

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

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

June 30, 2011



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

Community Redevelopment Agency of the City of Grand Terrace

Table of Contents

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to Financial Statements	18
Required Supplementary Information	
Budgetary Comparison Schedule - Major Special Revenue Fund	38
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
Independent Auditor's Report on Compliance with Health and Safety Code Section 33080.1	41
Computation of Low and Moderate Income Housing – Excess Surplus	44



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

INDEPENDENT AUDITOR'S REPORT

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We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California (the Agency), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace, California, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As explained in Note 13 of these statements, it is uncertain as to the future continuation of redevelopment agencies in the State of California as a result of certain legislative actions enacted by the California State Legislature.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2011, on our consideration of the Community Redevelopment Agency of the City of Grand Terrace, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Rogers, Anderson, Malody & Scott, LLP

December 6, 2011

Management's Discussion and Analysis

Our discussion and analysis of the Community Redevelopment Agency of the City of Grand Terrace (the Agency) financial performance for the fiscal year ended June 30, 2011 provides an overview of year ending results based on the government-wide statements, an analysis on the Agency's overall financial position, and results of operations to assist users in evaluating the Agency's financial position. In addition, it shows the result of the activities during the year for long term debt. Please read it in conjunction with the Agency's financial statements.

FINANCIAL HIGHLIGHTS

The Agency recorded \$7,029,426 of expenditures on programs and projects in the government-wide statements (\$8,740,389 on the fund statements) including:

Administration and economic development costs – Personnel, legal, consulting, redevelopment plan amendment costs, general development and economic expenditures - \$955,352. In addition, \$300,000 was paid to the City of Grand Terrace in a contractual residual receipts agreement guarantee with the Agency.

Housing and Displacement Activities

Displacement: There were no non-elderly or elderly households that were displaced or moved from their dwelling units as part of a redevelopment project of the Agency during the 2010-11 fiscal year.

Affordable Housing Programs: The Agency purchased a 0.5 acre parcel at 12569 Michigan Street with \$132,180 of Low- to Moderate-Income Housing Funds (LMIHF), and on June 21, 2011, the Agency sold the parcel to Habitat for Humanity for \$1. Habitat will begin construction of two single family homes at the site in 2012.

Although there was no new affordable housing loan activity in fiscal year 2010-11, the Agency is administering a portfolio of remaining low and moderate income loans.

- Low and Moderate Home Improvement Loan Program: 6 outstanding loans, value \$84,355. One loan has recently been paid in full, after June 30, 2011, and will be shown in next year's annual report.
- Low and Moderate 2nd Mortgage Program (purchases): 11 outstanding loans, total value \$688,600.

Offsite Improvements for Affordable Housing: There were no dwelling units designated as very low, low, and moderate income households that directly benefited from LMIHF expenditures for offsite improvements which resulted in the elimination of health and safety hazards.

Maintenance and Repair for Affordable Housing: No activities were conducted during this fiscal year 2010-11.

Alleviation of Blight

California Health and Safety § 33080.1(c) also requires a description of the Agency's progress in alleviating blight in the fiscal year 2010-11, including specific actions and expenditures.

The following projects and programs were started and/or completed during this reporting period.

Property acquisition and land improvements for projects

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

Other projects – expenditures and encumbrances in the current fiscal year include:

Other public benefit projects:

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

Code Enforcement Program – The Agency has continued its support of the Code Enforcement Program to ensure the preservation of both residential and commercial neighborhoods and eliminate substandard housing. In addition to complaint response, pro-active inspections are conducted annually of rental properties through the Rental Inspection Program. Any substandard housing and property maintenance violations observed are required to be corrected. Pro-active enforcement has been expanded over this fiscal year.

Commercial Exterior Improvement Program – The Agency is working with property owners to provide financial assistance to improve building facades and properties. \$52,214 was expended in the current fiscal year.

Neighborhood Improvement Grant Program – The Agency is providing limited financial assistance to improve the exterior of older homes in the City. \$9,682 was expended in the current fiscal year. The maximum grant amount is \$1,000 for qualified residents, and the funds may be used to purchase materials for exterior upgrades to residential property, such as paint and landscaping materials.

Economic Development – The Agency executed a \$1.2 million Economic Development Agreement with Stater Bros. Markets in September 2010.

Redevelopment Plan Amendment

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

- Extend the time limit for payment of indebtedness and receipt of taxes to September 27, 2032 in the original project area and July 15, 2034 in the revised project area.
- Increase the tax increment revenue limit from \$70 million to \$225 million.
- Increase the amount of outstanding bonded debt from \$15 million to \$75 million.
- Enable issuance of 2011A & 2011B tax allocation bonds.

Agency Owned Property

The Agency owns approximately 40 acres consisting of fifteen (15) parcels at the end of the fiscal year.

Debt Service

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

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

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

Other

On the economic financial resources (government-wide) basis, the Agency's total net assets were in surplus position of \$9,599,613 and on the current resources (fund financial statements) basis the Agency's fund balances were in a surplus position of \$35,531,894 at the end of the year. The lower net assets position on the government wide basis derives from the fact that the Agency produces no capital assets, yet reduces net assets for current and future indebtedness under existing bond agreements and capital leases. The non-current portion of these liabilities is not shown under the fund financial statements.

On the economic financial resources (government-wide) basis, the Agency reported a change in net assets of \$(421,952) and on the current resources (fund financial statements) basis reported a change in fund balance of \$18,356,271 for the year. This difference is due primarily to the proceeds from issuance of new debt. It is important to note that payments to retire bond principal reduce liabilities and therefore increase net assets on the government-wide basis, whereas payments to retire bond principal are considered expenditures and decrease fund balances under the fund financial statements.

USING THIS ANNUAL REPORT

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

REPORTING THE AGENCY AS A WHOLE

Statement of Net Assets and Statement of Activities

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

REPORTING THE AGENCY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

TABLE 1

Net Assets

	Governmental Activities	
	2011	2010
Current and restricted assets	\$ 35,932,429	\$ 17,395,307
Land held for resale	4,087,317	4,087,317
Total assets	<u>40,019,746</u>	<u>21,482,624</u>
Long-term liabilities outstanding	24,355,211	5,414,532
Other liabilities	6,064,922	6,046,527
Total liabilities	<u>30,420,133</u>	<u>11,461,059</u>
Restricted	17,631,126	17,080,186
Unrestricted	<u>(8,031,513)</u>	<u>(7,058,621)</u>
Total net assets	<u>\$ 9,599,613</u>	<u>\$ 10,021,565</u>

TABLE 2**Changes in Net Assets**

	Governmental Activities	
	2011	2010
GENERAL REVENUES:		
Property tax increment	\$ 6,506,229	\$ 6,810,563
Investment earnings	100,232	129,314
Miscellaneous	1,013	-
Intergovernmental	-	50,990
Total revenues	<u>6,607,474</u>	<u>6,990,867</u>
PROGRAM EXPENSES:		
Community development	1,370,748	3,820,070
Pass-through payments	2,262,609	2,040,941
Project improvement costs	2,286,596	671,590
Interest on long-term debt	1,109,473	341,401
Total expenses	<u>7,029,426</u>	<u>6,874,002</u>
Change in net assets	<u>\$ (421,952)</u>	<u>\$ 116,865</u>

Revenues – Statement of Activities

The total revenue from governmental activities was \$6,607,474. Redevelopment tax increment comprised \$6,506,229 or 98.4 percent of the total revenue of the Agency. Gross tax increment received decreased 4.4 percent. Twenty percent of gross tax increment is restricted to low and moderate income housing programs. Pass-through to other agencies increased 10.8 percent primarily due to the increase from the school district. After pass-through to other agencies, the Agency realized net increment of \$4,243,620, a decrease of 11.2 percent over last year.

Expenses – Statement of Activities

Overall expenses of the Agency totaled \$7,029,426. Expenses specific to other community development activity, including planning, code enforcement and housing activities, totaled \$1,502,929 or 21.3 percent of total expenses. Pass-through agreements consist of tax increment that is deducted from our gross increment and distributed to other agencies by the County of San Bernardino, statutory pass-through amounts calculated by the Agency and a pass-through settlement agreement with the Colton Joint Unified School District. The Agency is required to report tax increment at the gross amount so that the calculations for the 20 percent set aside restricted for low and moderate income housing activities is distinguishable. This pass-through amounted to \$2,262,609 or 32.2 percent of total expenses. Project Improvement costs amounted to \$2,286,596, or 30.6 percent of the total. Making up the remainder of expenses were interest on debt service of \$1,109,473 or 15.8 percent.

Net Assets – Statement of Activities

The Agency's net assets decreased \$421,952 during the year as a result of lower revenues, increased pass-through and debt service costs. This change is reflected in the statement of activities.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the Agency's government, reporting the Agency's operations in more detail than the government-wide financial statements. The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The Agency's governmental funds reported combined fund balances at June 30, 2011 of \$35,531,894, an increase of more than 106.8 percent from last fiscal year.

TABLE 3

Fund Financial Statements – Fund Balances

	Governmental Activities	
	2011	2010
Restricted for:		
Low-mod income housing	\$ 2,454,480	\$ 2,391,006
Debt service	10,568,189	12,104,856
Community development	22,509,225	2,679,761
Total fund balances	<u>\$ 35,531,894</u>	<u>\$ 17,175,623</u>

Fund Balance Analysis by Fund

The Special Revenue Fund revenues were \$1,307,421 and expenditures and net other financing uses were \$1,243,947. Restated Fund balance increased by \$63,474 to \$2,454,480. The increase is primarily related to increased net revenues.

The Debt Service Fund revenues were \$5,235,057 and expenditures and net other financing uses were \$6,771,724. Restated Fund balance decreased by \$1,536,667 to \$10,568,189. The decrease is primarily due to the increase in resource transfer to the Capital Projects Fund to pay for redevelopment activities.

The Capital Projects Fund revenues were \$64,996, while net other financing sources added \$22,870,662, primarily from the issuance of bond debt in June 2011. Expenditures amounted to \$3,106,194. The Restated Fund balance increased by \$19,829,464 to \$22,509,225.

Major Special Revenue Fund Budgetary Highlights

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

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

Actual revenues in the Housing Fund were \$343,294 below revised estimates. This is primarily due to the decrease in tax increment. Actual tax increment housing set aside was below the estimate by \$311,569, while investment earnings were \$31,725 under final projections. Program expenditures and other financing uses were under final budget by \$214,633, resulting in a net increase in fund balance of \$63,474, compared to a budgeted net change in fund balance of \$192,135.

DEBT ADMINISTRATION

At year-end, the Agency's governmental activities had \$26,148,547 in outstanding bonds, loans and notes.

TABLE 4

Outstanding Debt, at Year-End

	Governmental Activities	
	2011	2010
Refunding tax allocation bonds	\$ 3,650,000	\$ 5,320,000
Tax allocation bonds	15,175,000	-
Taxable tax allocation bonds	5,650,000	-
Premium on bonds	23,901	47,800
Discount on issuance	(173,484)	-
Deferred charges	(106,397)	(212,795)
Lease agreement	1,929,527	2,086,889
Total outstanding debt	<u>\$ 26,148,547</u>	<u>\$ 7,241,894</u>

ECONOMIC FACTORS

Although delayed by legal challenges and the general economic recession, the Agency is progressing with projects in 2010-11. Work is continuing on the Town Center Project and Grand Crossings Project. The general economy of the Inland Empire region and especially the housing industry continued to decline and the foreclosures are still high. San Bernardino County's median new home price was down 19.3% in the second quarter of 2011 compared to the previous year. New home sales fell 51.4% countywide, while existing home sales fell 14.4%. The Inland Empire regional unemployment rate was at 13.2% in May, 2011.

The general economy for Grand Terrace approximates the regional statistics with some exceptions. Taxable sales at June 30, 2011 increased 8.9% compared to the previous year while taxable sales increased countywide by 9.9%. Assessed property values for 2010-11 decreased 4.97% overall in the City and decreased 6.0% in the project area.

The continuing State of California budget crisis continues to have a potential effect on all cities, special districts and redevelopment agencies. The State of California passed the FY 2010-11 budget, which includes ABx1-26 and 27. ABx1-26 is intended to end and wind down redevelopment agency operations and ABx1-27 allows agencies to voluntarily continue their agency ("opt-in") subject to certain required filings, constraints and payments of moneys as directed by the state. The Community Redevelopment Agency of Grand Terrace has elected to "opt-in" and execute the necessary procedures under ABx1-27. A lawsuit was filed by the Community Redevelopment Association (CRA) challenging the constitutionality of ABx1-26 and 27. This is the third straight year that the Community Redevelopment Agency has participated in lawsuits against the state. Last year's challenge of ABx4-26 was not successful and the Sacramento County Superior Court upheld ABx4-26. The City of Grand Terrace Community Redevelopment Agency share of ABx4-26 was \$2,179,087 in FY 2009-10 and \$448,636 in FY 2010-11.

The Community Redevelopment Association contends that State seizure of redevelopment funds to balance the State's budget violates Article XVI, Section 16 of the Constitution and voter ballot initiative Proposition 22 - Prohibit State from Taking Some Local Funds passed during the November 2nd statewide election in 2010.

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

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Government-Wide Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Statement of Net Assets
June 30, 2011

ASSETS

Cash and investments	\$ 28,197,818
Cash and investments with fiscal agent	3,068,450
Interest receivable	11,443
Accrued revenue	65
Due from other governments	23,908
Due from City of Grand Terrace	3,388,094
Loans receivable	84,087
Notes receivable	688,600
Property held for resale	4,087,317
Deferred charges	469,964
	<hr/>
Total assets	40,019,746

LIABILITIES

Accounts payable and other current liabilities	299,564
Accrued interest payable	253,698
Due to other governments	3,634,237
Deferred revenue	84,087
Non-current liabilities:	
Due within one year	1,793,336
Due in more than one year	24,355,211
	<hr/>
Total liabilities	30,420,133

NET ASSETS

Restricted for:	
Community development	2,454,480
Capital projects	4,862,155
Debt service	10,314,491
Unrestricted (deficit)	(8,031,513)
	<hr/>
Total net assets	\$ 9,599,613

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

Community Redevelopment Agency of the City of Grand Terrace
Statement of Activities
For the Year Ended June 30, 2011

PROGRAM EXPENSES

Governmental activities:	
Community development	\$ 1,370,748
Pass-through payments	2,262,609
Project improvement costs	2,286,596
Interest on long-term debt	<u>1,109,473</u>
Total program expenses	<u>7,029,426</u>

GENERAL REVENUES

Taxes:	
Incremental property taxes	6,506,229
Investment earnings	100,232
Other income	<u>1,013</u>
Total general revenues	<u>6,607,474</u>
Change in net assets	(421,952)
Net assets, beginning of year, as restated	<u>10,021,565</u>
Net assets, end of year	<u><u>\$ 9,599,613</u></u>

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

Fund Financial Statements

**Community Redevelopment Agency of the City of Grand Terrace
Balance Sheet
Governmental Funds
June 30, 2011**

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 527,721	\$ 8,325,791	\$ 19,344,306	\$ 28,197,818
Cash and investments with fiscal agent	-	3,057,813	10,637	3,068,450
Interest receivable	509	7,278	3,656	11,443
Accrued revenue	65	-	-	65
Due from other funds	448,636	-	-	448,636
Due from other governments	4,782	19,126	-	23,908
Due from City of Grand Terrace	168,205	3,219,889	-	3,388,094
Loans receivable	84,087	-	-	84,087
Notes receivable	688,600	-	-	688,600
Property held for resale	640,166	-	3,447,151	4,087,317
	<u>\$ 2,562,771</u>	<u>\$ 14,629,897</u>	<u>\$ 22,805,750</u>	<u>\$ 39,998,418</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 260	\$ -	\$ 257,355	\$ 257,615
Accrued liabilities	2,779	-	39,170	41,949
Due to other funds	-	448,636	-	448,636
Due to other governments	21,165	3,613,072	-	3,634,237
Deferred revenue	84,087	-	-	84,087
	<u>108,291</u>	<u>4,061,708</u>	<u>296,525</u>	<u>4,466,524</u>
Fund Balances:				
Restricted for:				
Low-mod income housing	2,454,480	-	-	2,454,480
Debt service	-	10,568,189	-	10,568,189
Community development	-	-	22,509,225	22,509,225
	<u>2,454,480</u>	<u>10,568,189</u>	<u>22,509,225</u>	<u>35,531,894</u>
Total liabilities and fund balances	<u>\$ 2,562,771</u>	<u>\$ 14,629,897</u>	<u>\$ 22,805,750</u>	<u>\$ 39,998,418</u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2011**

Total fund balances of governmental funds	\$ 35,531,894
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities--both current and long-term--are reported in the statement of net assets. Balances at June 30, 2011 are:

Bonds payable	(24,475,000)
Less: deferred charge on refunding	106,397
Less: costs of issuance	469,964
Less: discount on issuance	173,484
Plus: premium received on issuance	(23,901)
Capital lease	(1,929,527)
Accrued interest payable	<u>(253,698)</u>
Net assets of governmental activities	<u><u>\$ 9,599,613</u></u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Tax increment	\$ 1,301,246	\$ 5,204,983	\$ -	\$ 6,506,229
Use of money and property	6,175	30,074	63,983	100,232
Miscellaneous	-	-	1,013	1,013
Total revenues	1,307,421	5,235,057	64,996	6,607,474
EXPENDITURES				
Current:				
Economic development	493,352	49,978	597,372	1,140,702
Pass-through payments	-	2,262,609	-	2,262,609
Debt Service:				
Principal	-	1,827,362	-	1,827,362
Interest and other charges	-	868,713	-	868,713
Cost of issuance	-	-	354,407	354,407
Capital outlay:				
Project improvement costs	132,181	-	2,154,415	2,286,596
Total expenditures	625,533	5,008,662	3,106,194	8,740,389
Excess of revenues over (under) expenditures	681,888	226,395	(3,041,198)	(2,132,915)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	-	1,757,800	19,067,200	20,825,000
Discount on issuance	-	-	(173,484)	(173,484)
Transfers in	-	619,301	3,993,713	4,613,014
Transfers out	(619,301)	(3,993,713)	-	(4,613,014)
Transfers from (to) the City of Grand Terrace	887	(146,450)	(16,767)	(162,330)
Total other financing sources (uses)	(618,414)	(1,763,062)	22,870,662	20,489,186
Net change in fund balances	63,474	(1,536,667)	19,829,464	18,356,271
Fund balances, beginning of year, as restated	2,391,006	12,104,856	2,679,761	17,175,623
Fund balances, end of year	<u>\$ 2,454,480</u>	<u>\$ 10,568,189</u>	<u>\$ 22,509,225</u>	<u>\$ 35,531,894</u>

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

**Community Redevelopment Agency of the City of Grand Terrace
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2011**

Net change in fund balances of governmental funds \$ 18,356,271

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

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

Issuance of debt	(20,825,000)
Cost of issuance of debt	354,407
Discount on issuance	173,484
Principal payments on debt	1,827,362

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

Amortization of deferred charge on refunding	(106,398)
Amortization of costs of issuance	(67,716)
Amortization of premium	23,899
Change in accrued interest expense	<u>(158,261)</u>

Change in net assets of governmental activities \$ (421,952)

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

Notes to Financial Statements

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

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

Description of the reporting entity

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

Reporting Entity:

Oversight Unit:

City of Grand Terrace

Component Units:

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

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

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

As of June 30, 2011, the Grand Terrace Project Area was the only project area formed by the Agency.

Government-wide and fund financial statements

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The Agency reports the following major governmental funds:

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

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Cash and investments

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

Receivables and payables

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

Property taxes

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

Property held for resale

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop blighted properties. The Agency records these parcels as land held for resale in its financial records. The land is being carried in the Special Revenue Fund and Capital Projects Fund at net realizable value, which is equal to cost. At June 30, 2011, net realizable value for land held for resale totaled \$3,447,151 in the Capital Projects Fund and \$640,166 in the Special Revenue Fund.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (continued)

Long-term obligations

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

Fund equity

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

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

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed. It is the Agency's policy to consider committed amounts as being reduced 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.

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies (continued)

Use of estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary data

General Budget Policies

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

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

Encumbrances

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

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

Statement of Net Assets:

Cash and investments	\$ 28,197,818
Cash and investments with fiscal agents	<u>3,068,450</u>
Total	<u><u>\$ 31,266,268</u></u>

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

Pooled cash with the City of Grand Terrace	\$ 389,440
Investments pooled with the City of Grand Terrace	<u>30,876,828</u>
Total	<u><u>\$ 31,266,268</u></u>

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 2: Cash and Investments (continued)

Authorized investments

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

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

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

Disclosures relating to interest rate risk

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 2: Cash and Investments (continued)

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

<u>Investment Type</u>	<u>Amount</u>	<u>12 Months or Less</u>
Money Market Mutual Fund	\$ 1,036,278	\$ 1,036,278
Certificates of Deposit	73,182	73,182
Local Agency Investment Fund (LAIF)	23,686,626	23,686,626
Local Gov. Invest. Pool (CAMP)	3,012,292	3,012,292
Held by Trustee:		
Money Market Funds	<u>3,068,450</u>	<u>3,068,450</u>
 Total	 <u><u>\$ 30,876,828</u></u>	 <u><u>\$ 30,876,828</u></u>

Disclosures relating to credit risk

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Actual Rating</u>
Money Market Mutual Fund	\$ 1,036,278	N/A	N/A
Certificates of Deposit	73,182	N/A	N/A
Local Agency Investment Fund (LAIF)	23,686,626	N/A	N/A
Local Gov. Invest. Pool (CAMP)	3,012,292	N/A	N/A
Held by Trustee:			
Money Market Funds	<u>3,068,450</u>	<u>AAAm</u>	<u>AAA</u>
 Total	 <u><u>\$ 30,876,828</u></u>		

Concentration of credit risk

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 2: Cash and Investments (continued)

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits. For amount of deposits held in excess of federal depository insurance limits, see the City of Grand Terrace's Annual Financial Report.

Investments in State Investment Pool

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

Local Government Investment Pool

The Agency is a voluntary participant in the Local Government Investment Pool (CAMP).

Pooled cash

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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

Nullified Pass-Through Agreement

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

Borrowings from the Redevelopment Agency

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

Other Transactions

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

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

Date	Tax Increment Misallocation	Loan to General Fund	Other	Interest Posted	Payments (Credits)	Balance Due
1980 -						
06/30/97	\$ 4,326,428	\$ -	\$ -	\$ 283,496	\$ (2,596,296)	\$ 2,013,628
06/30/94	-	650,000	-	-	-	650,000
06/30/95	-	750,000	-	-	-	750,000
06/30/97	-	393,684	-	-	-	393,684
06/30/98	-	432,822	-	-	-	432,822
06/30/99	-	225,036	-	-	-	225,036
06/30/01	-	-	141,780	-	-	141,780
06/30/11	-	-	-	-	(1,218,856)	(1,218,856)
Total	\$ 4,326,428	\$ 2,451,542	\$ 141,780	\$ 283,496	\$ (3,815,152)	\$ 3,388,094

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

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

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

Note 4: Loans Receivable

The Agency has provided deferred rehabilitation loans to qualifying low and moderate income households from its 20 percent set-aside funds. Corresponding deferred revenue is recorded accordingly. The balance at June 30, 2011 is \$84,087.

Note 5: Property Held for Resale

Special Revenue Fund

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

Capital Projects Fund

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

Note 6: Notes Receivable

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Long-term Debt

a. *2004 Refunding Tax Allocation Bonds*

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

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

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

Year Ending June 30,	Principal	Interest
2012	\$ 1,720,000	\$ 104,625
2013	1,930,000	36,188
Total	\$ 3,650,000	\$ 140,813

b. *2011A Tax Allocation Bonds*

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Long-term Debt (continued)

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

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

c. *2011B Taxable Tax Allocation Bonds*

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

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Long-term Debt (continued)

d. *Zions Lease*

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

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 7: Long-term Debt (continued)

d. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
2004 Refunding Tax Allocation Bonds	\$ 5,320,000	\$ -	\$(1,670,000)	\$ 3,650,000	\$ 1,720,000
2011 A Tax Allocation Bonds	-	15,175,000	-	15,175,000	-
2011 B Taxable Tax Allocation Bonds	-	5,650,000	-	5,650,000	-
Less deferred amounts:					
On refunding Discount	(212,795)	-	106,398	(106,397)	(106,397)
	-	(173,484)	-	(173,484)	(9,110)
Plus premium on issue	47,800	-	(23,899)	23,901	23,901
Total bonds payable	<u>5,155,005</u>	<u>20,651,516</u>	<u>(1,587,501)</u>	<u>24,219,020</u>	<u>1,628,394</u>
Capital leases:					
Zion National Bank	2,086,889	-	(157,362)	1,929,527	164,942
Total capital leases	<u>2,086,889</u>	<u>-</u>	<u>(157,362)</u>	<u>1,929,527</u>	<u>164,942</u>
Total long term liabilities	<u>\$ 7,241,894</u>	<u>\$ 20,651,516</u>	<u>\$ (1,744,863)</u>	<u>\$ 26,148,547</u>	<u>\$ 1,793,336</u>

Note 8: Interfund Transfers

Interfund transfers for the year ended June 30, 2011 are as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
Capital Projects	Debt Service	\$ 3,993,713
Debt Service	Special Revenue	<u>619,301</u>
	Total	<u>\$ 4,613,014</u>

The transfer from the Debt Service Fund was made to finance project improvement costs in the Capital Projects Fund.

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 9: Agreements with Various Taxing Agencies

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the Agency has entered into pass-through agreements with various governmental agencies to pass-through portions of tax increment funds received by the Agency, attributable to the area within the territorial limits of the other agencies. The amount passed through for the fiscal year ended June 30, 2011, was \$2,262,609. These payments were recorded as expenditures in the Debt Service Fund.

In addition, the Agency was required to transfer tax increment in the amount of \$77,874 to the State of California's Education Revenue Augmentation Fund (ERAF) and \$448,636 to the Supplemental Education Revenue Augmentation Fund, as described below, for the fiscal year ended June 30, 2011.

Note 10: Supplemental Educational Revenue Augmentation Fund

On July 24, 2009, the State Legislature passed Assembly Bill ABX4-26, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The City's (Agency's) share of this revenue shift was \$2,179,087 for fiscal year 2009-2010 and \$448,636 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2011 with the Debt Service Fund.

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 11: Joint Venture

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

Note 12: Contingencies

As of June 30, 2011, in the opinion of the Agency, there are no outstanding matters, which would have a material effect on the financial position of the Agency.

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

Note 13: Recent Changes in Legislation Affecting California Redevelopment Agencies

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

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 13: Recent Changes in Legislation Affecting California Redevelopment Agencies (continued)

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

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the Federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

In the event Assembly Bills X1 26 and/or 27 are upheld as constitutional, the Agency intends and is prepared to comply with the Voluntary Alternative Redevelopment program in order to continue the existence and operation of the Agency. The initial payment by the agency, as calculated under ABx1-26 was estimated to be \$2,850,665 with one half due on January 15, 2012 and the other half due May 15, 2012. Payments are estimated to be \$670,745 thereafter. In July 2011 the Agency appealed the initial and subsequent continuation payments under ABx1-27, as allowed under certain circumstances and within a limited time period. The Agency received notice on October 14, 2011 that the Department of Finance approved such appeal and has recalculated the initial remittance under ABx1-27 to be \$2,052,005. Staff estimates future year payments under AB1x-27, if upheld, to be approximately \$450,000.

The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

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

Community Redevelopment Agency of the City of Grand Terrace
Notes to Financial Statements
June 30, 2011

Note 14: Prior Period Restatements

During the year ended June 30, 2011, the Agency was notified by the San Bernardino County Auditor-Controller of an error in the tax apportionment calculation for the 2008-09 and 2009-10 fiscal years. According to the County, the Agency had received excess revenues of \$2,295,360 for the two fiscal years as mentioned above, which should have been paid to San Bernardino Valley Municipal Water District. Because of the overpayment the Agency overstated certain pass-through payments in the amount of \$86,768, for a net adjustment of \$2,208,592. For the Fund Financial Statements 20% of the excess apportionment was charged to the Special Revenue Low-Mod Housing Fund as the transfers to the Fund were overstated for those fiscal years. The Agency has entered into an agreement with the District to repay the apportionments received in error in ten annual installments.

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

Government-Wide Statements	<u>Governmental Activities</u>
Net Assets, beginning of year, as previously stated	\$ 12,630,157
Tax apportionment error	(2,208,592)
Correction of pass through payable	<u>(400,000)</u>
Net assets, beginning of year, as restated	<u><u>\$ 10,021,565</u></u>

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

Required Supplementary Information

Required Supplementary Information
Community Redevelopment Agency of the City of Grand Terrace
Budgetary Comparison Schedule - Major Special Revenue Fund
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax increment	\$ 1,612,815	\$ 1,612,815	\$ 1,301,246	\$ (311,569)
Use of money and property	37,900	37,900	6,175	(31,725)
 Total revenues	 <u>1,650,715</u>	 <u>1,650,715</u>	 <u>1,307,421</u>	 <u>(343,294)</u>
EXPENDITURES				
Current:				
Economic development	223,515	224,085	493,352	(269,267)
Capital outlay:				
Project improvement costs	350,000	482,000	132,181	349,819
 Total expenditures	 <u>573,515</u>	 <u>706,085</u>	 <u>625,533</u>	 <u>80,552</u>
 Excess of revenues over expenditures	 <u>1,077,200</u>	 <u>944,630</u>	 <u>681,888</u>	 <u>(262,742)</u>
OTHER FINANCING USES				
Transfers out	(610,947)	(610,947)	(619,301)	(8,354)
Transfers to the City of Grand Terrace	(141,548)	(141,548)	887	142,435
 Total other financing uses	 <u>(752,495)</u>	 <u>(752,495)</u>	 <u>(618,414)</u>	 <u>134,081</u>
 Net change in fund balance	 324,705	 192,135	 63,474	 (128,661)
 Fund balance, beginning of year, as restated	 <u>2,391,006</u>	 <u>2,391,006</u>	 <u>2,391,006</u>	 <u>-</u>
 Fund balance, end of year	 <u>\$ 2,715,711</u>	 <u>\$ 2,583,141</u>	 <u>\$ 2,454,480</u>	 <u>\$ (128,661)</u>



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

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

We have audited the financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of the City of Grand Terrace (the Agency), a component unit of the City of Grand Terrace, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of the Agency, others within the entity, and The State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Rogers, Anderson, Malody + Scott, LLP

December 6, 2011



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of the City of Grand Terrace
Grand Terrace, California

**Independent Auditor's Report on Compliance
with Health and Safety Code Section 33080.1**

Compliance

We have audited the Community Redevelopment Agency of the City of Grand Terrace's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Agency's compliance with those requirements. In our opinion, except for Finding 2011-01 below, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Finding 2011-01

A. Pursuant to §33080 of the California Community Redevelopment Law, each redevelopment agency shall perform the following within six months of the end of the agency's fiscal year:

1. File a copy of the annual report (as defined by §33080.1 of the California Community Redevelopment Law) with the State Controller's Office and the agency's legislative body.

The fiscal statement, the blight progress report and the property report were not submitted to the State Controller's Office.

B. Pursuant to §33080.1(g) of the California Community Redevelopment Law, each redevelopment agency shall file an annual report containing:

1. The time limit for the commencement for eminent domain proceeding to acquire property within the project area(s)

This information was not provided.

In addition, the results of our procedures disclosed an immaterial instance of noncompliance with the provisions described in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011* as listed below as Finding 2011-02:

Finding 2011-02

Section §33606 of the Health and Safety Code requires a Redevelopment Agency to adopt a budget which includes proposed indebtedness, a work program and goals, and an examination of the previous year's achievements along with a comparison with the previous year's work program.

During the fiscal year being audited, the Agency did adopt a budget but the budget did not contain any proposed indebtedness even though the Agency issued debt during the year under audit. Also, although the budget did contain the required work program and goals, however, it did not include an examination of the previous year's achievements along with a comparison with the previous year's work program.

Internal control over compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance. We consider the deficiency described below to be a significant deficiency:

Since the Agency did not detect the above compliance findings, we consider there to be a significant deficiency in the internal control over compliance. The Agency has had significant cuts and the remaining staff was unaware of the requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Rogers, Anderson, Malloy & Scott, LLP

December 6, 2011

**Community Redevelopment Agency of the City of Grand Terrace
 Computation of Low and Moderate Income Housing – Excess Surplus
 July 1, 2010**

Opening fund balance - July 1, 2010		<u>\$ 2,391,006</u>
Adjusted balance		1,517,653
Limitation (greater of \$1,000,00 or four years set-aside)		
2008 - 2009	\$ 1,788,550	
2007 - 2008	1,417,922	
2006 - 2007	1,292,600	
2005 - 2006	<u>1,232,104</u>	
Total	<u>\$ 5,731,176</u>	
Base limitation		<u>\$ 1,000,000</u>
Greater amount		<u>5,731,176</u>
Computed excess surplus - July 1, 2010		<u>\$ -</u>