Continued)

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.

Authorized Investment Type	Amount	12 Months or Less
Certificates of Deposit	\$ 94,000	\$ 94,000
Local Agency Investment Fund (LAIF)	5,825,368	5,825,368
Local Gov. Invest. Pool (CAMP)	3,885,858	3,885,858
Held by Trustee:		
Money Market Mutual Funds	1,758,056	1,758,056
Total	<u>\$ 11,563,282</u>	<u>\$ 11,563,282</u>

Disclosures Relating to Credit Risk

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

Authorized Investment Type	Amount	Minimum Legal Rating	Actual Rating
Certificates of Deposit	\$ 94,000	N/A	N/A
Local Agency Investment Fund (LAIF)	5,825,368	N/A	N/A
Local Gov. Invest. Pool (CAMP)	3,885,858	N/A	N/A
Held by Trustee:			
Money Market Mutual Funds	1,758,056	AAAm	AAAm/A+
Total	<u>\$ 11,563,282</u>		

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2014, 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.

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, 2014, the City had deposits with financial institutions in excess of federal depository insurance limits of \$3,629,468 and \$13,626,542 per account held in collateralized accounts for the City and Successor Agency, respectively.

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, 2014, the carrying amount (at amortized cost) of the Pool was \$64,850,840,279 and the estimated fair value of the Pool was \$64,870,214,443. The City's proportionate share of the Pool's market value (as determined by LAIF) as of June 30, 2014, was \$5,825,368. 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.

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 (CONTINUED)
JUNE 30, 2014

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, 2014, the City's share of the Pool (as determined by CAMP) is \$3,885,858. Included in the CAMP's investment portfolio are U.S. treasury notes, bonds, bills or certificates of indebtedness or other obligations of the United States, federal agency or U.S. 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, 2014, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Project Fund (1)	\$ 296,513
Nonmajor Governmental Funds	Nonmajor Governmental Funds (2)	20,437
		<u>\$ 316,950</u>

(1) The General Fund advanced funds to the Capital Project Fund for current construction in progress costs.

(2) The Facilities fund advanced funds to the Traffic Safety fund to pay for delinquent contracts fees due to Redflex Traffic Systems.

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Housing Authority Fund	General Fund	\$ 168,205
		<u>\$ 168,205</u>

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 was being treated as advances payable to the former Community Redevelopment Agency from the General Fund. Since the close of the Redevelopment Agency, the advance receivable was transferred to the Successor Agency and is shown as a due from other government in the Private Purpose Trust Fund in the amount of \$925,272. Interest on the advance accrues at an interest rate equal to the Local Agency Investment Fund yield. The advance is to be repaid as funds are available.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

Interfund transfers:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	(1) \$ 82,539
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(2) 217,255
	Total Interfund Transfers	<u>\$ 299,794</u>

(1) Transfers were made for franchise sweep fees and pavement impact fees to Gas Tax.

(2) Transfer was to fund DeBerry Street Pavement Rehabilitation capital project.

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, 2014, is \$364.

Note 5: Retrospective Deposits

Retrospective deposits and refunds are cost allocation adjustments to prior coverage periods. Some claims take many years to resolve and over time their estimated value changes. The retrospective adjustments are calculated annually and take into consideration all the changes in claim values that occurred during the most recent year. The formula is designed to adequately cover the cost of claims brought against members and to ensure the overall financial strength and security of the Authority. The formula was developed to be as equitable as possible by taking into consideration both risk exposure and claims experience of individual members. CJPIA has temporarily deferred the payment on retrospective deposits owed to the Authority by members. The payment deferral period extends until July 1, 2014, for the Liability program and July 1, 2015, for the Workers' Compensation program. Retrospective deposit payments are scheduled to resume on these dates. The October 2011, annual retrospective adjustment is included in these balances. The City at June 30, 2014, had a retrospective deposit refund in the amount of \$196,324

During the payment deferral period, members with a retrospective refund balance will receive a portion of the balance as a credit against other charges on the annual contribution invoice. The percentage to be refunded in future years will be set on an annual basis by the Executive Committee of CJPIA. Once the payment deferral period has concluded in each program, subsequent retrospective refund adjustments will be applied in full (100%) as a credit on the annual contribution invoice. More information on the CJPIA retrospective balances can be found on the CJPIA website at CJPIA.org.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 6: Capital Assets

Capital assets activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Adjusted Beginning Balance</u>	<u>Transfers From Successor Agency</u>	<u>Additions</u>	<u>Deletion</u>	<u>Ending Balance</u>
Governmental Activities:							
Capital assets, not being depreciated:							
Land	\$ 2,177,069	\$ -	\$ 2,177,069	\$ -	\$ -	\$ -	\$ 2,177,069
Construction-in-progress	1,404,428	-	1,404,428	-	192,390	-	1,596,818
Total Capital Assets, Not Being Depreciated	<u>3,581,497</u>	<u>-</u>	<u>3,581,497</u>	<u>-</u>	<u>192,390</u>	<u>-</u>	<u>3,773,887</u>
Capital assets, being depreciated:							
Buildings	6,268,981	-	6,268,981	-	-	-	6,268,981
Machinery and Equipment	804,972	-	804,972	-	45,378	-	850,350
Vehicles	529,221	-	529,221	-	-	-	529,221
Improvements other than buildings	3,937,195	-	3,937,195	470,017	-	-	4,407,212
Infrastructure	4,173,964	(83,843)	4,090,121	-	217,255	-	4,307,376
Total Capital Assets, Being Depreciated	<u>15,714,333</u>	<u>(83,843)</u>	<u>15,630,490</u>	<u>470,017</u>	<u>262,633</u>	<u>-</u>	<u>16,363,140</u>
Less accumulated depreciation:							
Buildings	2,744,249	-	2,744,249	-	155,601	-	2,899,850
Machinery and Equipment	648,502	-	648,502	-	23,696	-	672,198
Vehicles	454,577	-	454,577	-	10,971	-	465,548
Improvements other than buildings	2,204,270	-	2,204,270	31,337	229,142	-	2,464,749
Infrastructure	1,062,395	(9,864)	1,052,531	-	237,003	-	1,289,534
Total Accumulated Depreciation	<u>7,113,993</u>	<u>(9,864)</u>	<u>7,104,129</u>	<u>31,337</u>	<u>656,413</u>	<u>-</u>	<u>7,791,879</u>
Total Capital Assets, Being Depreciated, Net	<u>8,600,340</u>	<u>(73,979)</u>	<u>8,526,361</u>	<u>438,680</u>	<u>(393,780)</u>	<u>-</u>	<u>8,571,261</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,181,837</u>	<u>\$ (73,979)</u>	<u>\$ 12,107,858</u>	<u>\$ 438,680</u>	<u>\$ (201,390)</u>	<u>\$ -</u>	<u>\$ 12,345,148</u>

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

Governmental Activities:	
General government	\$ 79,721
Public safety	12,554
Public works	256,904
Economic development	5,426
Culture and recreation	301,808
Total depreciation expense - Governmental Activities	<u>\$ 656,413</u>

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 6: Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletion</u>	<u>Ending Balance</u>
<u>Business-type Activities:</u>				
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:				
Sewer mains	1,292,749	44,701	-	1,337,450
Laterals	520,082	21,010	-	541,092
Manholes	387,948	14,431	-	402,379
Improvements	63,209	8,428	-	71,637
Total Accumulated Depreciation	<u>2,263,988</u>	<u>88,570</u>	<u>-</u>	<u>2,352,558</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,151,118</u>	<u>\$ (88,570)</u>	<u>\$ -</u>	<u>\$ 5,062,548</u>

Note 7: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases					
Zions National Bank	\$ 1,591,700	\$ -	\$ 181,215	\$ 1,410,485	\$ 189,943
Total Capital Leases	<u>1,591,700</u>	<u>-</u>	<u>181,215</u>	<u>1,410,485</u>	<u>189,943</u>
OPEB Obligation	863,986	265,254	3,763	1,125,477	-
CJPIA Retrospective Liability	212,702	-	212,702	-	-
Compensated Absences	261,686	90,522	245,462	106,746	25,533
Total Long-Term Liabilities	<u>\$ 2,930,074</u>	<u>\$ 355,776</u>	<u>\$ 643,142</u>	<u>\$ 2,642,708</u>	<u>\$ 215,476</u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. The liability will be paid in future years as it becomes due by the General Fund.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7: Long-Term Liabilities (Continued)

Lease Payable

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.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 189,943	\$ 64,906
2016	199,091	55,756
2017	208,681	46,167
2018	218,732	36,116
2019	229,268	25,580
2020 - 2021	364,770	17,499
Total	<u>\$ 1,410,485</u>	<u>\$ 246,024</u>

Net OPEB Liability

The City's policies relating to OPEB are described in Note 9 of the Notes to Financial Statements. The liability will be paid in future years by the General Fund as it becomes due.

CJPIA Retrospective Deposit Liability

Retrospective deposits and refunds are cost allocation adjustments to prior coverage periods. Some claims take many years to resolve and over time their estimated value changes. The retrospective adjustments are calculated annually and take into consideration all the changes in claim values that occurred during the most recent year. The formula is designed to adequately cover the cost of claims brought against members and to ensure the overall financial strength and security of the Authority. The formula was developed to be as equitable as possible by taking into consideration both risk exposure and claims experience of individual members. CJPIA has temporarily deferred the payment on retrospective deposits owed to the Authority by members. The payment deferral period extends until July 1, 2014 for the Liability program and July 1, 2015 for the Workers' Compensation program. Retrospective deposit payments are scheduled to resume on these dates. The October 2011, annual retrospective adjustment is included in these balances. The City at June 30, 2014, had no retrospective deposit due.

Note 7: Long-Term Liabilities (Continued)

Optional Payment Plans

When retrospective deposit payments resume as indicated above, members will have the opportunity to select from a variety of optional payment plans. Discounts under the incentive plan are available to members choosing to voluntarily accelerate payment during the deferral period. The City has chosen not to voluntarily accelerate payment at this time.

After the deferral period, members choosing from among the optional payment plans will be subject to a moderate annual fee. The fee is intended to provide a means for the Authority to recover otherwise foregone investment earnings and to serve as a minor disincentive for the selection of longer financing terms.

Retrospective Balances will Change Annually

Retrospective balances will change with each annual computation during the payment deferral period. Member balances may increase or decrease as a result of the most recent year's claim development. Accordingly, some members who chose to pay off their balance in full may be required to pay additional retrospective deposits in the future based on the outcome of actual claim development reflected in subsequent retrospective deposit computations. Conversely, if claim development is favorable then subsequent retrospective adjustments could potentially result in refunds to the member. *More information on the CJPIA retrospective balances can be found on the CJPIA website at CJPIA.org.*

Note 8: City Employees Retirement Plan

Plan Description

The City contributes to the California Public Employees Retirement 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 1.418% 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 21.991% of annual covered payroll. The contribution requirements of Plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2014, the City's annual pension cost of \$325,051 for PERS was equal to the City's required contribution. The required contribution was determined as part of the June 30, 2010, actuarial calculation using the entry age normal actuarial cost method.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 8: City Employees Retirement Plan (Continued)

Three-Year Trend Information for PERS - City (Amounts in Thousands)			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations
6/30/2012	\$ 316,814	100%	\$ -
6/30/2013	315,660	100%	-
6/30/2014	325,051	100%	-

Note 9: 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 2013- 2014, the City contributed \$3,763 to the plan.

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 City obtained an updated actuarial study of the plan, but is in the process of having one performed in 2014. The calculation is solely based on the 2011 actuarial report prepared by Bartel & Associates, LLC. 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.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9: Other Post Employment Benefits (Continued)

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:

Annual required contribution (ARC)	\$ 286,000
Interest in net OPEB obligation	34,559
Adjustment to ARC	<u>(55,305)</u>
Annual OPEB cost (expense)	265,254
Contributions made	<u>3,763</u>
Decrease/(Increase) in net OPEB obligation	261,491
Net OPEB obligation - beginning of year	<u>863,986</u>
Net OPEB obligation - end of year	<u><u>\$ 1,125,477</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Three Year Trend Information - OPEB			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2012	\$ 161,998	1%	\$ 604,724
6/30/2013	262,747	2%	863,986
6/30/2014	261,491	1%	1,125,477

Funded status and progress

The funded status of the plan as of June 30, 2011 (the most recent valuation) was as follows:

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 Percent of Covered Payroll [(b- a)/c]
6/30/2012	6/30/2011	\$ -	\$ 2,036,000	\$ 2,036,000	0.0%	\$ 1,674,924	121.6%
6/30/2013	6/30/2011	-	2,290,000	2,290,000	0.0%	1,444,650	158.5%
6/30/2014	6/30/2011	-	2,558,000	2,558,000	0.0%	1,911,000	133.9%

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

Note 9: Other Post Employment Benefits (Continued)

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% 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% after the sixth year.

Note 10: Residential Mortgage Revenue Bonds

In 1984, the La Verne-Grand Terrace Housing Finance Agency, a joint powers authority duly established by appropriate resolutions of the Redevelopment Agency of the City of La Verne and the Community Redevelopment Agency of the City of Grand Terrace pursuant to Government Code Section 6500, et. seq., issued Residential Mortgage Revenue Bonds totaling \$38,625,000 pursuant to Chapters 1-5 of part 5 of Division 31 of the Health and Safety Code of the State of California. The bonds provide for long-term low interest mortgage loans to qualified home buyers of single family homes in certain residential developments as specified by the indenture. The bonds are payable solely from payments made on and secured by a pledge of the home mortgages and the funds and accounts held for the benefit of the bondholders pursuant to the indenture. The bonds do not represent a lien or charge upon the funds or property of the Agency. Neither the full faith and credit, nor the taxing power, of the Agency is pledged to the payment of the bonds. For these reasons, the bonds are not shown as liabilities in the accompanying financial statements.

The mortgage bond program is administered by a separate administrator apart from the Agency as specified by the indenture. The fiscal agent and trustee duties are also performed by a separate trustee bank apart from the Agency. In June 1992, the joint powers authority sold the home mortgages. The proceeds from the sale of the mortgages plus other assets were irrevocably placed into a trust with an escrow agent to provide for all future debt service on the bonds through the year 2017. At June 30, 2014, approximately \$2,110,000 of the bonds were outstanding.

Note 11: 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:

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 coverage. 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.

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. Costs of covered claims from \$5,000,000 to \$50,000,000 are 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 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 (CONTINUED)
JUNE 30, 2014

Note 11: Risk Management (Continued)

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.

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 12: Contingencies

As of June 30, 2014, 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.

Note 13: 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 14: Financial Condition and Management Plans

In November 2013, Measure C, the measure to consider implementing a 5% utility users' tax, was not approved by the voters. The tax was proposed to offset projected budgetary deficits in upcoming years, and enable the City to continue providing basic services to its residents. The projected budgetary deficits were a result of the State Legislature taking action to dissolve redevelopment agencies through the enactment of ABx1 26, which transfers property tax revenues from the redevelopment agencies to the other taxing entities.

A more comprehensive and detailed review of the property tax revenues transferred from redevelopment agencies to the taxing entities revealed that the City of Grand Terrace, as one of the taxing entities, is eligible to receive a portion of the residual property tax balance from the Successor Agency (Agency), once the Agency satisfies all its recognized obligation payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 14: Financial Condition and Management Plans (Continued)

The Residual Property Tax balance received by the City as a taxing entity from recognized obligation payment schedule (ROPS) cycles has been significant, enabling the City Council commit the following amounts:

- A General Fund contingency amount representing two months of operating revenues, as recommended by the Government Finance Officers Association (GFOA) and established in the City's Reserves Policy (\$600,000);
- An Equipment Replacement amount for capital asset replacements (\$200,000); and
- A Budget Stabilization amount for future deficits (\$402,091).

Although the projected residual property tax revenue distributions cannot be modeled, as stated by the San Bernardino Auditor-Controller's Office and that actual distributions, and the rates applied to distributions, cannot be predicted, and vary from one distribution cycle to another, the City has included very conservative residual property tax projections in the FY2014-15 budget, although it is anticipated that such revenues will rise.

In March 2014, the cities of Grand Terrace and Colton entered into settlement for sewer services and lease agreements for fifty (50) years. These agreements settle all related litigation between Grand Terrace and Colton, extricates Grand Terrace from the wastewater collection business, and associated liability exposure, and stipulates the terms and conditions relating to Colton providing wastewater collection, operation, distribution and maintenance activities on behalf of Grand Terrace users. As described in the Sewer Services Agreement, the City's General Fund will receive a onetime advance of \$400,000 upon execution of all related agreements and the transferring of its wastewater fund balance to the City of Colton. In addition, the City will receive from the City of Colton an annual lease payment of \$300,000 and rising in proportion to future rate increases.

In addition to the waste water agreements with the City of Colton, the City of Grand Terrace recently outsourced its Information Technology functions to the City of Loma Linda. The net effect of this agreement is additional savings to the City's General Fund.

As a result of continuing budget-cost reduction measures, service agreements with other local agencies and cost containment strategies, City Council approved a FY2014-15 General Fund budget without the need of a contribution from fund balance. It is the city's intent to continue to monitor revenues and expenditures to maintain the city's fiscal stability.

Note 15: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26, (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. Most of California cities had established a redevelopment agency that was included in the reporting entity of the city as a blended component unit (since the city council, in many cases, also served as the governing board for those agencies). The Bill provided that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "Successor Agency" to administer assets, pay and adhere to the provisions of enforceable obligations, and to expeditiously settle the affairs of the dissolved redevelopment agency. If the City declines to accept the role of Successor Agency, other local agencies may elect to perform this role. If no local agency accepts the role of Successor Agency, the Governor is empowered by the Bill to establish a local "designated local authority" to perform this role. On January 4, 2012, the City Council met and created the Successor Agency of the former Redevelopment Agency of the City of Grand Terrace in accordance with the Bill as part of the City of Grand Terrace.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 15: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency (Continued)

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The bill 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 the Bill. Management believes, in consultation with legal counsel, that the obligations of the former RDA due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The city's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by the appropriate judicial authority that would resolve this issue unfavorably to the City. As of June 30, 2014, the California State Controller had not issued its final review report to the Successor Agency as asset transfers and obligations were still under review.

Successor Agency long-term debt

Schedule of changes in long-term liabilities as of June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental-Activities:					
Bonds Payable:					
2011 Tax Allocation Bonds, Series A	\$ 14,915,000	\$ -	\$ 280,000	\$ 14,635,000	\$ 285,000
2011 Tax Allocation Bonds, Series B	5,430,000	-	235,000	5,195,000	255,000
Discount on Bonds issued	(155,264)	-	(9,110)	(146,154)	-
Total Bonds Payable	<u>\$ 20,189,736</u>	<u>\$ -</u>	<u>\$ 505,890</u>	<u>\$ 19,683,846</u>	<u>\$ 540,000</u>

2011A Tax Allocation Bonds

In June of 2011, the former CRA 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. The 2011A Tax Allocation Bond was transferred to the Successor Agency on February 1, 2012, as a result of the Redevelopment Agency closure.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

Note 15: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency (Continued)

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 285,000	\$ 823,920
2016	295,000	813,745
2017	310,000	801,645
2018	320,000	789,445
2019	330,000	776,680
2020-2024	1,900,000	3,626,728
2025-2029	3,805,000	2,925,750
2030-2034	7,390,000	1,160,100
Total	<u>\$ 14,635,000</u>	<u>\$ 11,718,013</u>

2011B Tax Allocation Bonds

In June of 2011, the former CRA issued the \$5,650,000 Community Redevelopment Project Area Taxable Tax Allocation Bonds, Issue of 2011 B. 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. The 2011 B Tax Allocation Bond was transferred to the Successor Agency on February 1, 2012 as a result of the Redevelopment Agency closure.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 255,000	\$ 377,733
2016	270,000	359,095
2017	290,000	339,215
2018	310,000	317,915
2019	335,000	295,018
2020-2024	2,070,000	1,056,900
2025-2027	1,665,000	198,468
Total	<u>\$ 5,195,000</u>	<u>\$ 2,944,344</u>

Restatement of Net Position

Net Position was restated by \$318,061 to properly implement GASB 65 and remove the prior year deferred charges.

CITY OF GRAND TERRACE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 16: Extraordinary Gain/Loss

The City, through request of the California State Department of Finance, transferred land improvements with a net book value of \$438,680 was transferred from the Successor Agency of the former redevelopment to the City. This transaction has been recorded as an extraordinary gain for the City and an extraordinary loss for the Successor Agency.

Note 17: Net Position Restatements

Beginning net position has been restated as follows:

Governmental Activities

To properly implement GASB 65 and remove the prior year deferred charges	\$ (42,712)
To properly restate prior year Capital Asset amounts for refunds on acquisition costs received from the County	<u>(73,979)</u>
Total restatement of Net Position	<u>\$ (116,691)</u>

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CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,493,781	\$ 1,493,781	\$ 1,493,781	\$ -
Resources (Inflows):				
Taxes	2,388,647	3,774,145	4,203,943	429,798
Intergovernmental	25,500	25,500	9,289	(16,211)
Charges for services	822,100	822,100	825,471	3,371
Use of money and property	28,700	28,700	22,065	(6,635)
Fines and forfeitures	37,500	37,500	221,656	184,156
Miscellaneous	6,600	6,600	4,348	(2,252)
Amounts Available for Appropriations	4,802,828	6,188,326	6,780,553	592,227
Charges to Appropriation (Outflow):				
General government	492,995	1,488,002	1,444,468	43,534
Public safety	1,739,990	1,739,990	1,708,441	31,549
Cultural and recreation	451,492	451,492	459,668	(8,176)
Public works	1,005,823	1,007,823	840,123	167,700
Capital outlay	40,240	103,240	53,501	49,739
Debt service:				
Principal retirement	-	181,215	181,215	-
Interest and fiscal charges	-	73,635	73,634	1
Transfers out	91,520	91,520	82,539	8,981
Total Charges to Appropriations	3,822,060	5,136,917	4,843,589	293,328
Budgetary Fund Balance, June 30	\$ 980,768	\$ 1,051,409	\$ 1,936,964	\$ 885,555

CITY OF GRAND TERRACE

**BUDGETARY COMPARISON SCHEDULE
STREET IMPROVEMENT
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,032,537	\$ 1,032,537	\$ 1,032,537	\$ -
Resources (Inflows):				
Charges for services	-	-	85,747	85,747
Use of money and property	2,040	2,040	958	(1,082)
Amounts Available for Appropriations	1,034,577	1,034,577	1,119,242	84,665
Charges to Appropriation (Outflow):				
Public works	49,284	49,200	49,207	(7)
Transfers out	283,000	283,000	-	283,000
Total Charges to Appropriations	332,284	332,200	49,207	282,993
Budgetary Fund Balance, June 30	\$ 702,293	\$ 702,377	\$ 1,070,035	\$ 367,658

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 HOUSING AUTHORITY
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,927,073	\$ 1,927,073	\$ 1,927,073	\$ -
Resources (Inflows):				
Use of money and property	-	-	22	22
Miscellaneous	-	-	20	20
Transfers in	-	30,000	-	(30,000)
Amounts Available for Appropriation	1,927,073	1,957,073	1,927,115	(29,958)
Charges to Appropriation (Outflow):				
Capital outlay	-	-	142	(142)
Total Charges to Appropriations	-	-	142	(142)
Budgetary Fund Balance, June 30	\$ 1,927,073	\$ 1,957,073	\$ 1,926,973	\$ (30,100)

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 CHILD CARE CENTER
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 26,846	\$ 26,846	\$ 26,846	\$ -
Resources (Inflows):				
Charges for services	1,113,360	1,139,190	1,093,093	(46,097)
Use of money and property	-	-	19	19
Miscellaneous	-	-	975	975
Amounts Available for Appropriations	1,140,206	1,166,036	1,120,933	(45,103)
Charges to Appropriation (Outflow):				
Cultural and recreation	1,096,507	1,096,507	1,090,153	6,354
Capital outlay	17,900	17,900	14,197	3,703
Total Charges to Appropriations	1,114,407	1,114,407	1,104,350	10,057
Budgetary Fund Balance, June 30	\$ 25,799	\$ 51,629	\$ 16,583	\$ (35,046)

I. STEWARDSHIP

Note 1: Stewardship, Compliance and Accountability

a. Budgetary Data

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

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

Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, 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, and Special Revenue 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.

b. Excess of expenditures over appropriations

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

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Major Funds:			
General Fund			
Culture and recreation	\$ 459,668	\$ 451,492	\$ (8,176)
Street Improvement Fund			
Public Works	49,207	49,200	(7)
Housing Authority Fund			
Capital Outlay	142	-	(142)

CITY OF GRAND TERRACE

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>Special Revenue Funds</u>			
	<u>Storm Drain Improvement</u>	<u>Park Development</u>	<u>AB 3229 COPS Fund</u>	<u>Air Quality Improvement</u>
Assets:				
Pooled cash and investments	\$ 77,522	\$ 240,742	\$ -	\$ 90,149
Receivables:				
Accounts	-	-	-	-
Due from other governments	-	-	-	3,953
Due from other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 77,522</u>	<u>\$ 240,742</u>	<u>\$ -</u>	<u>\$ 94,102</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Community development projects	-	240,742	-	-
Public works	77,522	-	-	94,102
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>77,522</u>	<u>240,742</u>	<u>-</u>	<u>94,102</u>
Total Liabilities and Fund Balances	<u>\$ 77,522</u>	<u>\$ 240,742</u>	<u>\$ -</u>	<u>\$ 94,102</u>

CITY OF GRAND TERRACE

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

(CONTINUED)

	<u>Special Revenue Funds</u>			
	<u>State Gas Tax</u>	<u>Traffic Safety</u>	<u>Facilities Development</u>	<u>Measure I</u>
Assets:				
Pooled cash and investments	\$ 307,584	\$ 46,066	\$ 195,441	\$ 340,554
Receivables:				
Accounts	39,494	9,233	-	-
Due from other governments	-	1,642	-	29,142
Due from other funds	-	-	20,437	-
Total Assets	<u>\$ 347,078</u>	<u>\$ 56,941</u>	<u>\$ 215,878</u>	<u>\$ 369,696</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 15,436	\$ -	\$ -	\$ -
Accrued liabilities	1,801	-	-	-
Due to other funds	-	20,437	-	-
Total Liabilities	<u>17,237</u>	<u>20,437</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Community development projects	-	-	215,878	-
Public works	329,841	36,504	-	369,696
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>329,841</u>	<u>36,504</u>	<u>215,878</u>	<u>369,696</u>
Total Liabilities and Fund Balances	<u>\$ 347,078</u>	<u>\$ 56,941</u>	<u>\$ 215,878</u>	<u>\$ 369,696</u>

CITY OF GRAND TERRACE

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds		Capital Projects Funds	
	CDBG	Terrace Pines Landscape and Lighting	Street Improvement	Barton / Colton Bridge
Assets:				
Pooled cash and investments	\$ 3,405	\$ 5,594	\$ 31,649	\$ 2,331
Receivables:				
Accounts	-	-	-	-
Due from other governments	4,543	-	73,978	-
Due from other funds	-	-	-	-
Total Assets	\$ 7,948	\$ 5,594	\$ 105,627	\$ 2,331
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 149	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	-	149	-	-
Fund Balances:				
Restricted for:				
Community development projects	7,948	-	-	-
Public works	-	5,445	105,627	2,331
Unassigned	-	-	-	-
Total Fund Balances	7,948	5,445	105,627	2,331
Total Liabilities and Fund Balances	\$ 7,948	\$ 5,594	\$ 105,627	\$ 2,331

CITY OF GRAND TERRACE

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Capital Projects Funds	Total Governmental Funds
	Capital Project/Bonds Proceeds	
Assets:		
Pooled cash and investments	\$ -	\$ 1,341,037
Receivables:		
Accounts	-	48,727
Due from other governments	-	113,258
Due from other funds	-	20,437
Total Assets	\$ -	\$ 1,523,459
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ -	\$ 15,585
Accrued liabilities	-	1,801
Due to other funds	348	20,785
Total Liabilities	348	38,171
Fund Balances:		
Restricted for:		
Community development projects	-	464,568
Public works	-	1,021,068
Unassigned	(348)	(348)
Total Fund Balances	(348)	1,485,288
Total Liabilities and Fund Balances	\$ -	\$ 1,523,459

CITY OF GRAND TERRACE

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			
	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	100,026	14,528
Charges for services	5,002	7,641	-	-
Use of money and property	65	215	-	74
Fines and forfeitures	-	-	-	-
Miscellaneous	-	2,105	-	-
Total Revenues	5,067	9,961	100,026	14,602
Expenditures:				
Current:				
Public safety	-	-	99,091	-
Public works	-	2,300	-	-
Capital outlay	-	-	-	-
Total Expenditures	-	2,300	99,091	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,067	7,661	935	14,602
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	5,067	7,661	935	14,602
Fund Balances, Beginning of Year	72,455	233,081	(935)	79,500
Fund Balances, End of Year	\$ 77,522	\$ 240,742	\$ -	\$ 94,102

CITY OF GRAND TERRACE

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

(CONTINUED)

	Special Revenue Funds			
	State Gas Tax	Traffic Safety	Facilities Development	Measure I
Revenues:				
Taxes	\$ 401,281	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	182,711
Charges for services	-	-	3,407	-
Use of money and property	208	(28)	237	226
Fines and forfeitures	-	26,264	-	-
Miscellaneous	-	-	-	-
Total Revenues	401,489	26,236	3,644	182,937
Expenditures:				
Current:				
Public safety	-	4,890	-	-
Public works	343,884	-	-	15,602
Capital outlay	-	-	-	-
Total Expenditures	343,884	4,890	-	15,602
Excess (Deficiency) of Revenues Over (Under) Expenditures	57,605	21,346	3,644	167,335
Other Financing Sources (Uses):				
Transfers in	82,539	-	-	-
Transfers out	-	-	-	(217,255)
Total Other Financing Sources (Uses)	82,539	-	-	(217,255)
Net Change in Fund Balances	140,144	21,346	3,644	(49,920)
Fund Balances, Beginning of Year	189,697	15,158	212,234	419,616
Fund Balances, End of Year	\$ 329,841	\$ 36,504	\$ 215,878	\$ 369,696

CITY OF GRAND TERRACE

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds		Capital Projects Funds	
	CDBG	Terrace Pines Landscape and Lighting	Street Improvement	Barton / Colton Bridge
Revenues:				
Taxes	\$ -	\$ 11,811	\$ -	\$ -
Intergovernmental	19,783	-	-	-
Charges for services	-	-	-	-
Use of money and property	10	-	158	6
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	73,978	-
Total Revenues	19,793	11,811	74,136	6
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	19,783	7,384	-	-
Capital outlay	-	-	217,255	-
Total Expenditures	19,783	7,384	217,255	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	10	4,427	(143,119)	6
Other Financing Sources (Uses):				
Transfers in	-	-	217,255	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	217,255	-
Net Change in Fund Balances	10	4,427	74,136	6
Fund Balances, Beginning of Year	7,938	1,018	31,491	2,325
Fund Balances, End of Year	\$ 7,948	\$ 5,445	\$ 105,627	\$ 2,331

CITY OF GRAND TERRACE

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Capital Projects Funds	Total Governmental Funds
	Capital Project/Bonds Proceeds	
Revenues:		
Taxes	\$ -	\$ 413,092
Intergovernmental	-	317,048
Charges for services	-	16,050
Use of money and property	-	1,171
Fines and forfeitures	-	26,264
Miscellaneous	-	76,083
Total Revenues	-	849,708
Expenditures:		
Current:		
Public safety	-	103,981
Public works	-	388,953
Capital outlay	-	217,255
Total Expenditures	-	710,189
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	139,519
Other Financing Sources (Uses):		
Transfers in	-	299,794
Transfers out	-	(217,255)
Total Other Financing Sources (Uses)	-	82,539
Net Change in Fund Balances	-	222,058
Fund Balances, Beginning of Year	(348)	1,263,230
Fund Balances, End of Year	\$ (348)	\$ 1,485,288

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 STORM DRAIN IMPROVEMENT
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 72,455	\$ 72,455	\$ 72,455	\$ -
Resources (Inflows):				
Charges for services	-	-	5,002	5,002
Use of money and property	360	360	65	(295)
Amounts Available for Appropriation	72,815	72,815	77,522	4,707
Budgetary Fund Balance, June 30	\$ 72,815	\$ 72,815	\$ 77,522	\$ 4,707

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 PARK DEVELOPMENT
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 233,081	\$ 233,081	\$ 233,081	\$ -
Resources (Inflows):				
Charges for services	-	-	7,641	7,641
Use of money and property	1,120	1,120	215	(905)
Miscellaneous	-	-	2,105	2,105
Amounts Available for Appropriations	234,201	234,201	243,042	8,841
Charges to Appropriation (Outflow):				
Public works	2,385	2,300	2,300	-
Capital outlay	15,000	15,000	-	15,000
Total Charges to Appropriations	17,385	17,300	2,300	15,000
Budgetary Fund Balance, June 30	\$ 216,816	\$ 216,901	\$ 240,742	\$ 23,841

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 AB 3229 COPS FUND
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (935)	\$ (935)	\$ (935)	\$ -
Resources (Inflows):				
Intergovernmental	100,000	100,000	100,026	26
Amounts Available for Appropriations	99,065	99,065	99,091	26
Charges to Appropriation (Outflow):				
Public safety	100,000	100,000	99,091	909
Total Charges to Appropriations	100,000	100,000	99,091	909
Budgetary Fund Balance, June 30	\$ (935)	\$ (935)	\$ -	\$ 935

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 AIR QUALITY IMPROVEMENT
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 79,500	\$ 79,500	\$ 79,500	\$ -
Resources (Inflows):				
Intergovernmental	14,000	14,000	14,528	528
Use of money and property	260	260	74	(186)
Amounts Available for Appropriation	93,760	93,760	94,102	342
Budgetary Fund Balance, June 30	\$ 93,760	\$ 93,760	\$ 94,102	\$ 342

CITY OF GRAND TERRACE

**BUDGETARY COMPARISON SCHEDULE
STATE GAS TAX
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 189,697	\$ 189,697	\$ 189,697	\$ -
Resources (Inflows):				
Taxes	327,670	375,037	401,281	26,244
Use of money and property	-	-	208	208
Transfers in	91,520	91,520	82,539	(8,981)
Amounts Available for Appropriations	608,887	656,254	673,725	17,471
Charges to Appropriation (Outflow):				
Public works	317,730	365,082	343,884	21,198
Transfers out	29,000	29,000	-	29,000
Total Charges to Appropriations	346,730	394,082	343,884	50,198
Budgetary Fund Balance, June 30	\$ 262,157	\$ 262,172	\$ 329,841	\$ 67,669

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 TRAFFIC SAFETY
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 15,158	\$ 15,158	\$ 15,158	\$ -
Resources (Inflows):				
Use of money and property	-	-	(28)	(28)
Fines and forfeitures	55,700	55,700	26,264	(29,436)
Amounts Available for Appropriations	70,858	70,858	41,394	(29,464)
Charges to Appropriation (Outflow):				
Public safety	54,640	54,600	4,890	49,710
Total Charges to Appropriations	54,640	54,600	4,890	49,710
Budgetary Fund Balance, June 30	\$ 16,218	\$ 16,258	\$ 36,504	\$ 20,246

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 FACILITIES DEVELOPMENT
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 212,234	\$ 212,234	\$ 212,234	\$ -
Resources (Inflows):				
Charges for services	-	-	3,407	3,407
Use of money and property	200	200	237	37
Amounts Available for Appropriation	212,434	212,434	215,878	3,444
Budgetary Fund Balance, June 30	\$ 212,434	\$ 212,434	\$ 215,878	\$ 3,444

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 MEASURE I
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 419,616	\$ 419,616	\$ 419,616	\$ -
Resources (Inflows):				
Intergovernmental	102,510	102,510	182,711	80,201
Use of money and property	510	510	226	(284)
Amounts Available for Appropriations	522,636	522,636	602,553	79,917
Charges to Appropriation (Outflow):				
Public works	15,605	15,600	15,602	(2)
Capital outlay	48,000	48,000	-	48,000
Transfers out	-	313,500	217,255	96,245
Total Charges to Appropriations	63,605	377,100	232,857	144,243
Budgetary Fund Balance, June 30	\$ 459,031	\$ 145,536	\$ 369,696	\$ 224,160

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 CDBG
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 7,938	\$ 7,938	\$ 7,938	\$ -
Resources (Inflows):				
Intergovernmental	40,000	40,000	19,783	(20,217)
Use of money and property	-	-	10	10
Amounts Available for Appropriations	47,938	47,938	27,731	(20,207)
Charges to Appropriation (Outflow):				
Public works	40,000	40,000	19,783	20,217
Total Charges to Appropriations	40,000	40,000	19,783	20,217
Budgetary Fund Balance, June 30	\$ 7,938	\$ 7,938	\$ 7,948	\$ 10

CITY OF GRAND TERRACE

**BUDGETARY COMPARISON SCHEDULE
TERRACE PINES LANDSCAPE AND LIGHTING DISTRICT
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,018	\$ 1,018	\$ 1,018	\$ -
Resources (Inflows):				
Taxes	5,650	5,650	11,811	6,161
Intergovernmental	6,415	6,415	-	(6,415)
Amounts Available for Appropriations	13,083	13,083	12,829	(254)
Charges to Appropriation (Outflow):				
Public works	12,065	12,300	7,384	4,916
Total Charges to Appropriations	12,065	12,300	7,384	4,916
Budgetary Fund Balance, June 30	\$ 1,018	\$ 783	\$ 5,445	\$ 4,662

CITY OF GRAND TERRACE

**BUDGETARY COMPARISON SCHEDULE
STREET IMPROVEMENT - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2014**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 31,491	\$ 31,491	\$ 31,491	\$ -
Resources (Inflows):				
Use of money and property	-	-	158	158
Miscellaneous	-	-	73,978	73,978
Transfers in	312,000	627,500	217,255	(410,245)
Amounts Available for Appropriations	343,491	658,991	322,882	(336,109)
Charges to Appropriation (Outflow):				
Capital outlay	283,000	596,500	217,255	379,245
Total Charges to Appropriations	283,000	596,500	217,255	379,245
Budgetary Fund Balance, June 30	\$ 60,491	\$ 62,491	\$ 105,627	\$ 43,136

CITY OF GRAND TERRACE

BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECTS
 YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 10,136	\$ 10,136	\$ 10,136	\$ -
Resources (Inflows):				
Intergovernmental	390,000	390,000	-	(390,000)
Use of money and property	-	-	413	413
Amounts Available for Appropriations	400,136	400,136	10,549	(389,587)
Charges to Appropriation (Outflow):				
Public works	-	-	69	(69)
Capital outlay	390,000	390,000	202,456	187,544
Total Charges to Appropriations	390,000	390,000	202,525	187,475
Budgetary Fund Balance, June 30	\$ 10,136	\$ 10,136	\$ (191,976)	\$ (202,112)

CITY OF GRAND TERRACE

COMBINING STATEMENT OF NET POSITION
 ALL AGENCY FUNDS
 JUNE 30, 2014

	Refundable Deposits Trust Fund	Employees Deferred Comp Trust Fund	Totals
Assets:			
Pooled cash and investments	\$ 220,596	\$ 80,162	\$ 300,758
Total Assets	\$ 220,596	\$ 80,162	\$ 300,758
Liabilities:			
Accounts payable	\$ 922	\$ -	\$ 922
Deposits payable	219,674	80,162	299,836
Total Liabilities	\$ 220,596	\$ 80,162	\$ 300,758

CITY OF GRAND TERRACE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2014

	<u>Balance 7/1/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2014</u>
<u>Refundable Deposits Trust Fund</u>				
Assets:				
Pooled cash and investments	\$ 328,765	\$ 105,045	\$ 213,214	\$ 220,596
Receivables:				
Accounts	515	-	515	-
Total Assets	<u>\$ 329,280</u>	<u>\$ 105,045</u>	<u>\$ 213,729</u>	<u>\$ 220,596</u>
Liabilities:				
Accounts payable	\$ 2,303	\$ 180,085	\$ 181,466	\$ 922
Deposits payable	326,977	71,385	178,688	219,674
Total Liabilities	<u>\$ 329,280</u>	<u>\$ 251,470</u>	<u>\$ 360,154</u>	<u>\$ 220,596</u>
<u>Employees Deferred Comp Trust Fund</u>				
Assets:				
Pooled cash and investments	\$ 1,715,693	\$ -	\$ 1,635,531	\$ 80,162
Total Assets	<u>\$ 1,715,693</u>	<u>\$ -</u>	<u>\$ 1,635,531</u>	<u>\$ 80,162</u>
Liabilities:				
Deposits payable	\$ 1,715,693	\$ -	\$ 1,635,531	\$ 80,162
Total Liabilities	<u>\$ 1,715,693</u>	<u>\$ -</u>	<u>\$ 1,635,531</u>	<u>\$ 80,162</u>
<u>Totals - All Agency Funds</u>				
Assets:				
Pooled cash and investments	\$ 2,044,458	\$ 105,045	\$ 1,848,745	\$ 300,758
Receivables:				
Accounts	515	-	515	-
Total Assets	<u>\$ 2,044,973</u>	<u>\$ 105,045</u>	<u>\$ 1,849,260</u>	<u>\$ 300,758</u>
Liabilities:				
Accounts payable	\$ 2,303	\$ 180,085	\$ 181,466	\$ 922
Deposits payable	2,042,670	71,385	1,814,219	299,836
Total Liabilities	<u>\$ 2,044,973</u>	<u>\$ 251,470</u>	<u>\$ 1,995,685</u>	<u>\$ 300,758</u>

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