

CITY OF GRAND TERRACE, CALIFORNIA

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2013



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

**City of Grand Terrace
Annual Financial Report
For the year ended June 30, 2013**

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The Honorable City Council
of the City of Grand Terrace
Grand Terrace, California

Independent Auditor's Report

Report on the 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 the City of Grand Terrace, California (City) as of and for the year ended June 30, 2013, 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.

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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-14 and 56-59 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 supplementary 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 supporting 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Implementation of new pronouncement

As discussed in Note 1 of the financial statements, the City adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 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.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, California
July 25, 2014

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, 2013. 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, 2013 by \$22 million (net position). Of this amount \$2.3 million (unrestricted) may be used to meet the City's on-going obligations to citizens and creditors.
- The City's net position decreased by \$0.3 million from the previous fiscal year. The City's net position would have increased during the fiscal year, if not for the extraordinary loss of \$1.6 million capital lease denied by the Department of Finance as an enforceable obligation of the Successor Agency to the Community Redevelopment Agency of the City of Grand Terrace.
- As of June 30, 2013, the City of Grand Terrace's governmental funds had reported combined ending fund balances of \$5.8 million, an increase of \$0.9 million. Of this total, approximately \$4.4 million, or 75.9% 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 increase of \$1.8 million, mainly due to the transfer of capital lease due to Zion National Bank from the Successor Agency Trust Fund to the General Fund.
- The General Fund had an end of year fund balance of \$1.5 million. This was an increase of \$0.7 million and an increase of 89.8% over FY 2011- 12.

Using the Accompanying Financial Statements

Included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Overview of the Financial Statements

The annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - Proprietary funds statements offer short and long-term financial information about the activities the government operates like a business.

- Fiduciary fund statements provide information about the fiduciary relationships - like the agency funds of the City - in which the City acts solely as agent or trustee for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary spreadsheets that provide additional financial and budgetary information.

Reporting the City as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the City as a whole. The Statement of Net 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 them. 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. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax or sales tax base and the condition of the City's roads, to assess the overall health of the City.

The Statement of Net Position and the Statement of Activities are divided into two kinds of activities:

- Governmental activities - Most of the City's basic services such as public safety, streets and roads, economic development and parks maintenance, are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activity - The City charges a fee to customers and budgets expenses so it covers all costs of services accounted for in this fund.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the City's most significant funds - not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting oversight responsibilities for using certain taxes, grants, or other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other current financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Both the governmental fund balance sheet and the governmental fund statement of revenues,

expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for the proprietary fund. We do not use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2013, net position for the City of Grand Terrace was \$22,340,363 compared to net position of \$22,658,822 at June 30, 2012.

A summary of the government-wide Statement of Net Position at June 30, 2013 and June 30, 2012 are as follows:

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 9,285,442	\$ 8,494,845	\$ 2,589,325	\$ 2,429,343	\$ 11,874,767	\$ 10,924,188
Capital assets, net	12,181,837	11,486,796	5,151,118	5,239,688	17,332,955	16,726,484
Total assets	<u>21,467,279</u>	<u>19,981,641</u>	<u>7,740,443</u>	<u>7,669,031</u>	<u>29,207,722</u>	<u>27,650,672</u>
Other liabilities	3,639,478	3,598,975	510,509	518,064	4,149,987	4,117,039
Long-term liabilities	2,717,372	874,811	-	-	2,717,372	874,811
Total liabilities	<u>6,356,850</u>	<u>4,473,786</u>	<u>510,509</u>	<u>518,064</u>	<u>6,867,359</u>	<u>4,991,850</u>
Invested in capital assets, net of debt	10,590,137	11,458,989	5,151,118	5,239,688	15,741,255	16,698,677
Restricted	4,287,451	4,103,744	-	-	4,287,451	4,103,744
Unrestricted	232,841	(54,878)	2,078,816	1,911,279	2,311,657	1,856,401
Total net assets	<u>\$ 15,110,429</u>	<u>\$ 15,507,855</u>	<u>\$ 7,229,934</u>	<u>\$ 7,150,967</u>	<u>\$ 22,340,363</u>	<u>\$ 22,658,822</u>

\$15,741,255 (70.2%) 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 \$4,287,451 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, 2013 and 2012 are as follows:

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues and transfers						
Program revenues:						
Charges for services	\$ 1,535,255	\$ 1,407,809	\$ 1,653,497	\$ 1,604,588	\$ 3,188,752	\$ 3,012,397
Operating contributions and grants	1,385,675	559,490	-	-	1,385,675	559,490
Capital contributions and grants	75,804	708,163	-	-	75,804	708,163
General revenues:						
Property tax	2,298,949	3,843,700	-	-	2,298,949	3,843,700
Sales tax	890,016	889,422	-	-	890,016	889,422
Motor vehicle in lieu	5,395	6,519	-	-	5,395	6,519
Other taxes	812,951	821,010	-	-	812,951	821,010
Sale of property	19,643	358,374	-	-	19,643	358,374
Other revenues	219,044	538,096	4,987	5,267	224,031	543,363
Transfers	155,878	131,440	(155,878)	(131,440)	-	-
Total revenues and transfers	7,398,610	9,264,023	1,502,606	1,478,415	8,901,216	10,742,438
Expenses						
General government	1,553,552	1,397,889	-	-	1,553,552	1,397,889
Public safety	1,845,632	1,927,217	-	-	1,845,632	1,927,217
Public works	1,262,693	1,369,119	-	-	1,262,693	1,369,119
Economic development	10,592	585,469	-	-	10,592	585,469
Cultural and recreation	1,426,017	1,279,189	-	-	1,426,017	1,279,189
Interest on long-term debt	66,232	137,523	-	-	66,232	137,523
Waste water disposal	-	-	1,423,639	1,437,945	1,423,639	1,437,945
Total expenses	6,164,718	6,696,406	1,423,639	1,437,945	7,588,357	8,134,351
Extraordinary item						
Loss on capital lease denied by DOF	(1,631,318)	(9,539,468)	-	-	(1,631,318)	(9,539,468)
Change in net position	(397,426)	(6,971,851)	78,967	40,470	(318,459)	(6,931,381)
Beginning net position	15,507,855	22,479,706	7,150,967	7,110,497	22,658,822	29,590,203
Ending net position	\$ 15,110,429	\$ 15,507,855	\$ 7,229,934	\$ 7,150,967	\$ 22,340,363	\$ 22,658,822

The increase or decrease in net position can provide an indication as to whether the overall financial position of the City improved or deteriorated during the year. From operations, total net position for the City decreased by \$318,459 during the fiscal year. Taken separately, governmental activities net position decreased by \$397,426 while business-type activities net position increased by \$78,967. Total expenses of \$7,588,357 were offset by total revenues of \$8,901,216. 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 \$882,242. Of this amount, a net increase of \$360,530 is attributable to the nonmajor funds, a net increase of \$46,957 to Capital Projects, a net increase of \$26,846 to the Child

Care Center, a net increase of \$1,066 to the Housing Authority, a net decrease of \$259,978 to the Street Improvement Fund, with the difference being a net increase to the General Fund of \$706,821.

Property taxes decreased by 40 percent primarily because the prior fiscal year included seven months of property taxes received by the former Community Redevelopment Agency of the City of Grand Terrace. All current year RPTTF funds received by the Successor Agency to the Community Redevelopment Agency of the City of Grand Terrace are now held in a trust fund account.

Interest on long-term debt expenses decreased by \$71,291 or 52 percent compared to the prior year. The decrease is a result of the transfer of most obligations of the former Community Redevelopment Agency of the City of Grand Terrace to the Successor Agency Trust Fund as of February 1, 2012. Of the \$66,232 in long-term debt interest charged to the General Fund during FY 2012-13, \$65,219 pertains to the Zion Bank Capital lease, while the remaining \$ 1,013 was for the HVAC lease.

Extraordinary item losses totaling \$1,631,318 is due to the loss on capital lease denied by the Department of Finance. This amount includes the \$1,679,159 loan from Zions First National Bank for City Hall and other improvements less amortization cost of issuance of \$47,847 for fiscal year 2012-13.

Governmental Activities

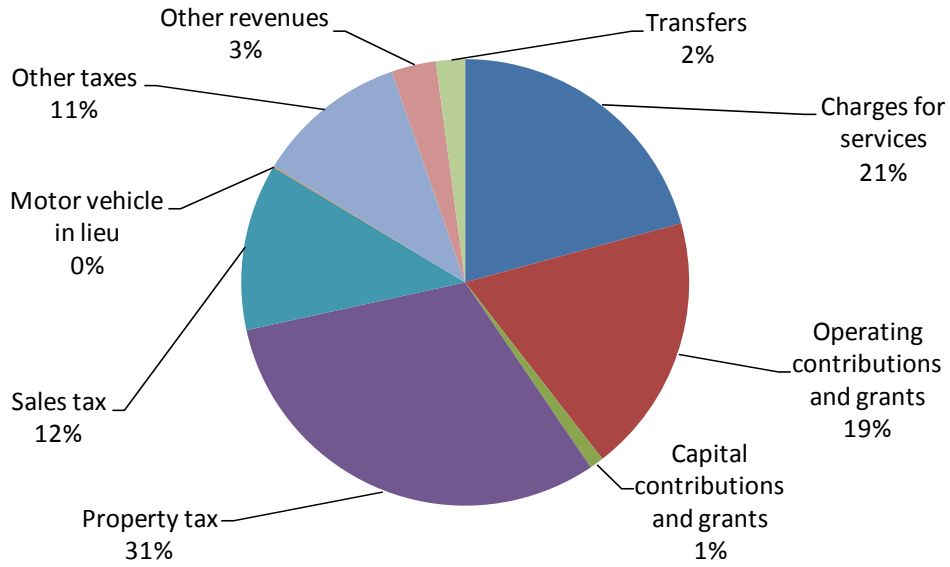
The following table shows the cost of each of the City’s major programs and their net cost after subtracting fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City taxpayers by each of the programs.

Net Cost of Governmental Activities

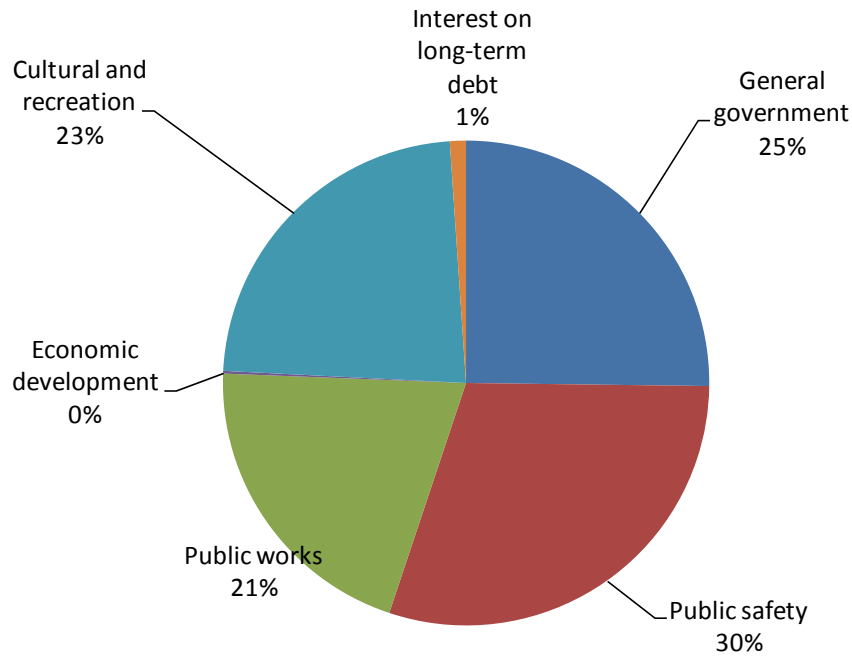
	2013		2012	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 1,553,552	\$ 1,518,301	\$ 1,377,335	\$ 1,288,419
Public safety	1,845,632	679,777	2,193,407	1,965,978
Public works	1,262,693	711,608	1,826,365	207,380
Economic development	10,592	(107,811)	3,499,728	3,273,140
Cultural and recreation	1,426,017	299,877	1,349,274	414,003
Interest on long-term debt	66,232	66,232	1,113,023	1,113,023
Total	\$ 6,164,718	\$ 3,167,984	\$ 11,359,132	\$ 8,261,943

This table shows the cost of all governmental activities this year was \$6,164,718. 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 \$7,398,610



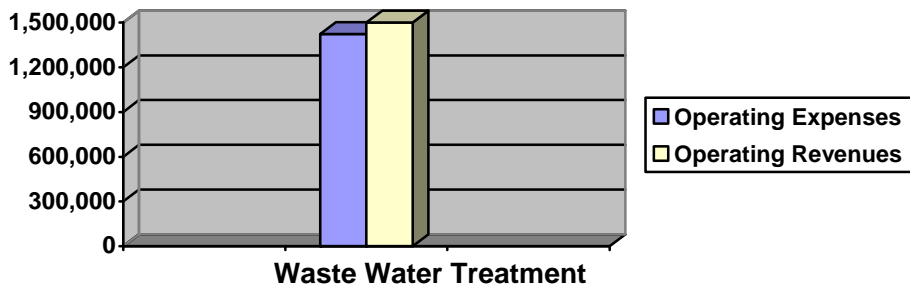
Expenses by Function - Governmental Activities - \$6,164,718



Business-Type Activity

Total revenues of the City's business-type activities, which consist only of the Waste Water Disposal Fund, were \$1,658,484. Revenues increased by \$48,629 or 3.0 percent in fiscal year 2012 - 2013. Of this amount, operating revenues increased by 3.0 percent and investment earnings decreased by \$280. Expenses decreased by \$14,306 or 1.0 percent from \$1,437,945 in fiscal year 2011 - 2012 to \$1,423,639 in fiscal year 2012 - 2013. The cost of waste water disposal paid by the City of Grand Terrace to the City of Colton 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 total fund balance of the General Fund increased \$706,821 to \$1,493,781 from a fund balance of \$786,960 at June 30, 2012. Total fund balance in all Governmental Funds was \$5,753,603.

General Fund Revenues and Expenditures amounted to:

	2012-13	2011-12	Increase (Decrease) in Fund Balance
Revenues	\$ 4,213,649	\$ 4,586,608	\$ (372,959)
Expenditures	(3,883,675)	(4,649,554)	765,879
Other Sources (Uses)	376,847	647,877	(271,030)
Net Change in Fund Balance	706,821	584,931	121,890
Beginning Fund Balance, as restated	786,960	202,029	584,931
Ending Fund Balance	<u>\$ 1,493,781</u>	<u>\$ 786,960</u>	<u>\$ 706,821</u>

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

- General Fund revenues and transfers exceeded expenditures and transfers out by - \$706,821. Total fund revenues decreased by \$372,959 or 8.1 percent from FY 2011 -12. This decrease in total general fund revenues is attributable mainly to the decrease in charges for service and other revenues. The impact of the \$1,206,793 combined decrease in these two revenue categories were actually minimized greatly by the concurrent \$890,886 increase in taxes collected by the General Fund during the fiscal year.
- Property tax received increased by 66 percent from \$1,382,935 to \$2,298,949. This increase in property tax is attributable to the City's share of excess revenue distribution as a result of the RDA dissolution amounting to \$902,440 during FY 2012-13.
- Sales tax and Sales tax-in-lieu increased by 1.0 percent from \$963,439 to \$971,549.
- Licenses and permits decreased by \$12,129 or 1.9 percent from \$638,036 in FY 2011- 12 to \$625,907 in FY 2012- 13. This is mainly due to the decrease in business license tax which decreased by \$14,907 during FY 2012- 13 compared to the prior fiscal year.
- Charge for service dropped to \$198,493 compared to the previous year at \$1,103,323. This equates to a \$904,830 reduction or an 82 percent reduction. This huge decrease in charges for services in the General Fund is a direct result of the decision to move the activities of the Child Care Center from the General Fund to another Fund (Fund 09). During FY 2011- 2012, the Child Care Center contributed \$878,700 to this revenue category, hence the huge drop in the charge for service revenue category. Building fees and permits decreased by \$46,384, or 34 percent. Planning fees and permits on the other hand, increased 171% to \$37,302 from \$13,750 in FY 2011 -12.
- Fines and forfeitures almost doubled from \$20,355 in FY 2011- 12 to \$ 40,613 in FY 2012-13. Under this revenue category, while there was a decrease of \$4,200, or 81 percent in code enforcement fines during FY 2012- 13 compared to the prior fiscal year, there was an increase of \$24,798 in parking citations – sweep days.
- Use of money and property category decreased by 29.7 percent to \$28,786 from \$40,941 in the previous fiscal year.
- General Fund overall operating expenditures decreased by a net 16.5 percent over the prior year, mainly due to the total deletion of operating expenditures for the Child Care Center which were moved to another fund (Fund 09) starting FY 2012- 13. The total operating expenditures of the Child Care Center which were part of the total General Fund operating expenditures in the previous fiscal year totaled \$ 834,948. The City is continuing many budget reduction measures instituted in previous years such as a 10 percent employee salary furlough, elimination and deferral of some employee benefits, deferral of merit increases, and reallocation of some employee salaries to other funds.

- Of the total \$3,883,675 in General fund operating expenditures, total general government expenditures equate to 28.2%, while public works equate to 18.1% and public safety expenditures equate to 44.2 percent. The other 9.5% represent 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 negative \$259,978 during the fiscal year.

The fund balance of the Housing Authority Fund increased by \$1,066 during FY 2012- 13. 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 fund balance of \$26,846, while the Capital Projects Fund had a net change of \$46,957 and had an ending fund balance of \$10,136 at June 30, 2013.

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, 2013, 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. We are exempt by provisions of GASB Statement No. 34 from including the valuation of old city infrastructure.

**Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,177,069	\$ 1,579,379	\$ -	\$ -	\$ 2,177,069	\$ 1,579,379
Buildings	3,524,732	3,835,936	-	-	3,524,732	3,835,936
Improvements	1,732,925	2,128,609	139,065	155,921	1,871,990	2,284,530
Equipment	156,470	210,531	-	-	156,470	210,531
Vehicles	74,644	126,430	-	-	74,644	126,430
Infrastructure	3,111,569	2,720,067	-	-	3,111,569	2,720,067
Sewer mains	-	-	2,730,380	2,819,782	2,730,380	2,819,782
Sewer laterals	-	-	1,370,861	1,412,881	1,370,861	1,412,881
Sewer manholes	-	-	910,812	939,674	910,812	939,674
Construction in progress	1,404,428	824,254	-	-	1,404,428	824,254
Total	\$ 12,181,837	\$ 11,425,206	\$ 5,151,118	\$ 5,328,258	\$ 17,332,955	\$ 16,753,464

Long-Term Debt

At the end of the current fiscal year, the City had debt outstanding of \$2,717,372. Of this amount, \$1,591,700 is owed to Zions National Bank, and \$1,125,672 is made up of other debt comprised of an OPEB obligation and compensated absences payable. \$246,635 of all debt is due and payable within one year. The Department of Finance (DOF) has made its final determination that the capital lease obligation to Zions National Bank is not an enforceable obligation of the Successor Agency to the Community Redevelopment Agency of the City of Grand Terrace, hence the debt has been added back as a long-term debt of the City's General Fund.

Outstanding Debt
Governmental Activities

	2013	2012
OPEB Obligation	\$ 863,986	\$ 604,724
Leases payable	1,591,700	27,807
Compensated absences	261,686	242,280
Total outstanding debt	\$ 2,717,372	\$ 874,811

The City's total debt increased by \$1,842,561 (210.62 percent) during the current fiscal year, mainly due the transfer of debt obligation to Zions National Bank from the Successor Agency Trust Fund to the General Fund during the fiscal year. The City adopted GASB Statement No. 45 and recognizes a liability of \$863,986 for retiree health benefits.

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

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, at the City of Grand Terrace, 22795 Barton Road, Grand Terrace, California 92313, or call 909-824-6621. This report and other information are also available at the official city website at <http://www.cityofgrandterrace.org/>.

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Government-Wide Financial Statements

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**City of Grand Terrace
Statement of Net Position
June 30, 2013**

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and investments	\$ 5,987,942	\$ 2,136,678	\$ 8,124,620
Interest receivable	1,911	-	1,911
Accrued revenue	165,749	332,547	498,296
Due from other governments	1,652,238	120,100	1,772,338
Prepaid expenses	46,555	-	46,555
Loans receivable	79,169	-	79,169
Notes receivable	669,000	-	669,000
Property held for resale	640,166	-	640,166
Deferred charges	42,712	-	42,712
Capital assets:			
Land and construction in progress	3,581,497	-	3,581,497
Other capital assets, net of depreciation	8,600,340	5,151,118	13,751,458
	<u>21,467,279</u>	<u>7,740,443</u>	<u>29,207,722</u>
Total assets			
LIABILITIES			
Accounts payable	251,331	11,182	262,513
Insurance payable	212,702	-	212,702
Accrued liabilities	51,782	8,267	60,049
Accrued interest payable	25,255	-	25,255
Due to other governments	3,093,745	491,060	3,584,805
Refundable deposits	4,663	-	4,663
Noncurrent liabilities:			
Due within one year	246,635	-	246,635
Due in more than one year	2,470,737	-	2,470,737
	<u>6,356,850</u>	<u>510,509</u>	<u>6,867,359</u>
Total liabilities			
NET POSITION			
Net investment in capital assets	10,590,137	5,151,118	15,741,255
Restricted for:			
Debt service	(25,255)	-	(25,255)
Community development	499,683	-	499,683
Low-mod income housing	1,927,073	-	1,927,073
Public works	1,885,950	-	1,885,950
Unrestricted	232,841	2,078,816	2,311,657
	<u>\$ 15,110,429</u>	<u>\$ 7,229,934</u>	<u>\$ 22,340,363</u>
Total net position			

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

**City of Grand Terrace
Statement of Activities
For the year ended June 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,553,552	\$ 35,251	\$ -	\$ -
Public safety	1,845,632	87,268	1,078,587	-
Public works	1,262,693	168,193	307,088	75,804
Economic development	10,592	118,403	-	-
Cultural and recreation	1,426,017	1,126,140	-	-
Interest on long-term debt	66,232	-	-	-
Total governmental activities	<u>6,164,718</u>	<u>1,535,255</u>	<u>1,385,675</u>	<u>75,804</u>
Business-type activity:				
Waste water disposal	<u>1,423,639</u>	<u>1,653,497</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,588,357</u>	<u>\$ 3,188,752</u>	<u>\$ 1,385,675</u>	<u>\$ 75,804</u>

General revenues:

- Property taxes, levied for general purposes
- Property taxes, tax increment, restricted
- Franchise taxes
- Sales taxes
- Motor vehicle in lieu taxes
- Public service taxes
- Use of money and property
- Other
- Sale of property
- Extraordinary item - loss on capital lease denied by the Department of Finance
- Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

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

Governmental Activities	Business-type Activity	Total
\$ (1,518,301)	\$ -	\$ (1,518,301)
(679,777)	-	(679,777)
(711,608)	-	(711,608)
107,811	-	107,811
(299,877)	-	(299,877)
(66,232)	-	(66,232)
<u>(3,167,984)</u>	<u>-</u>	<u>(3,167,984)</u>
<u>-</u>	<u>229,858</u>	<u>229,858</u>
2,294,558	-	2,294,558
4,391	-	4,391
554,211	-	554,211
890,016	-	890,016
5,395	-	5,395
258,740	-	258,740
14,599	4,987	19,586
204,445	-	204,445
19,643	-	19,643
(1,631,318)	-	(1,631,318)
155,878	(155,878)	-
<u>2,770,558</u>	<u>(150,891)</u>	<u>2,619,667</u>
(397,426)	78,967	(318,459)
<u>15,507,855</u>	<u>7,150,967</u>	<u>22,658,822</u>
<u>\$ 15,110,429</u>	<u>\$ 7,229,934</u>	<u>\$ 22,340,363</u>

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

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Fund Financial Statements

**City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2013**

	Special Revenue Funds			
	General	Street Improvement	Housing Authority	Child Care Center
ASSETS				
Cash and investments	\$ 3,731,219	\$ 1,037,200	\$ 22,274	\$ 3,166
Interest receivable	1,911	-	-	-
Accrued revenue	83,380	-	-	46,369
Due from other funds	880,310	-	-	-
Due from other governments	192,881	-	448,636	-
Prepaid expense	46,555	-	-	-
Advances to other funds	-	-	168,205	-
Loans receivable	364	-	78,805	-
Notes receivable	-	-	669,000	-
Property held for resale	-	-	640,166	-
	<u>\$ 4,936,620</u>	<u>\$ 1,037,200</u>	<u>\$ 2,027,086</u>	<u>\$ 49,535</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 165,635	\$ -	\$ 43	\$ 5,821
Accrued liabilities	36,419	-	-	13,575
Due to other funds	-	-	-	-
Due to other governments	3,072,580	-	21,165	-
Advances from other funds	168,205	-	-	-
Deferred revenue	-	-	78,805	3,293
Refundable deposits	-	4,663	-	-
	<u>3,442,839</u>	<u>4,663</u>	<u>100,013</u>	<u>22,689</u>
Fund balances:				
Nonspendable	46,555	-	-	-
Restricted for:				
Public works	-	1,032,537	-	-
Low-mod income housing	-	-	-	-
Debt service	-	-	-	-
Community development	-	-	1,927,073	-
Child care	-	-	-	26,846
Unassigned	1,447,226	-	-	-
	<u>1,493,781</u>	<u>1,032,537</u>	<u>1,927,073</u>	<u>26,846</u>
Total liabilities and fund balances	<u>\$ 4,936,620</u>	<u>\$ 1,037,200</u>	<u>\$ 2,027,086</u>	<u>\$ 49,535</u>

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

<u>Capital Project Fund</u>	Total Nonmajor Governmental Funds	Total Governmental Funds
<u>Capital Projects</u>		
\$ -	\$ 1,194,083	\$ 5,987,942
-	-	1,911
-	36,000	165,749
-	25,437	905,747
938,014	72,707	1,652,238
-	-	46,555
-	-	168,205
-	-	79,169
-	-	669,000
-	-	640,166
<u>\$ 938,014</u>	<u>\$ 1,328,227</u>	<u>\$ 10,316,682</u>
\$ 58,115	\$ 21,717	\$ 251,331
-	1,788	51,782
864,255	41,492	905,747
-	-	3,093,745
-	-	168,205
5,508	-	87,606
-	-	4,663
<u>927,878</u>	<u>64,997</u>	<u>4,563,079</u>
-	-	46,555
10,136	843,277	1,885,950
-	-	-
-	-	-
-	472,837	2,399,910
-	-	26,846
-	(52,884)	1,394,342
<u>10,136</u>	<u>1,263,230</u>	<u>5,753,603</u>
<u>\$ 938,014</u>	<u>\$ 1,328,227</u>	<u>\$ 10,316,682</u>

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

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**City of Grand Terrace
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2013**

Fund balances of governmental funds		\$ 5,753,603
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.		12,181,837
Some liabilities are not due and payable in the current period and therefore are not reported in funds. Those liabilities consist of:		
Lease payable	\$ (1,591,700)	
Cost of issuance	42,712	
Other payable	(212,702)	
Accrued interest payable	(25,255)	
Long-term compensated absences payable	(261,686)	
OPEB obligation	<u>(863,986)</u>	(2,912,617)
Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of net position.		<u>87,606</u>
Net position of governmental activities		<u><u>\$ 15,110,429</u></u>

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

City of Grand Terrace
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2013

	Special Revenue Funds			
	General	Street Improvement	Housing Authority	Child Care Center
REVENUES				
Taxes	\$ 3,270,498	\$ -	\$ -	\$ -
Licenses and permits	625,907	-	-	-
Intergovernmental	43,468	-	-	-
Charges for services	198,493	-	-	1,109,957
Fines and forfeitures	40,613	-	-	-
Use of money and property	28,786	2,815	78	31
Other	5,884	-	1,025	552
Total revenues	4,213,649	2,815	1,103	1,110,540
EXPENDITURES				
Current:				
General government	1,096,632	-	-	-
Public safety	1,715,916	-	-	-
Public works	701,101	-	-	-
Economic development	-	-	37	-
Cultural and recreation	213,783	-	-	886,810
Debt service:				
Principal	115,266	-	-	-
Interest and other charges	40,977	-	-	-
Capital outlay:				
Project improvement costs	-	-	-	-
Total expenditures	3,883,675	-	37	886,810
Excess (deficiency) of revenues over expenditures	329,974	2,815	1,066	223,730
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	19,643	-	-	-
Transfers in	447,161	-	-	-
Transfers out	(89,957)	(262,793)	-	(196,884)
Total other financing sources (uses)	376,847	(262,793)	-	(196,884)
Net change in fund balances (deficit)	706,821	(259,978)	1,066	26,846
Fund balances - beginning	786,960	1,292,515	1,926,007	-
Fund balances - ending	\$ 1,493,781	\$ 1,032,537	\$ 1,927,073	\$ 26,846

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

<u>Capital Project Fund</u>	Total Non-Major Governmental Funds	Total Governmental Funds
Capital Projects		
\$ -	\$ -	\$ 3,270,498
-	-	625,907
944,925	704,397	1,692,790
-	-	1,308,450
-	46,655	87,268
(475)	1,470	32,705
-	198,009	205,470
<u>944,450</u>	<u>950,531</u>	<u>7,223,088</u>
-	-	1,096,632
-	113,321	1,829,237
897,493	537,022	2,135,616
-	-	37
-	-	1,100,593
-	-	115,266
-	-	40,977
-	198,009	198,009
<u>897,493</u>	<u>848,352</u>	<u>6,516,367</u>
<u>46,957</u>	<u>102,179</u>	<u>706,721</u>
-	-	19,643
-	320,781	767,942
-	(62,430)	(612,064)
-	258,351	175,521
46,957	360,530	882,242
(36,821)	902,700	4,871,361
<u>\$ 10,136</u>	<u>\$ 1,263,230</u>	<u>\$ 5,753,603</u>

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

**City of Grand Terrace
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities and Changes in Net Position
For the year ended June 30, 2013**

Net change in fund balances - total governmental funds \$ 882,242

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold.

This activity is reconciled as follows:

Cost of assets capitalized, less disposals at net book value	\$ 1,320,596	
Depreciation expense	<u>(625,555)</u>	695,041

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.

Principal payments on long-term debt	115,266
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of costs of issuance	\$ (5,129)	
Change in OPEB obligation	(259,262)	
Change in insurance payable	(98,487)	
Change in compensated absences payable	(19,406)	
Change in accrued interest payable on long-term debt	<u>(25,255)</u>	(407,539)

Revenues that are not available in the current period are deferred in the governmental funds, but not in the statement of activities.	(51,118)
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Extraordinary loss in denial of capital lease by the Department of Finance	<u>(1,631,318)</u>
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Change in net position of governmental activities	<u>\$ (397,426)</u>
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The accompanying notes are an integral part of these financial statements.

**City of Grand Terrace
Statement of Net Position
Proprietary Fund
June 30, 2013**

	Business-type Activity Waste Water Disposal
ASSETS	
Current assets:	
Cash and investments	\$ 2,136,678
Accrued revenue	332,547
Due from other governments	120,100
Total current assets	2,589,325
Noncurrent assets:	
Capital assets:	
Sewer system	7,415,106
Less accumulated depreciation	(2,263,988)
Total noncurrent assets	5,151,118
Total assets	7,740,443
LIABILITIES	
Current liabilities:	
Accounts payable	11,182
Accrued liabilities	8,267
Due to other governments	491,060
Total liabilities	510,509
NET POSITION	
Net investment in capital assets	5,151,118
Unrestricted	2,078,816
Total net position	\$ 7,229,934

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

City of Grand Terrace
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the year ended June 30, 2013

	Business-type Activity
	Waste Water Disposal
OPERATING REVENUES	
Charges for services	\$ 1,653,497
Total operating revenues	1,653,497
OPERATING EXPENSES	
Personnel services	49,761
Employee benefits	28,328
Depreciation	88,570
Contract services	1,200,481
Repairs and maintenance	15,471
Other expenses	41,028
Total operating expenses	1,423,639
Operating income	229,858
NONOPERATING REVENUES	
Interest income	4,987
Income before transfers	234,845
Transfers out	(155,878)
Change in net position	78,967
Total net position - beginning	7,150,967
Total net position - ending	\$ 7,229,934

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

**City of Grand Terrace
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2013**

	Business-type Activity Waste Water Disposal
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,276,147
Cash payments to suppliers	(1,264,619)
Cash payments to employees for services	(78,005)
Net cash used for operating activities	(66,477)
Cash Flows From Noncapital Financing Activities:	
Transfers to other funds	(155,878)
Net cash used for noncapital financing activities	(155,878)
Cash Flows From Investing Activities:	
Interest income	5,558
Net cash provided by investing activities	5,558
Net decrease in cash and cash equivalents	(216,797)
Cash and cash equivalents - beginning	2,353,475
Cash and cash equivalents - ending	\$ 2,136,678
Reconciliation of Operating Income to Net Cash Used for Operating Activities:	
Operating income	\$ 229,858
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	88,570
(Increase) decrease in assets:	
Accrued revenue	(257,250)
Due from other governments	(120,100)
Increase (decrease) in liabilities:	
Accounts payable	(7,639)
Accrued liabilities	84
Net cash used for operating activities	\$ (66,477)

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

City of Grand Terrace
Statement of Fiduciary Net Position
June 30, 2013

	Successor Agency Private Purpose Trust Fund	<u>Agency Fund</u>
ASSETS		
Cash and investments	\$ 21,328,258	\$ 328,765
Cash and investments with fiscal agent	1,757,383	-
Receivable:		
Interest	3,869	-
Due from other governments	3,072,580	-
Amortizable deferred charges	318,061	-
Accrued revenue	-	515
Capital assets, net	438,682	-
Land held for resale	4,842,472	-
Total assets	<u>31,761,305</u>	<u>\$ 329,280</u>
LIABILITIES		
Accounts payable	3,600	\$ 2,303
Accrued liabilities	445,793	-
Due to other governments	2,446,333	-
Noncurrent liabilities:		
Due within one year	515,000	-
Due in more than one year	19,674,736	-
Refundable deposits	-	326,977
Total liabilities	<u>23,085,462</u>	<u>\$ 329,280</u>
NET POSITION		
Held in trust for the Successor Agency	<u>\$ 8,675,843</u>	

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

City of Grand Terrace
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund – Successor Agency
For the year ended June 30, 2013

	Successor Agency Private Purpose Trust Fund
ADDITIONS	
RPTTF distribution	\$ 2,270,957
Investment earnings	55,866
Other receipts	13,587
Total additions	2,340,410
DEDUCTIONS	
General	584,547
Debt service payments - interest	1,339,289
Payments of enforceable obligations	1,650,496
Other payments	198,579
Total deductions	3,772,911
EXTRAORDINARY ITEM	
Gain in capital lease denied by the Department of Finance	1,631,318
Change in net position	198,817
Net position - beginning	8,477,026
Net position - end of the year	\$ 8,675,843

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

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Notes to Financial Statements

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the reporting 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 its 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 was established on July 16, 1991, pursuant to a Joint Powers Agreement between the City of Grand Terrace and the Community Redevelopment Agency of the City of Grand Terrace. The Authority was created to facilitate financing for public capital improvements benefiting the City and Agency. The City Council also acts as the governing body of the Authority. The Authority's activities are blended with those of the City in these financial statements and are reported as a debt service fund.

There are several other governmental agencies, including the County of San Bernardino, school districts, and others, providing services within the City of Grand Terrace. Those agencies have independently elected governing boards other than the City Council of the City of Grand Terrace and no financial accountability to the City of Grand Terrace. Consequently, financial information for these agencies is not included within this financial report.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized in these funds when susceptible to accrual (i.e., when they are both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers property taxes collected after year-end as available, if they are collected within 60 days of the end of the current fiscal period. Other revenue susceptible to accrual includes sales tax, state gasoline taxes, investment income, and certain other intergovernmental revenues. Expenditures in the governmental funds are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, as well as compensated absences and claims and judgments, which are recognized when due.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *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 the design and construction of the Grand Terrace Fitness Park on the west side of town, funded by \$2,300,000 in state grant funding.

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 type:

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 14).

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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

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

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

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

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

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

Other Accounting Policies

Receivables and payables

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

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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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)**

Investments

The City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Property held for resale

Property held for resale is recorded at the lower of cost or net realizable value. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance the City's current operations.

Compensated absences

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

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

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

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than or equal to \$5,000 (amount not rounded) and an estimated useful life of at least two years. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Assets	Years
Buildings	50
Machinery & equipment	5 - 15
Vehicles	6 - 15
Improvements other than buildings	15 - 20
Infrastructure	20 - 30
Sewer lines	90

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

Use of estimates

The financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund equity

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

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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

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

New GASB Pronouncements

In the current fiscal year the City implemented Statement Number 63 of the Governmental Accounting Standards Board (GASB) – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. *Budgetary data*

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

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

Formal budgetary integration is employed as a management control device during the year. Commitments for materials and 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, Special Revenue, and Community Redevelopment Agency Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

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

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. Deficit fund balances

As of June 30, 2013 the following funds have deficit fund balances:

	Amount
Special Revenue Funds:	
AB 3229 COPS	\$ (935)
Capital Projects Fund:	
Capital Projects	(348)

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

c. Excess of expenditures over appropriations

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

Fund	Expenditures	Appropriations	Excess
Major funds:			
Child Care Center Fund:			
Culture and Recreation	\$ 886,810	\$ 852,730	\$ (34,080)
Housing Authority Fund:			
Economic Development	37	-	(37)
Non-Major funds:			
AB 3229 Fund:			
Public Safety	100,000	99,500	(500)

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 8,124,620
Statement of Fiduciary Net Position:	
Cash and investments	21,657,023
Cash and investments with fiscal agents	<u>1,757,383</u>
Total cash and investments	<u><u>\$ 31,539,026</u></u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ (1,199)
Deposits with financial institutions	2,723,472
Investments	<u>28,816,753</u>
Total cash and investments	<u><u>\$ 31,539,026</u></u>

Authorized investments

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U. S. Treasury Obligations	5 years	None	None
Repurchase Agreements	1 year	None	None
Certificates of Deposit	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Passbook Savings Accounts	N/A	None	None
Securities Issued by Federal Agencies	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50,000,000
Mutual Funds	N/A	20%	10%
Pools and other investment structures	N/A	None	None

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

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

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

Disclosures relating to interest rate risk

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

Investment Type	Amount	12 Months or Less
Money Market Mutual Fund	\$ 1,071,782	\$ 1,071,782
Passbook Savings Account	250,116	250,116
Certificates of Deposit	13,148,825	13,148,825
Local Agency Investment Fund (LAIF)	8,704,688	8,704,688
Local Gov. Invest. Pool (CAMP)	3,883,247	3,883,247
Held by Trustee:		
Money Market Funds	1,758,095	1,758,095
Total	\$ 28,816,753	\$ 28,816,753

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 2: Cash and Investments (continued)

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.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Actual Rating</u>
Money Market Mutual Fund	\$ 1,071,782	N/A	N/A
Passbook Savings Account	250,116	N/A	N/A
Certificates of Deposit	13,148,825	N/A	N/A
Local Agency Investment Fund (LAIF)	8,704,688	N/A	N/A
Local Gov. Invest. Pool (CAMP)	3,883,247	N/A	N/A
Held by Trustee:			
Money Market Funds	<u>1,758,095</u>	AAAm	AAAm / A+
Total	<u>\$ 28,816,753</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, 2013, 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.

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, 2013, the City had deposits with financial institutions in excess of federal depository insurance limits of \$12,304,941 and \$821,782 held in collateralized accounts for the successor agency and City, respectively.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 2: Cash and Investments (continued)

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, 2013, the carrying amount (at amortized cost) of the Pool was \$58,812,406,570 and the estimated fair value of the Pool was \$58,828,474,533. The City's proportionate share of the Pool's market value (as determined by LAIF) as of June 30, 2013, was \$8,704,688. 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).

The City reports its share in the investment pool at the estimated fair market value. As of June 30, 2013, the City's share of the Pool (as determined by CAMP) is \$3,883,247. 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.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 3: Interfund Receivable, Payable and Transfers

The composition of interfund balances at June 30, 2013 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds (1)	\$ 11,174
	Nonmajor Governmental Funds (3)	4,533
	Capital Project Fund (1)	864,255
Nonmajor Governmental Funds	Nonmajor Governmental Funds (2)	<u>25,437</u>
		<u>\$ 905,399</u>

- (1) The above amounts were loaned to provide short-term loans to fund operations of the various funds.
- (2) The above amount was advanced by the Facilities Fund to the Traffic Safety Fund to pay for delinquent contract fees due to Redflex Traffic Systems.
- (3) The above amount represents remaining advance made by the General Fund for the Barton/Colton Bridge capital project.

Advances from/to other funds:

Receivable Fund	Payable Fund	Amount
Housing Authority Fund	General Fund	<u>\$ 168,205</u>
		<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 \$3,072,580. 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
June 30, 2013**

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

Interfund transfers:

Fund Receiving Transfers	Fund Making Transfers		Amount
General Fund	Nonmajor Governmental Funds	(1)	\$ 40,606
	Street Improvement Fund	(1)	48,793
	Child Care Center Fund	(1)	196,884
	Waste Water Disposal Fund	(1)	155,878
	Nonmajor Governmental Funds	(5)	5,000
			447,161
Nonmajor Governmental Funds	Nonmajor Governmental Funds	(2)	16,824
	General Fund	(3)	89,957
	Street Improvement Fund	(4)	214,000
			320,781
Total Interfund Transfers			\$ 767,942

- (1) These transfers were made for cost allocation.
- (2) Cost allocation correction.
- (3) Transfers were made for franchise sweep fees and pavement impact fees to Gas Tax.
- (4) Transfer was to fund Michigan/Main Signal Light capital project.
- (5) Transfers were for contract maintenance, legal costs and engineering costs.

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, 2013, is \$364.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletion	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,177,069	\$ -	\$ -	\$ 2,177,069
Construction in progress	297,832	1,106,596	-	1,404,428
	<u>2,474,901</u>	<u>1,106,596</u>	<u>-</u>	<u>3,581,497</u>
Total capital assets, not being depreciated				
	<u>2,474,901</u>	<u>1,106,596</u>	<u>-</u>	<u>3,581,497</u>
Capital assets, being depreciated:				
Buildings	6,268,981	-	-	6,268,981
Machinery & equipment	804,972	-	-	804,972
Vehicles	592,707	-	(63,486)	529,221
Improvements other than buildings	3,937,195	-	-	3,937,195
Infrastructure	3,959,964	214,000	-	4,173,964
	<u>15,563,819</u>	<u>214,000</u>	<u>(63,486)</u>	<u>15,714,333</u>
Total capital assets, being depreciated				
	<u>15,563,819</u>	<u>214,000</u>	<u>(63,486)</u>	<u>15,714,333</u>
Less accumulated depreciation for:				
Buildings	(2,588,647)	(155,602)	-	(2,744,249)
Machinery & equipment	(624,805)	(23,697)	-	(648,502)
Vehicles	(492,167)	(25,896)	63,486	(454,577)
Improvements other than buildings	(2,006,428)	(197,842)	-	(2,204,270)
Infrastructure	(839,877)	(222,518)	-	(1,062,395)
	<u>(6,551,924)</u>	<u>(625,555)</u>	<u>63,486</u>	<u>(7,113,993)</u>
Total accumulated depreciation				
	<u>(6,551,924)</u>	<u>(625,555)</u>	<u>63,486</u>	<u>(7,113,993)</u>
Total capital assets, being depreciated, net				
	<u>9,011,895</u>	<u>(411,555)</u>	<u>-</u>	<u>8,600,340</u>
Governmental activities capital assets, net				
	<u>\$ 11,486,796</u>	<u>\$ 695,041</u>	<u>\$ -</u>	<u>\$ 12,181,837</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 5: Capital Assets (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type Activities:				
Capital assets, being depreciated:				
Sewer mains	\$ 4,023,129	\$ -	\$ -	\$ 4,023,129
Laterals	1,890,943	-	-	1,890,943
Manholes	1,298,760	-	-	1,298,760
Improvements	202,274	-	-	202,274
Total capital assets, being depreciated	7,415,106	-	-	7,415,106
Less accumulated depreciation for:				
Sewer mains	(1,248,048)	(44,701)	-	(1,292,749)
Laterals	(499,072)	(21,010)	-	(520,082)
Manholes	(373,517)	(14,431)	-	(387,948)
Improvements	(54,781)	(8,428)	-	(63,209)
Total accumulated depreciation	(2,175,418)	(88,570)	-	(2,263,988)
Business-type activity capital assets, net	\$ 5,239,688	\$ (88,570)	\$ -	\$ 5,151,118

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

Governmental activities:	
General government	\$ 79,765
Public safety	16,395
Public works	249,664
Economic development	5,426
Culture and recreation	274,305
Total depreciation expense - governmental activities	\$ 625,555

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 6: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Transferred from Successor Agency	Ending Balance	Due Within One Year
Governmental Activities:						
Capital leases:						
Zions National Bank	\$ -	\$ -	\$ (87,459)	\$ 1,679,159	\$ 1,591,700	\$ 181,213
HVAC Lease	27,807	-	(27,807)	-	-	-
Total capital leases	<u>27,807</u>	<u>-</u>	<u>(115,266)</u>	<u>1,679,159</u>	<u>1,591,700</u>	<u>181,213</u>
OPEB Obligation	604,724	262,747	(3,485)	-	863,986	-
Compensated Absences	<u>242,280</u>	<u>119,084</u>	<u>(99,678)</u>	<u>-</u>	<u>261,686</u>	<u>65,422</u>
Total long-term liabilities	<u>\$ 874,811</u>	<u>\$ 381,831</u>	<u>\$ (218,429)</u>	<u>\$ 1,679,159</u>	<u>\$ 2,717,372</u>	<u>\$ 246,635</u>

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. The lease payable was identified as part of the former redevelopment agency's long-term debt. The lease was transferred to the Successor Agency on February 1, 2012 as a result of the Redevelopment Agency closure. On September 1, 2012 the Department of Finance for the State allowed a debt service payment of \$127,424 for the 2009 Zions National Bank lease. However, the Department of Finance later indicated that this loan was not an enforceable obligation of the Agency, and therefore, denied payment for the second debt service payment which was due on March 1, 2013. The Zions Bank Lease was then transferred back to the City as a result.

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

Year Ending June 30,	Principal	Interest
2014	\$ 181,213	\$ 73,633
2015	189,943	64,906
2016	199,091	55,756
2017	208,681	46,167
2018	218,732	36,116
2019-2021	<u>594,040</u>	<u>43,079</u>
Total	<u>\$ 1,591,700</u>	<u>\$ 319,657</u>

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 6: Long-Term Liabilities (continued)

HVAC Lease

In 2007, the City entered into a lease to purchase a HVAC system. The amount financed was \$170,000 to be repaid over a seven-year period with interest at 4.84%. Principal and interest payments are made semi-annually commencing on December 1, 2006. The HVAC lease was paid off as of June 30, 2013.

Note 7: 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 21.284% 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 2013, the City's annual pension cost of \$315,660 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.

THREE YEAR TREND INFORMATION FOR PERS			
Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
06/30/11	\$ 301,174	100%	\$ -
06/30/12	\$ 316,814	100%	\$ -
06/30/13	\$ 315,660	100%	\$ -

Note 8: 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.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 8: Other Post Employment Benefits (continued)

Plan description (continued)

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 2012-2013, the City contributed \$3,485 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 2013. 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. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	June 30, 2013
Annual required contribution	\$ 265,000
Interest on net OPEB obligation	24,189
Adjustment to annual required contribution	(26,442)
Annual OPEB cost (expense)	262,747
Contributions made	(3,485)
Increase in net OPEB obligation	259,262
Net OPEB obligation – beginning of year	604,724
Net OPEB obligation – end of year	\$ 863,986

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 155,057	0%	\$ 444,393
June 30, 2012	\$ 161,998	1%	\$ 604,724
June 30, 2013	\$ 262,747	2%	\$ 863,986

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 8: Other Post Employment Benefits (continued)

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 percentage of covered payroll [(b-a)/c]
6/30/2011	6/30/2011	\$ -	\$ 1,795,000	\$ 1,795,000	0.00%	\$ 1,911,101	93.92%
6/30/2012	6/30/2011	\$ -	\$ 2,036,000	\$ 2,036,000	0.00%	\$ 1,674,924	121.56%
6/30/2013	6/30/2011	\$ -	\$ 2,290,000	\$ 2,290,000	0.00%	\$ 1,444,650	158.52%

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

Actuarial methods and assumptions

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

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Method. The actuarial assumptions included a 4.5% 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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 9: 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, 2013, approximately \$2,590,000 of the bonds were outstanding.

Note 10: Risk Management

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

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

The City of Grand Terrace is a member of the California Joint Powers Insurance Authority (the "Authority"). The Authority is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other 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.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 10: Risk Management (continued)

b. Self-insurance programs of the Authority

General Liability Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member's primary deposit; costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000. Losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll. 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 \$50,000,000 annual aggregate. Administrative expenses are paid from the Authority's investment earnings.

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

c. Purchased insurance

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

d. Adequacy of protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 11: Contingencies

As of June 30, 2013, 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 12: 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 13: 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.

The Residual Property Tax balance received by the City as a taxing entity from the last 3 recognized obligation payment schedule (ROPS) cycles has been significant, enabling the City Council to designate the following reserves:

- A General Fund contingency reserve 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 reserve for capital asset replacements (\$200,000); and
- A Budget Stabilization Reserve for future deficits (\$400,000).

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, 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 one-time 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

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

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 14: 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.

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, 2013 the California State Controller had not issued its final Finding of Completion letter to the Successor Agency and assets transfers and obligations were still under review.

**City of Grand Terrace
Notes to Financial Statements
June 30, 2013**

Note 14: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency (continued)

Successor Agency long-term debt

Schedule of changes in long-term liabilities as of June 30, 2013

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
2004 Refunding Tax Allocation Bonds	\$ 1,930,000	\$ -	\$ (1,930,000)	\$ -	\$ -
2011 Tax Allocation Bonds, Series A	15,175,000	-	(260,000)	14,915,000	280,000
2011 Tax Allocation Bonds, Series B	5,650,000	-	(220,000)	5,430,000	235,000
Less: deferred amounts					
on refunding	-	-		-	-
Discount on bonds issued	(164,374)	-	9,110	(155,264)	-
Total bonds payable	<u>22,590,626</u>	<u>-</u>	<u>(2,400,890)</u>	<u>20,189,736</u>	<u>515,000</u>
Capital leases:					
Zions National Bank	1,764,585	-	(1,764,585)	-	-
Total capital leases	<u>1,764,585</u>	<u>-</u>	<u>(1,764,585)</u>	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>\$ 24,355,211</u>	<u>\$ -</u>	<u>\$ (4,165,475)</u>	<u>\$ 20,189,736</u>	<u>\$ 515,000</u>

a. 2004 Refunding Tax Allocation Bonds

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

The former CRA deposited \$8,241,183 of the proceeds in an irrevocable trust and purchased U.S. Government State and Local Government Securities for the purpose of generating resources which will be used to call the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$851,183. This amount is being netted against the new debt and amortized over the remaining life of the new debt. This advance refunding was undertaken to reduce total debt service payments over 14 years by \$464,691 and resulted in an economic gain of \$631,303. The 2004 Refunding Tax Allocation Bond was transferred to the Successor Agency on February 1, 2012 as a result of the Redevelopment Agency closure. As of June 30, 2013, the bond was paid off.

City of Grand Terrace
Notes to Financial Statements
June 30, 2013

Note 14: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency (continued)

b. 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.

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

Year Ending June 30,	Principal	Interest
2014	\$ 280,000	\$ 836,595
2015	285,000	828,195
2016	295,000	819,645
2017	310,000	807,845
2018	320,000	789,446
2019-2023	1,810,000	3,719,109
2024-2028	2,985,000	3,129,450
2029-2033	6,975,000	1,591,050
2034	1,655,000	49,650
Total	\$ 14,915,000	\$ 12,570,985

c. 2011B Taxable 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 2011B. The Bonds were issued for the purpose of acquiring land for resale and development in the Project Area. Interest varies from 7.10% to 7.70% and is payable semiannually on March 1 and September 1, commencing September 1, 2011. Principal payments are due annually commencing September 1, 2012 through September 1, 2026. The Bonds are payable from and secured by a pledge of Tax Increment, less amounts required to make payments under the Pass-Through Agreements, annual debt service of the 2004 Bonds and the Housing Set-Aside Amount. The 2011B 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
June 30, 2013**

Note 14: Successor Agency Private-Purpose Trust Fund to the Former Redevelopment Agency (continued)

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

Year Ending June 30,	Principal	Interest
2014	\$ 235,000	\$ 403,470
2015	255,000	386,785
2016	270,000	368,680
2017	290,000	349,510
2018	310,000	317,915
2019-2023	1,930,000	1,205,425
2024-2027	2,140,000	344,960
Total	\$ 5,430,000	\$ 3,376,745

Required Supplementary Information

Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,352,836	\$ 2,352,836	\$ 3,270,498	\$ 917,662
Licenses and permits	635,270	635,270	625,907	(9,363)
Intergovernmental	65,000	65,000	43,468	(21,532)
Charges for services	129,750	129,750	198,493	68,743
Fines and forfeitures	27,500	27,500	40,613	13,113
Use of money and property	38,130	38,130	28,786	(9,344)
Other	301,000	301,000	5,884	(295,116)
Total revenues	3,549,486	3,549,486	4,213,649	664,163
EXPENDITURES				
Current:				
General government	1,120,859	1,170,859	1,096,632	74,227
Public safety	1,770,065	1,770,065	1,715,916	54,149
Public works	789,404	789,404	701,101	88,303
Cultural and recreation	297,975	297,975	213,783	84,192
Debt service:				
Principal	-	-	115,266	(115,266)
Interest	-	-	40,977	(40,977)
Total expenditures	3,978,303	4,028,303	3,883,675	144,628
Excess (deficiency) of revenues over (under) expenditures	(428,817)	(478,817)	329,974	808,791
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	19,643	19,643
Transfers in	675,031	675,031	447,161	(227,870)
Transfers out	(91,520)	(91,520)	(89,957)	1,563
Total other financing sources (uses)	583,511	583,511	376,847	(206,664)
Net change in fund balance	154,694	104,694	706,821	602,127
Fund balance - beginning of year	786,960	786,960	786,960	-
Fund balance - end of year	<u>\$ 941,654</u>	<u>\$ 891,654</u>	<u>\$ 1,493,781</u>	<u>\$ 602,127</u>

Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
Street Improvement Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Use of money and property	\$ 2,000	\$ 2,000	\$ 2,815	\$ 815
Developer fees	5,000	5,000	-	(5,000)
Total revenues	<u>7,000</u>	<u>7,000</u>	<u>2,815</u>	<u>\$ (4,185)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,000</u>	<u>7,000</u>	<u>2,815</u>	<u>(4,185)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(366,284)</u>	<u>(366,284)</u>	<u>(262,793)</u>	<u>103,491</u>
Total other financing sources (uses)	<u>(366,284)</u>	<u>(366,284)</u>	<u>(262,793)</u>	<u>103,491</u>
Net change in fund balance	(359,284)	(359,284)	(259,978)	99,306
Fund balance - beginning of year	<u>1,292,515</u>	<u>1,292,515</u>	<u>1,292,515</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 933,231</u></u>	<u><u>\$ 933,231</u></u>	<u><u>\$ 1,032,537</u></u>	<u><u>\$ 99,306</u></u>

Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
Housing Authority Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Use of money and property	\$ -	\$ -	\$ 78	\$ 78
Miscellaneous	-	-	1,025	1,025
Total revenues	-	-	1,103	1,103
EXPENDITURES				
Economic development	-	-	37	(37)
Excess (deficiency) of revenues over (under) expenditures	-	-	1,066	1,066
Net change in fund balance	-	-	1,066	1,066
Fund balance - beginning of year	1,926,007	1,926,007	1,926,007	-
Fund balance - end of year	<u>\$ 1,926,007</u>	<u>\$ 1,926,007</u>	<u>\$ 1,927,073</u>	<u>\$ 1,066</u>

Required Supplementary Information
City of Grand Terrace
Budgetary Comparison Schedule
Child Care Center Fund
For the year ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 1,046,306	\$ 1,046,306	\$ 1,109,957	\$ 63,651
Use of money and property	-	-	31	31
Miscellaneous	-	-	552	552
	<u>1,046,306</u>	<u>1,046,306</u>	<u>1,110,540</u>	<u>64,234</u>
EXPENDITURES				
Cultural and recreation	852,730	852,730	886,810	(34,080)
	<u>852,730</u>	<u>852,730</u>	<u>886,810</u>	<u>(34,080)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>193,576</u>	<u>193,576</u>	<u>223,730</u>	<u>30,154</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(198,867)	(198,867)	(196,884)	1,983
	<u>(198,867)</u>	<u>(198,867)</u>	<u>(196,884)</u>	<u>1,983</u>
Net change in fund balance	(5,291)	(5,291)	26,846	32,137
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ (5,291)</u>	<u>\$ (5,291)</u>	<u>\$ 26,846</u>	<u>\$ 32,137</u>

**Nonmajor Governmental Funds
Combining Statements**

**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

	Special Revenue Funds			
	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
ASSETS				
Cash and investments	\$ 72,455	\$ 233,797	\$ -	\$ 71,874
Accrued revenue	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	10,239	7,626
	<hr/>			
Total assets	<u>\$ 72,455</u>	<u>\$ 233,797</u>	<u>\$ 10,239</u>	<u>\$ 79,500</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 716	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	11,174	-
Deferred revenue	-	-	-	-
	<hr/>			
Total liabilities	-	716	11,174	-
<hr/>				
Fund balances:				
Restricted for:				
Public works	72,455	-	-	79,500
Community development	-	233,081	-	-
Unassigned	-	-	(935)	-
	<hr/>			
Total fund balances (deficit)	<u>72,455</u>	<u>233,081</u>	<u>(935)</u>	<u>79,500</u>
	<hr/>			
Total liabilities and fund balances	<u>\$ 72,455</u>	<u>\$ 233,797</u>	<u>\$ 10,239</u>	<u>\$ 79,500</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	CDBG	Terrace Pines Landscape and Lighting District	Total Special Revenue Funds
\$ 183,946	\$ 25,677	\$ 186,797	\$ 374,546	\$ 4,820	\$ 1,822	\$ 1,155,734
26,767	9,233	-	-	-	-	36,000
-	-	25,437	-	-	-	25,437
-	6,654	-	45,070	3,118	-	72,707
<u>\$ 210,713</u>	<u>\$ 41,564</u>	<u>\$ 212,234</u>	<u>\$ 419,616</u>	<u>\$ 7,938</u>	<u>\$ 1,822</u>	<u>\$ 1,289,878</u>
\$ 19,228	\$ 969	\$ -	\$ -	\$ -	\$ 804	\$ 21,717
1,788	-	-	-	-	-	1,788
-	25,437	-	-	-	-	36,611
-	-	-	-	-	-	-
<u>21,016</u>	<u>26,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>804</u>	<u>60,116</u>
189,697	15,158	-	419,616	-	1,018	777,444
-	-	212,234	-	27,522	-	472,837
-	-	-	-	(19,584)	-	(20,519)
<u>189,697</u>	<u>15,158</u>	<u>212,234</u>	<u>419,616</u>	<u>7,938</u>	<u>1,018</u>	<u>1,229,762</u>
<u>\$ 210,713</u>	<u>\$ 41,564</u>	<u>\$ 212,234</u>	<u>\$ 419,616</u>	<u>\$ 7,938</u>	<u>\$ 1,822</u>	<u>\$ 1,289,878</u>

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**City of Grand Terrace
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

	Capital Projects Funds			Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Street Improvement	Barton / Colton Bridge	Capital Projects/Bonds Proceeds		
ASSETS					
Cash and investments	\$ 31,491	\$ 6,858	\$ -	\$ 38,349	\$ 1,194,083
Accrued revenue	-	-	-	-	36,000
Due from other funds	-	-	-	-	25,437
Due from other governments	-	-	-	-	72,707
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,707</u>
Total assets	<u>\$ 31,491</u>	<u>\$ 6,858</u>	<u>\$ -</u>	<u>\$ 38,349</u>	<u>\$ 1,328,227</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 21,717
Accrued liabilities	-	-	-	-	1,788
Due to other funds	-	4,533	348	4,881	41,492
Deferred revenue	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>4,533</u>	<u>348</u>	<u>4,881</u>	<u>64,997</u>
Fund balances:					
Restricted for:					
Public works	63,508	2,325	-	65,833	843,277
Community development	-	-	-	-	472,837
Unassigned	<u>(32,017.00)</u>	<u>-</u>	<u>(348)</u>	<u>(32,365)</u>	<u>(52,884)</u>
Total fund balances (deficit)	<u>31,491</u>	<u>2,325</u>	<u>(348)</u>	<u>33,468</u>	<u>1,263,230</u>
Total liabilities and fund balances	<u>\$ 31,491</u>	<u>\$ 6,858</u>	<u>\$ -</u>	<u>\$ 38,349</u>	<u>\$ 1,328,227</u>

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2013

	Special Revenue Funds			
	Storm Drain Improvement	Park Development	AB 3229 COPS Fund	Air Quality Improvement
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 100,021	\$ 14,665
Fines and forfeitures	-	-	-	-
Use of money and property	164	525	(28)	154
Other	-	-	-	-
Total revenues	<u>164</u>	<u>525</u>	<u>99,993</u>	<u>14,819</u>
EXPENDITURES				
Current:				
Public safety	-	-	100,000	-
Public works	-	-	-	-
Capital outlay:				
Project improvement costs	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>164</u>	<u>525</u>	<u>(7)</u>	<u>14,819</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	7
Transfers out	-	(2,361)	(495)	-
Total other financing sources (uses)	<u>-</u>	<u>(2,361)</u>	<u>(495)</u>	<u>7</u>
Net change in fund balances	164	(1,836)	(502)	14,826
Fund balances (deficit) - beginning	<u>72,291</u>	<u>234,917</u>	<u>(433)</u>	<u>64,674</u>
Fund balances (deficit) - ending	<u>\$ 72,455</u>	<u>\$ 233,081</u>	<u>\$ (935)</u>	<u>\$ 79,500</u>

Special Revenue Funds

State Gas Tax	Traffic Safety	Facilities Development	Measure I	CDBG	Terrace Pines Landscape and Lighting District	Total Special Revenue Funds
\$ 292,423	\$ -	\$ -	\$ 177,207	\$ 75,804	\$ 10,636	\$ 670,756
-	46,344	-	-	-	311	46,655
273	(50)	503	644	24	8	2,217
-	-	-	-	-	-	-
<u>292,696</u>	<u>46,294</u>	<u>503</u>	<u>177,851</u>	<u>75,828</u>	<u>10,955</u>	<u>719,628</u>
-	13,321	-	-	-	-	113,321
290,618	-	-	-	25,724	4,121	320,463
-	-	-	-	-	-	-
<u>290,618</u>	<u>13,321</u>	<u>-</u>	<u>-</u>	<u>25,724</u>	<u>4,121</u>	<u>433,784</u>
2,078	32,973	503	177,851	50,104	6,834	285,844
89,957	-	-	14,258	-	-	104,222
(46,135)	(4,594)	-	-	-	(8,845)	(62,430)
<u>43,822</u>	<u>(4,594)</u>	<u>-</u>	<u>14,258</u>	<u>-</u>	<u>(8,845)</u>	<u>41,792</u>
45,900	28,379	503	192,109	50,104	(2,011)	327,636
<u>143,797</u>	<u>(13,221)</u>	<u>211,731</u>	<u>227,507</u>	<u>(42,166)</u>	<u>3,029</u>	<u>902,126</u>
<u>\$ 189,697</u>	<u>\$ 15,158</u>	<u>\$ 212,234</u>	<u>\$ 419,616</u>	<u>\$ 7,938</u>	<u>\$ 1,018</u>	<u>\$ 1,229,762</u>

City of Grand Terrace
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2013

	Capital Projects Funds			Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Street Improvement	Barton / Colton Bridge	Capital Projects/Bonds Proceeds		
REVENUES					
Intergovernmental	\$ -	\$ 33,641	\$ -	\$ 33,641	\$ 704,397
Fines and forfeitures	-	-	-	-	46,655
Use of money and property	(335)	(53)	(359)	(747)	1,470
Other	-	-	198,009	198,009	198,009
Total revenues	<u>(335)</u>	<u>33,588</u>	<u>197,650</u>	<u>230,903</u>	<u>950,531</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	-	113,321
Public works	216,559	-	-	216,559	537,022
Capital outlay:					
Project improvement costs	-	-	198,009	198,009	198,009
Total expenditures	<u>216,559</u>	<u>-</u>	<u>198,009</u>	<u>414,568</u>	<u>848,352</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(216,894)</u>	<u>33,588</u>	<u>(359)</u>	<u>(183,665)</u>	<u>102,179</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	216,559	-	-	216,559	320,781
Transfers out	-	-	-	-	(62,430)
Total other financing sources (uses)	<u>216,559</u>	<u>-</u>	<u>-</u>	<u>216,559</u>	<u>258,351</u>
Net change in fund balances	(335)	33,588	(359)	32,894	360,530
Fund balances (deficit) - beginning	<u>31,826</u>	<u>(31,263)</u>	<u>11</u>	<u>574</u>	<u>902,700</u>
Fund balances (deficit) - ending	<u>\$ 31,491</u>	<u>\$ 2,325</u>	<u>\$ (348)</u>	<u>\$ 33,468</u>	<u>\$ 1,263,230</u>