

Comprehensive Annual Financial Report For the Year Ended June 30, 2014



Mission Statement

The City of East Palo Alto provides responsive, respectful and efficient public services to enhance the quality of life and safety for its multi-cultural community

**City of East Palo Alto
 Comprehensive Annual Financial Report
 For the year ended June 30, 2014**

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CITY OF EAST PALO ALTO

December 22, 2014

Honorable Mayor, Members of the Governing Council, and Citizens of the City of East Palo Alto

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF EAST PALO ALTO

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of East Palo Alto for the fiscal year ended June 30, 2014. It is the policy of the City of East Palo Alto to annually publish financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. The CAFR report is published to fulfill that requirement for the fiscal year ending June 30, 2014.

Management assumes full responsibility for the accuracy of the information contained in this report. We believe this CAFR to be complete and reliable in all material respects. In order to provide a reasonable basis for making this representation, we have established a comprehensive framework of internal controls. These controls are designed to protect the City's assets from loss, theft, or misuse and to record and compile the information necessary to produce financial statements in conformity with generally accepted accounting principles. Since the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by an independent firm of Certified Public Accountants, Badawi & Associates, licensed to practice in the State of California. The auditors expressed an opinion that the City's financial statements for the year ended June 30, 2014 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is most commonly known as an "unmodified" or "clean" opinion. The auditor's report is located in the Financial Section of this report.

In addition, Badawi & Associates will audit the City's major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget (OMB) Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR and may be obtained upon request from the City's Finance Department.

The Management's Discussion & Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY

The City of East Palo Alto was incorporated in 1983. It is located in San Mateo County on the Peninsula in the Greater San Francisco Bay Area. It is in a desirable setting, with enviable weather, and well situated among three major metropolitan cities: San Jose, Oakland, and San Francisco. The City borders Menlo Park to the north, Palo Alto to the west and south, and the San Francisco Bay to the east. East Palo Alto currently occupies 2.5 square miles and has a population of approximately 28,934.

East Palo Alto operates under a Council-Manager form of government. Policy-making and legislative authority are vested in the governing body (City Council) consisting of the mayor and four other members. The City Council appoints the government's chief executive (known as City Manager), who in turn appoints the Directors of the various City departments; except for the City Attorney who is also appointed by the City Council. City Council members are elected by voters to serve overlapping four-year terms. The Mayor is appointed by majority vote of the City Council on an annual basis to serve a one-year term. There are currently four Advisory Boards and Commissions that are appointed by the City Council: Rent Stabilization Board, Planning Commission, Public Works and Transportation Commission, and Senior Advisory Board. In addition, the City Council appoints other advisory bodies such as the Measure C Oversight Committee.

The City Council is required to adopt a final budget on an annual basis, by June 30th. The annual budget serves as the foundation for the City of East Palo Alto's financial planning and control. The budget is prepared by fund and function. Transfers between departments require City Manager approval. However, transfers between funds require approval from the City Council.

The City of East Palo Alto provides a range of basic municipal services. These services include public safety police services, public works and maintenance, parks and recreation activities, planning and zoning, housing and rent stabilization services, economic development, lighting, drainage, refuse collection, water distribution and general administrative services.

The City also has an extensive base of community volunteers, religious organizations, philanthropists, and social activists. These organizations provide a wide range of services and enrichment activities and create a sense of community for our citizens.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the City Council has financial accountability. These organizations include the East Palo Alto Successor Agency and the East Palo Alto Public Financing Authority.

ECONOMIC CONDITION AND FISCAL OUTLOOK

Over the past several years, the United States continued its recovery from the great recession of December 2007 to June 2009 with gross domestic products (GDP) registering annual growth rates from 2011 to 2013 of 1.6%, 2.3%, and 2.2% respectively. The most recent data showed a 2.4% increase in GDP from the 3rd calendar quarter from one year ago. National unemployment contracted from a high of 10.0 percent in 2009 to 5.8 percent as of November 2014. It is now comparable to the average rate of 5.83% from 1948 to 2013. Interest rates remain at very low levels with the 10 year Treasury at 2.22% as of December 1, 2014.

Here in California, local agencies including the City of East Palo Alto were still responding to the full year effects of AB x1 26 and AB 1484 legislation that eliminated all redevelopment agencies as of January 31, 2012. Tax increment revenues of former redevelopment agencies have now been diverted to the State, resulting in greater burden on the City's General Fund as the provider of resources to stimulate local economic activity. On February 1, 2012, the City, as the Successor Agency to the Redevelopment Agency of the City of East Palo Alto, became responsible for overseeing the redevelopment dissolution process and the wind down of redevelopment activity.

The City has projected continued improvement in its major revenue sources; however, it was still insufficient to cover its base level of expenditures in its entirety, particularly in the City's General Fund. As a result, wage concessions were still necessary to cover the General Fund's budgeted operating deficit. With the dissolution of its Redevelopment Agency in 2012, the City prepared a Long Range Property Management Plan ("Plan") to address the disposition and use of the real properties of the former Redevelopment Agency. This Plan is pending approval from the State Department of Finance.

LONG TERM FINANCIAL PLANNING

As part of a strategic budget planning process, management annually presents a multi-year financial projection to City Council. This document is intended to provide the City Council with the opportunity to plan for the management of financial resources and to address forecasted financial challenges. The plan calls for the City to exercise financial "best practices," including achieving a minimum General Fund contingency reserve of 15% of budgeted operating expenditures. As of June 30, 2014, the City Council fully funded its reserve at \$2.743 million, representing approximately 15% of budgeted General Fund expenditures. The purpose of the reserve is to provide the City with fiscal capacity for responding to emergencies and economic uncertainties and vulnerabilities, thereby minimizing the impact on service levels to the community during such challenging times.

FINANCIAL POLICIES AND INFORMATION

Budgetary Controls

The City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the Annual Budget and approved by the City

Council. The level of control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Single Audit

As a recipient of Federal, State, and County financial assistance, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management and the City's independent auditors.

As part of the City's single audit procedures, tests are performed to determine the effectiveness of the internal controls over major Federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

Major Initiatives

Major initiatives for the year were developed through both the budget planning process and with the guidance of the City Council as articulated through its Strategic Priorities process. As indicated previously, this past year has remained challenging as the City continued to tackle its structural financial imbalance as well as strategizing and planning for the post dissolution of its redevelopment agency. Notwithstanding these challenges, the City continues to make progress in accomplishing the City Council priorities articulated in the Strategic Plan, as follows:

Enhance Public Safety and Emergency Preparedness: This set of initiative includes goals for full implementation of the Measure C and Transient Occupancy Tax grant programs, implementing a long-term crime and violence reduction program, implementing an anti-graffiti program, developing a redundant and multi-media emergency notification system, and conducting public education and outreach on fire safety and emergency preparation, and developing a community emergency response team (CERT) training program.

Enhance Economic Vitality: This set of initiatives includes goals to continue with the dissolution process for the former redevelopment agency, facilitating the permitting of the University Plaza project, providing assistance to small businesses through permitting and licensing support, setting aside General Fund resources for capital improvements, and developing appropriate development impact fees.

Increase Organizational Effectiveness and Efficiency: These goals include the development of a long-term financial plan and providing options to address the City's structural deficit, identifying and implementing measures to consolidate the City's workforce, and acquiring systems to improve efficiencies and effectiveness.

Improve Public Facilities and Infrastructure: These goals and objectives pertain to completion of the safe routes to school street improvement project, completing Bay Road and the related infrastructure, enhancing pedestrian and bicycle connectivity, exploring options to consolidate city facilities, developing additional water supply and enhancing the water system, and enhancing flood protection for the City's residents.

Improve Communication and Enhance Community Engagement: This set of objectives includes goals to develop and implement a website management plan, develop a communications plan including publishing a quarterly newsletter, and foster community cultural events and activities.

Create a Healthy and Safe Community: This set of objectives includes goals to improve pedestrian and bicycle access and safety at all school zones, fully implement the Rent Stabilization program, complete a joint use facilities agreement with local school districts, develop a comprehensive Healthy Community Plan, and develop a parks master plan.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the fifth year the City applied for and received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, in conformance with program standards. Such report must satisfy generally accepted accounting principles as well as all applicable legal requirements

The Certificate of Achievement is valid for one year only. The City believes this CAFR conforms to the GFOA Certificate of Achievement Program and will submit the report to the GFOA for consideration of the annual award.

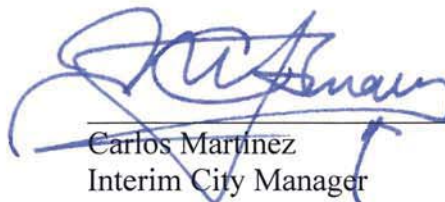
The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the entire staff of the Finance Department and the audit staff at Badawi & Associates. Each member of the department demonstrated exemplary personal dedication, including many long hours spent producing this document. Additionally, we thank staff from all the City departments as they were critical in gathering information that was included in the report.

Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in attaining the City's goals.

Respectfully submitted,



Edmund Suen
Finance Director



Carlos Martinez
Interim City Manager



CITY OF EAST PALO ALTO

DIRECTORY OF OFFICIALS

City Council

Laura Martinez..... Mayor
Lisa Yarbrough-Gauthier..... Vice Mayor
Ruben Abrica..... Councilmember
Larry Moody..... Councilmember
Donna Rutherford..... Councilmember

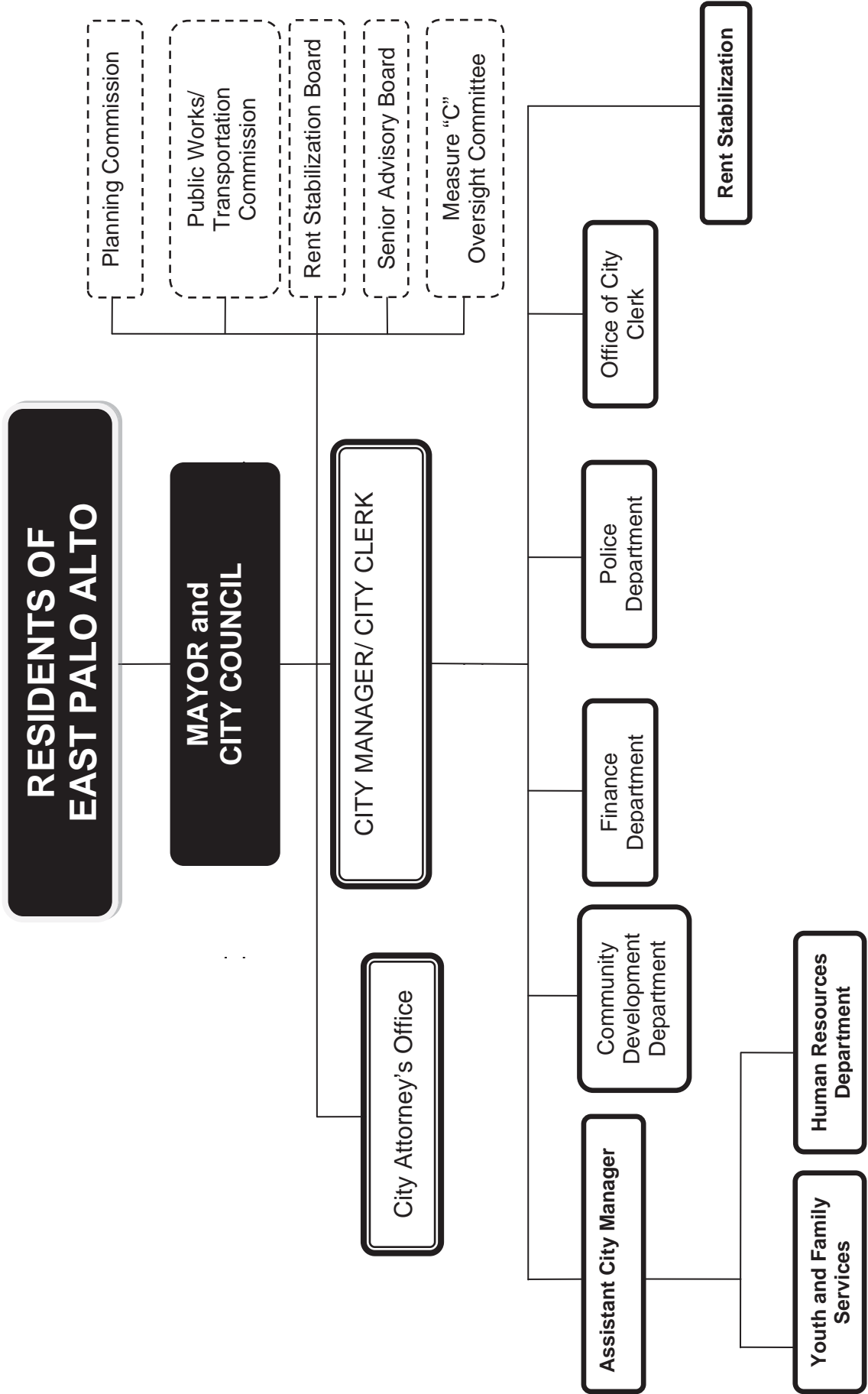
Administration

Magda A. Gonzalez..... City Manager
Barbara Powell..... Assistant City Manager
John Nagel..... City Attorney
Edmund Suen Finance Director
Violett Lee..... Interim Police Chief
John Doughty Community and Economic Development Director

Regional Map



CITY OF EAST PALO ALTO
MASTER ORGANIZATIONAL CHART 2013-2014





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of East Palo Alto
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 5-15 and 84-88 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 introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules on pages 102 to 116, and statistical section, 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 budgetary comparison schedules on pages 102 to 116 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and Members of the City Council
of the City of East Palo Alto
East Palo Alto, California
Page 3

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 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.

A handwritten signature in cursive script that reads "Badawi & Associates". The signature is written in black ink and is positioned above the printed name of the firm.

Badawi and Associates
Certified Public Accountants
Oakland, California
December 22, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis is designed to provide, for the fiscal year ending June 30, 2014, (a) an overview of the City's financial activities, (b) highlights of significant financial issues, (c) challenges facing the City's financial position in future years, and (d) identification of any material deviations from the approved budget.

We advise readers to consider the information presented here in conjunction with additional information furnished in other sections of this financial statement report.

FINANCIAL HIGHLIGHTS

- At June 30, 2014, government-wide net position totaled \$85.2 million, an increase of \$4.7 million during the fiscal year. The increase is primarily attributable to the change in Net Position during the fiscal year. Of the total Net Position at June 30, 2014, \$34.9 million is invested in capital assets and \$34.6 million are restricted for specific uses, leaving an unrestricted balance of \$15.7 million.
- Total government-wide revenues, including program and general revenues were \$29.7 million and total expenses were \$24.9 million in fiscal year 2013-14. This compares to total revenues of \$30.6 million and expenses of \$24.0 million in fiscal year 2012-13. The reduction in revenues is largely attributable to one-time revenues from the distribution of assets from the former City of East Palo Alto Redevelopment Agency in fiscal 2012-13. The \$900 thousand increase in expenditures is attributable to fewer vacancies in the Public Safety Department.
- Governmental program revenues were \$7.6 million in fiscal year 2013-14 compared to \$7.8 million in fiscal year 2012-13 as revenues from charges for services increased by \$267 thousand after the full year impact of a Master Fee schedule update that took effect on January 1, 2013. Business-type program revenues were essentially unchanged at \$2.8 compared to \$2.7 million in the prior year.
- Governmental general revenues were \$19.3 million in fiscal year 2013-14 compared to \$20.0 million in fiscal year 2012-13. The decline is primarily attributable to one time property taxes revenues of \$1.8 million received in fiscal year 2012-13 as a result of the RDA dissolution. Notwithstanding, the City experienced aggregate revenue gains in recurring property tax, sales tax, transient occupancy tax, and business license tax revenues of \$975 thousand with economic improvements in City and neighboring regions. Business-type general revenues were \$10 thousand compared to \$14 thousand in fiscal year 2012-13 as interest rate yields continued its decline.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are design to provide the readers with a broad view of the City's finances in a manner similar to a private-sector business.

Statement of Net Position: Presents information on all of the City's assets and liabilities, with the difference between the two reported as net position (deficit). Over time, the change in net position (deficit) may serve as a useful indicator of whether the financial position of the City is improving or declining.

Statement of Activities: Presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal periods (e.g. revenues pertaining to uncollected taxes and expenses pertaining to earned unused vacation leave). Non-financial factors, such as changes in the City's property tax base and the condition of the City's roads must be considered in order to properly assess the overall financial health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two types of activities:

- Governmental activities - Most of the City's basic services are reported here, including police, public works, community development, and general administration. Taxes, user fees, and state and federal grants finance most of these activities.
- Business-type activities - The City charges a fee to cover all or most of the cost of certain services it provides. The City's water system and franchised garbage collection services are reported here.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate financial compliance with legal requirements. 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.

Reporting the City's Major Funds

The analysis of the City's major funds begins on page 9. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes (like the Capital Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Federal Government). The City's two types of funds - governmental and proprietary - use different accounting approaches.

- *Governmental funds* - Most of the City's basic services are reported in the 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 an accounting method called modified accrual 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 City'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 City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation located after each of the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - 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 funds (a component of proprietary funds) are 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 proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The City provides comparative information in its Management Discussion & Analysis by presenting two years of financial information in the GASB Statement No. 34 format and a comparative analysis of government-wide data. Net position serves as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by approximately \$85.2 million. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$90.1 million total assets; only \$55.2 million has short or long term liquidity. The remaining assets are capital assets such as roadways, storm drains, lighting, water system and other infrastructures owned by the City.

Analysis of Net Position

Government-wide assets exceeded liabilities by \$85.2 million at the end of the current fiscal year. The following table is a summary of the government-wide net position for the governmental and business-type activities:

STATEMENT OF NET POSITION

(Dollars in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	52,065	49,020	3,099	3,875	55,164	52,895
Capital Assets	31,217	29,930	3,744	3,939	34,961	33,869
Total assets	<u>83,282</u>	<u>78,950</u>	<u>6,843</u>	<u>7,814</u>	<u>90,125</u>	<u>86,765</u>
Liabilities:						
Current and other liabilities	2,056	4,062	525	1,532	2,581	5,594
Noncurrent liabilities	2,264	655	54	53	2,318	708
Total liabilities	<u>4,320</u>	<u>4,717</u>	<u>579</u>	<u>1,585</u>	<u>4,899</u>	<u>6,302</u>
Net Position:						
Net investment in capital assets	31,133	29,815	3,743	3,939	34,876	33,754
Restricted	33,792	31,909	835	837	34,627	32,746
Unrestricted	14,037	12,508	1,686	1,453	15,723	13,961
Total Net Position	<u>78,962</u>	<u>74,232</u>	<u>6,264</u>	<u>6,229</u>	<u>85,226</u>	<u>80,461</u>

Numbers may not add due to rounding

Governmental Activity

Total assets of \$83.3 million consist of current and other assets of \$52.1 million and capital assets of \$31.2 million. The \$4.3 million increase from the prior year is primarily due to the \$4.7 million positive change in net position for the fiscal year.

Total liabilities of \$4.3 million consist of \$2.0 million of current liabilities and \$2.3 thousand of long-term debt. Total liabilities decreased by \$397 thousand with Unearned Revenues declining by \$172 thousand and Deposits Payable declining by \$61 thousand.

Net position is comprised of 1) \$31.1 million net investment in capital assets (e.g. land building, improvements, infrastructure, etc.) less any outstanding debt used to acquire those assets. The City utilizes capital assets to provide services to citizens. These assets, however, are not available for future spending. Although the net investment in capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities; 2) \$33.8 million represents resources that are subject to external restrictions on how they may be expended; and, 3) a remaining unrestricted balance of \$14.0 million.

Business-type Activity

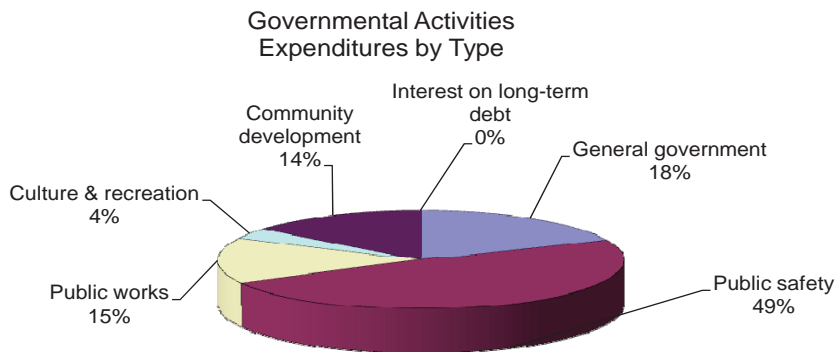
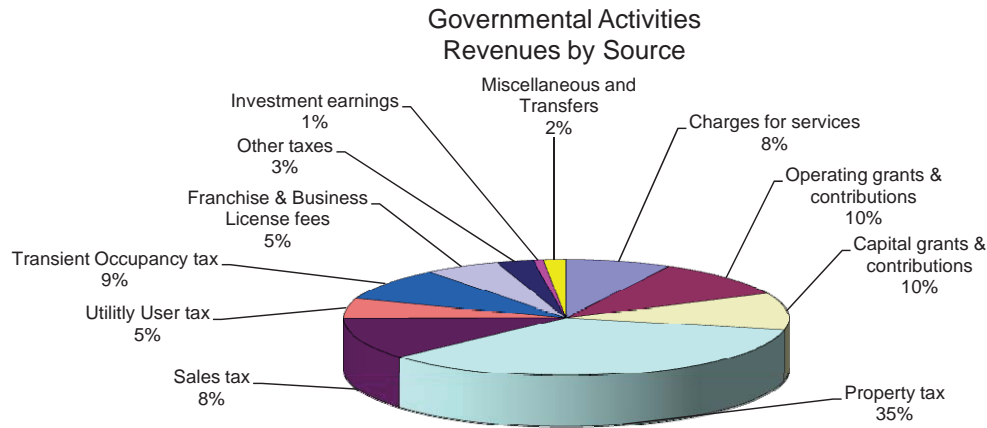
The City's business-type activities include \$3.1 million in capital assets, consisting primarily of municipal water-service assets and infrastructure. Approximately, \$1.7 million of unrestricted Net position are available at year-end to pay current and future obligations.

Analysis of Statement of Activities

The statement of activities shows the net increases / (decreases) of net position during the fiscal year. The following table indicates the changes in Net position for governmental and business-type activities:

STATEMENT OF ACTIVITIES						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	2,068	1,801	2,782	2,725	4,850	4,526
Operating grants & contributions	2,794	4,617	-	-	2,794	4,617
Capital grants & contributions	2,768	1,414	-	-	2,768	1,414
General revenues:						
Property taxes	9,411	10,752	-	-	9,411	10,752
Sales taxes	3,114	3,022	-	-	3,114	3,022
Utility user tax	1,464	1,434	-	-	1,464	1,434
Transient Occupancy taxes	2,453	2,128	-	-	2,453	2,128
Franchise & Business taxes	1,470	1,407	-	-	1,470	1,407
Other taxes	720	719	-	-	720	719
Investment Earnings	195	240	10	14	205	254
Miscellaneous and Transfers	430	303	-	-	430	303
Total revenues	<u>26,887</u>	<u>27,837</u>	<u>2,792</u>	<u>2,739</u>	<u>29,679</u>	<u>30,576</u>
Expenses						
Program expenses:						
General government	4,055	4,397	-	-	4,055	4,397
Public safety	10,808	10,409	-	-	10,808	10,409
Public works	3,372	3,521	-	-	3,372	3,521
Culture and recreation	775	514	-	-	775	514
Community development	3,147	2,608	-	-	3,147	2,608
Water services	-	-	403	341	403	341
Garbage collection	-	-	2,354	2,174	2,354	2,174
Interest on long-term debt	1	1	-	-	1	1
Total expenses	<u>22,158</u>	<u>21,450</u>	<u>2,757</u>	<u>2,515</u>	<u>24,915</u>	<u>23,965</u>
Change in Net Position extraordinary item	4,730	6,387	35	224	4,765	6,611
Extraordinary item	-	-	-	-	-	-
Net Position-Beginning	74,232	67,845	6,229	6,005	80,461	73,850
Net Position-Ending	<u>78,962</u>	<u>74,232</u>	<u>6,264</u>	<u>6,229</u>	<u>85,226</u>	<u>80,461</u>

Government-wide Net position increased by approximately \$4.8 million as noted in the table above as governmental activities revenues exceeded expenses by \$4.7 million while business-type activities revenues exceeded expenses by \$35 thousand. A further depiction of governmental type revenues and expenditures are illustrated in the charts below:



Governmental activities

- Overall, total revenues were \$26.9 million; a decrease of \$950 thousand or 3.4% from the prior year. The decline is primarily attributable to one time property taxes revenues of \$1.8 million received in fiscal year 2012-13 as a result of the RDA dissolution. Notwithstanding, the City had revenue gains in recurring property tax, sales tax, transient occupancy tax, and business license tax revenues totaling \$975,000 due to economic improvements in City and neighboring regions.
- Overall, total expenses were \$22.2 million, an increase of \$700 thousand or 3.3% from the prior year. This is primarily due to reduced vacancies in the Public Safety and Community development departments.

Business-type activities

- Net position increased by \$35 thousand as a result an increase of \$177 thousand in the Garbage Fund and a decrease of \$142 thousand in the Water Fund.
- Garbage operating revenues improved slightly by \$58 thousand to \$2.52 million due to an improvement in commercial activity. Operating expenses increased by \$179 thousand to \$2.35 million as garbage service costs rose.
- Water revenues were essentially unchanged at \$258 thousand compared to the previous year as there were no water rate increases. Water expenses increased by \$62 thousand to \$341 thousand as the City initiated contract work to perform testing for a second ground well as a potential additional source of water supply.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

At June 30, 2014, the City's governmental funds reported a combined ending fund balance of \$45.8 million.

- Governmental revenues were \$26.0 million and expenditures totaled \$23.6 million compared to the prior year's amounts of \$26.4 million and \$22.9 million respectively. The \$400 thousand decline in revenues was largely due to one-time property taxes revenues of \$1.8 million received in fiscal year 2012-13 as a result of the RDA dissolution. Notwithstanding, the City had revenue gains in recurring property tax, sales tax, transient occupancy tax, and business license tax revenues due to economic improvements in City and the neighboring region. The \$700 thousand

increase in expenditures is primarily attributable to reduced vacancies in the Public Safety and Community development departments.

The General Fund is used to account for all revenues and expenditures necessary to carry out basic government activity of the City that is not accounted for through other funds.

Revenues (before Transfers In) were \$18.4 million; a decrease of \$543 thousand or 2.9% from the prior year. The decrease is primarily due to one-time property taxes revenues of \$1.8 million received in fiscal year 2012-13 as a result of the RDA dissolution. Notwithstanding, several revenue categories had revenue increases during the year. Recurring property taxes increased by \$558 thousand. Transient occupancy tax increased by \$317,000 as strong economic activity in Silicon Valley continued to drive hotel occupancy and room rates higher. Fees, permit revenues, and charges for services climbed by \$263 thousand and were aided by the full year effect of adjustments in the Master Fee schedule that took effect on January 1, 2013.

Expenditures (before Transfers Out) were \$16.1 million, an increase of \$400 thousand or 2.3% from the prior year due primarily to a reduction of staff vacancies in the Public Safety department.

On June 30, 2014, Fund Balance was \$24.2 million, an increase of \$1.1 million or 4.8% from the prior year. Of the total fund balance, \$11.8 million is non-spendable, primarily for loans to the Successor Agency, \$2.7 million is designated as the minimum fund balance reserve, \$5.3 million as the CIP reserve, \$4.2 million is for Information Technology, equipment and vehicles, and self insurance reserves, \$78 thousand is for encumbrances outstanding at year end and the remaining \$2.1 million is unreserved.

Low and Moderate Income Housing Successor Special Revenue Fund: This fund was added in fiscal year 2011-12 upon the City's election to become the Housing Successor of the Former RDA. Certain assets of the Former RDA's Housing Fund were distributed to the Housing Successor to be used in accordance with the low and moderate incoming housing provisions of California Redevelopment Law. However, as mandated by AB 1484, the unencumbered cash in the Housing Fund were not distributed to the Housing Successor, but was retained by the Successor Agency and ultimately distributed to the taxing entities in the Former RDA project area during fiscal year 2012-13.

Public Improvement in Lieu Special Revenue Fund is used to account for revenues and expenditures for public improvement assets including in lieu fees collected from developers.

Fund Balance increased by \$23 thousand from \$186 thousand to \$209 thousand as expenditures were incurred for a city drainage project with in-lieu fees collected.

Local Grants Special Revenue Fund is used to account for revenues and expenditures from local public and private grants including C/CAG Shuttle and the CA Endowment grants.

Fund Balance decreased by \$174 thousand from a deficit of \$90 thousand to \$264 thousand pending reimbursement of expenditures incurred. Expenditures totaling \$419,000 included a Public Safety managed Fit Zone program and Community Development Department administered local shuttle program.

The Capital Improvements Capital Projects Fund is used to account for capital project improvement revenues and expenditures financed by various sources including Federal and State Grants, Measure A monies, in-lieu fees, and transfers from the General Fund.

Fund Balance increased by \$245 thousand from \$1.45 million on June 30, 2013 to \$1.69 million on June 30, 2014. Revenues consisted of grants and transfers-In to fund capital projects.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

At the end of the fiscal year, the unrestricted net position for the Garbage and Water Funds were \$809 thousand and \$877 thousand respectively. The combined increase in net position for both funds was \$35 thousand compared to prior year. Discussions of these funds have been previously made in the City's government-wide business-type activities section.

General Fund Budgetary Highlights

Differences between the original FY 2012-13 General Fund budget and the final amended budget resulted in an approximate \$1.4 million increase in budgeted revenues (including transfers in) and a \$487 thousand increase in expenditure appropriations (including transfers out). Following are the main components of the changes in revenues and expenditure appropriations.

- The fiscal year 2013-14 adopted revenues were \$17.1 million (including transfers in) and the final amended revenues were \$17.9 million (including transfers in); an increase of approximately \$800 thousand from the original budget. The increase is primarily from a \$570 thousand improvement in property tax revenues as assessed values in East Palo Alto experienced gains after multiple years of declines following the great recession of 2007-2009. In addition, transient occupancy tax revenues were revised upward by \$273 thousand to \$1.97 million to reflect the high occupancy and room rates at the Four Seasons hotel located in the City. The adopted 2013-14 appropriations (including transfers out) totaled \$19.1 million while the final appropriations were \$18.9 million. The \$200 thousand reduction an expected net overall savings in operating expenditures in most departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2014 amounted to \$35.0 million (net of accumulated depreciation), an increase of \$1.1 million or 3.2% from the prior year. The increase is primarily attributable to construction in progress for various capital improvement projects included Bay Road improvement and Cooley Landing Park. Total capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Capital assets, net of accumulated depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

GOVERNMENT-WIDE CAPITAL ASSETS

June 30, 2014

(Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	621	605	\$ 207	\$ 207	\$ 828	\$ 812
Buildings and Improvements	5,289	5,127	44	44	5,333	5,171
Improvements Other than Bldgs.	4,942	4,942	7,058	7,058	12,000	12,000
Construction in Progress	5,305	2,937			5,305	2,937
Furnishings & Equipment	1,901	2,019	64	64	1,965	2,083
Vehicles	1,543	1,902	89	89	1,632	1,991
Street and Roadways	43,239	43,239			43,239	43,239
Storm Drain System	4,089	4,089			4,089	4,089
Less: Accumulated Depreciation	<u>(35,712)</u>	<u>(34,930)</u>	<u>\$ (3,718)</u>	<u>\$ (3,523)</u>	<u>(39,430)</u>	<u>(38,453)</u>
Total	<u>\$ 31,217</u>	<u>\$ 29,930</u>	<u>\$ 3,744</u>	<u>\$ 3,939</u>	<u>\$ 34,961</u>	<u>\$ 33,869</u>

Governmental Activities:

- Capital assets increased by \$1.29 million, net of depreciation. New assets acquired and in progress totaled \$ 2.1 million, including Bay Road improvements, Cooley Landing Park improvements, drainage system improvements, Gloria Way Well rehabilitation, and replacement of police vehicles.

Business-Type Activities:

- There were no additions to the Garbage and Water Services funds' capital assets during the year. Net Capital assets decreased \$195 thousand due to depreciation of existing capital assets.

For government-wide financial statements presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital assets purchases as expenditures.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34.

Additional information about the City's and Water Services' capital assets can be found in Note 6 to the financial statements.

Debt Administration

With the dissolution of the Former RDA, the Successor Agency fiduciary fund assumed the long-term debt of the Former RDA as of February 1, 2012. Total debt balance outstanding at June 30, 2014 was \$37.5 million. Additional information about the Successor Agency assumed debt can be found in Note 14 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

According to California Employment Development Department statistics, the City of East Palo Alto's unemployment rate decreased from 13.2% in June 2013 to 10.4% in June 2014. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2014, the State and County unemployment rates were 7.3% and 4.2%, respectively. Compared to June 2013, the State and County unemployment rates were 8.7% and 5.5% respectively. Overall, California, San Mateo County, and local economies are all experiencing a gradual recovery, but as has been the case historically, recovery in East Palo Alto lags behind most other communities in the San Francisco Bay Area.

Although fiscal year 2013-14 economic activity improved over the past year, solutions were still needed to address the ongoing disparity between revenue and expenditure growth and the lack of a reliable and continuous funding stream for capital project replacements and ongoing maintenance. As a result, the City had to extend employee concessions (at a reduced level) to address its structural imbalance to arrive at a balanced 2014-15 budget. The City Council also took action to fully fund its General Fund reserve at 15% of operating expenditures and establish a CIP reserve to address the many unfunded capital improvement projects.

Changes in conditions and circumstances of the City's fiscal year 2014-15 adopted budget will be taken under consideration as budget amendments by the City Council at its mid-year budget review scheduled in February 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to ensure transparency relative to city fiscal operations. If you have questions about this report or need additional financial information, contact the City's Finance Department, East Palo Alto Government Center, 2415 University Avenue, East Palo Alto, CA 94303.

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**BASIC
FINANCIAL STATEMENTS**

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of East Palo Alto
Statement of Net Position
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 23,689,387	\$ 2,205,977	\$ 25,895,364
Restricted cash and investments with fiscal agents	2,407,992	834,882	3,242,874
Receivables:			
Accounts receivable	234,671	58,059	292,730
Interest receivable	205,801	-	205,801
Taxes receivable	462,748	-	462,748
Intergovernmental receivables	3,001,398	-	3,001,398
Deposits and prepayments	103,081	-	103,081
Total current assets	<u>30,105,078</u>	<u>3,098,918</u>	<u>33,203,996</u>
Noncurrent assets:			
Loans to Successory Agency	11,690,612	-	11,690,612
Property Held for Resale	2,603,736	-	2,603,736
Loans and notes receivable	7,665,011	-	7,665,011
Capital assets:			
Non-depreciable	5,926,166	206,750	6,132,916
Depreciable, net	25,291,077	3,536,844	28,827,921
Total capital asset	<u>31,217,243</u>	<u>3,743,594</u>	<u>34,960,837</u>
Total noncurrent assets	<u>53,176,602</u>	<u>3,743,594</u>	<u>56,920,196</u>
Total assets	<u>83,281,680</u>	<u>6,842,512</u>	<u>90,124,192</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,248,839	524,596	1,773,435
Accrued Liabilities	359,079	-	359,079
Retentions payable	111,761	-	111,761
Compensated absences - due within one year	291,245	-	291,245
Claims payable - due within one year	13,775	-	13,775
Capital lease payable - due within one year	30,895	-	30,895
Total current liabilities	<u>2,055,594</u>	<u>524,596</u>	<u>2,580,190</u>
Noncurrent liabilities:			
Deposits payable	496,924	47,757	544,681
Advance from Developers	1,175	5,865	7,040
Unearned revenue	1,244,720	-	1,244,720
Compensated absences - due within one year	389,508	-	389,508
Claims payable - due within one year	78,061	-	78,061
Capital lease payable - due within one year	53,826	-	53,826
Total noncurrent liabilities	<u>2,264,214</u>	<u>53,622</u>	<u>2,317,836</u>
Total liabilities	<u>4,319,808</u>	<u>578,218</u>	<u>4,898,026</u>
NET POSITION			
Net investment in capital assets	<u>31,132,522</u>	<u>3,743,594</u>	<u>34,876,116</u>
Restricted for:			
Highway and Street Projects	15,634,589	-	15,634,589
Parks and Recreation	496,583	-	496,583
Measure C Program	1,483,198	-	1,483,198
Housing Program	13,108,951	-	13,108,951
Special Programs	726,772	-	726,772
Capital Projects	2,342,665	834,882	3,177,547
Total restricted	<u>33,792,758</u>	<u>834,882</u>	<u>34,627,640</u>
Unrestricted	<u>14,036,592</u>	<u>1,685,818</u>	<u>15,722,410</u>
Total net position	<u>\$ 78,961,872</u>	<u>\$ 6,264,294</u>	<u>\$ 85,226,166</u>

See accompanying Notes to Basic Financial Statements.

City of East Palo
Statement of Activities
For the year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 4,055,087	\$ 6,549	\$ 22,526	\$ -	\$ 29,075
Public safety	10,808,292	283,271	391,096	-	674,367
Public works	3,371,899	337,426	1,737,960	1,659,077	3,734,463
Culture and recreation	775,115	-	67,901	-	67,901
Community Development	3,147,112	1,440,886	574,828	1,108,726	3,124,440
Interest on long-term debt	1,429	-	-	-	-
Total governmental activities	22,158,934	2,068,132	2,794,311	2,767,803	7,630,246
Business-type activities:					
Garbage Collections	2,353,590	2,523,718	-	-	2,523,718
Water Services	402,914	258,045	-	-	258,045
Total business-type activities	2,756,504	2,781,763	-	-	2,781,763
Total primary government	\$ 24,915,438	\$ 4,849,895	\$ 2,794,311	\$ 2,767,803	\$ 10,412,009

General Revenues:

Taxes:

- Property taxes
- Sales taxes
- Utility users tax
- Transient occupancy taxes
- Other taxes
- Franchise and business tax

Total taxes

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning of year

Net position - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (4,026,012)	\$ -	\$ (4,026,012)
(10,133,925)	-	(10,133,925)
362,564	-	362,564
(707,214)	-	(707,214)
(22,672)	-	(22,672)
(1,429)	-	(1,429)
<u>(14,528,688)</u>	<u>-</u>	<u>(14,528,688)</u>
-	170,128	170,128
-	(144,869)	(144,869)
-	25,259	25,259
<u>(14,528,688)</u>	<u>25,259</u>	<u>(14,503,429)</u>
9,411,575	-	9,411,575
3,113,705	-	3,113,705
1,464,049	-	1,464,049
2,452,951	-	2,452,951
719,704	-	719,704
1,470,410	-	1,470,410
<u>18,632,394</u>	<u>-</u>	<u>18,632,394</u>
194,682	9,557	204,239
430,498	-	430,498
<u>19,257,574</u>	<u>9,557</u>	<u>19,267,131</u>
4,728,886	34,816	4,763,702
74,232,986	6,229,478	80,462,464
<u>\$ 78,961,872</u>	<u>\$ 6,264,294</u>	<u>\$ 85,226,166</u>

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund accounts for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, highway and street, culture and recreation, and community development. This fund accounts for all financial transactions not accounted for in the other funds.

Low and Moderate Income Housing Successor Special Revenue Fund accounts for the activities related to the housing assets assumed by the City as Housing Successor to the former Redevelopment Agency. The activities are governed by California redevelopment law and must be used to provide housing for people with low and moderate incomes. The main source of revenue is the repayment of loans restricted for housing activities.

Public Improvements in Lieu Special Revenue Fund accounts for revenues and expenditures for public improvement assets including in lieu of fees from developers.

Local Grants Special Revenue Fund accounts for revenues and expenditures from local public and private grants including the C/CAG Shuttle and the CA Endowment grants.

Capital Improvements Capital Projects Fund accounts for capital project improvement revenues and expenditures financed by various sources such as Federal and State grants, Measure A money, General Fund transfers in, and Park in-lieu funds.

Non-Major Governmental Funds is the aggregate of all the non-major governmental funds.

City of East Palo Alto
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds		
	General	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund
ASSETS			
Cash and investments	\$ 12,717,510	\$ 399,598	\$ 36,513
Restricted cash and investments	-	-	1,380,255
Receivables:			
Accrued interest	-	205,801	-
Taxes	415,726	-	-
Intergovernmental	4,401	-	-
Accounts receivable	150,138	33,231	-
Deposits and prepayments	85,416	15,000	-
Due from other funds	409,896	-	-
Loans to Successor Agency	11,690,612	-	-
Property held for resale	-	2,603,736	-
Loans and notes receivable	-	7,404,724	-
Total assets	\$ 25,473,699	\$ 10,662,090	\$ 1,416,768
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 458,464	\$ -	\$ -
Retentions payable	-	-	-
Deposits payable	496,924	-	-
Other accrued liabilities	359,079	-	-
Unearned revenue	-	-	1,207,521
Due to other funds	-	-	-
Advances from developers	1,175	-	-
Total liabilities	1,315,642	-	1,207,521
Deferred inflows of resources:			
Unavailable revenues	-	-	-
Fund Balances: (Note 9)			
Nonspendable	11,776,028	-	-
Restricted	-	10,662,090	209,247
Assigned	77,915	-	-
Unassigned	12,304,114	-	-
Total fund balances	24,158,057	10,662,090	209,247
Total liabilities, deferred inflows of resources, and fund balances	\$ 25,473,699	\$ 10,662,090	\$ 1,416,768

See accompanying Notes to Basic Financial Statements.

Major Funds			
Local Grants Special Revenue Fund	Capital Improvements Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 1,168,230	\$ 9,367,536	\$ 23,689,387
-	990,538	37,199	2,407,992
-	-	-	205,801
-	-	47,022	462,748
611,741	2,133,418	251,838	3,001,398
-	-	51,302	234,671
-	-	2,665	103,081
-	-	-	409,896
-	-	-	11,690,612
-	-	-	2,603,736
-	-	260,287	7,665,011
<u>\$ 611,741</u>	<u>\$ 4,292,186</u>	<u>\$ 10,017,849</u>	<u>\$ 52,474,333</u>
\$ 115,694	\$ 425,415	\$ 249,266	\$ 1,248,839
-	39,589	72,172	111,761
-	-	-	496,924
-	-	-	359,079
-	-	37,199	1,244,720
204,454	-	205,442	409,896
-	-	-	1,175
<u>320,148</u>	<u>465,004</u>	<u>564,079</u>	<u>3,872,394</u>
<u>555,333</u>	<u>2,133,418</u>	<u>88,538</u>	<u>2,777,289</u>
-	-	-	11,776,028
-	990,538	9,442,414	21,304,289
-	703,226	-	781,141
(263,740)	-	(77,182)	11,963,192
<u>(263,740)</u>	<u>1,693,764</u>	<u>9,365,232</u>	<u>45,824,650</u>
<u>\$ 611,741</u>	<u>\$ 4,292,186</u>	<u>\$ 10,017,849</u>	<u>\$ 52,474,333</u>

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City of East Palo Alto
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2014

Total Fund Balances - Total Governmental Funds \$ 45,824,650

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

	Total
Non-depreciable	\$ 5,926,166
Depreciable, net	25,291,077
Total capital assets	31,217,243

Unavailable revenue recorded in the fund financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements. 2,777,289

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Total
Compensated absences - due within one year	\$ (291,245)
Claims payable - due within one year	(13,775)
Capital lease payable - due within one year	(30,895)
Long term liabilities - due in more than one year	(521,395)
Total long-term liabilities	(857,310)

Net Position of Governmental Activities \$ 78,961,872

See accompanying Notes to Basic Financial Statements.

City of East Palo Alto
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2014

	Major Funds		
	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund
REVENUES:			
Property taxes	\$ 8,922,818	\$ -	\$ -
Sales taxes	3,113,705	-	-
Transient occupancy tax	2,019,680	-	-
Utility users tax	1,464,049	-	-
Other taxes	20,296	-	-
Licenses, fees and permits	927,194	-	-
Charges for services	1,331,825	9	23,684
Fines and forfeitures	261,440	-	-
Use of money and property	68,002	86,252	469
Grants and intergovernmental	121,208	-	-
Miscellaneous	122,066	227,255	172,734
Total revenues	18,372,283	313,516	196,887
EXPENDITURES:			
Current:			
General government	3,030,755	-	-
Public safety	9,743,889	-	-
Public works	1,505,441	-	175,983
Culture and recreation	172,539	-	-
Community development	1,614,886	-	6,053
Capital outlay	7,849	-	-
Debt service:			
Interest, and fiscal charges	1,429	-	-
Total expenditures	16,076,788	-	182,036
REVENUES OVER (UNDER) EXPENDITURES	2,295,495	313,516	14,851
OTHER FINANCING SOURCES (USES):			
Transfers in	13,454	-	8,347
Transfers out	(1,212,531)	-	-
Total other financing sources (uses)	(1,199,077)	-	8,347
Net change in fund balances	1,096,418	313,516	23,198
FUND BALANCES:			
Beginning of year	23,061,639	10,348,574	186,049
End of year	\$ 24,158,057	\$ 10,662,090	\$ 209,247

See accompanying Notes to Basic Financial Statements.

Major Funds

Local Grants Special Revenue Fund	Capital Improvements Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 323,933	\$ 9,246,751
-	-	544,755	3,658,460
-	-	433,271	2,452,951
-	-	-	1,464,049
-	-	1,858,336	1,878,632
-	-	-	927,194
-	-	754,557	2,110,075
-	-	-	261,440
-	10	52,728	207,461
244,459	2,141,255	674,882	3,181,804
-	-	85,851	607,906
<u>244,459</u>	<u>2,141,265</u>	<u>4,728,313</u>	<u>25,996,723</u>
-	-	1,019,493	4,050,248
69,437	-	891,901	10,705,227
-	1,674	738,722	2,421,820
-	-	602,123	774,662
349,219	1,630,411	368,574	3,969,143
-	1,354,419	306,052	1,668,320
-	-	-	1,429
<u>418,656</u>	<u>2,986,504</u>	<u>3,926,865</u>	<u>23,590,849</u>
<u>(174,197)</u>	<u>(845,239)</u>	<u>801,448</u>	<u>2,405,874</u>
-	1,089,882	114,302	1,225,985
-	-	(13,454)	(1,225,985)
-	1,089,882	100,848	-
(174,197)	244,643	902,296	2,405,874
<u>(89,543)</u>	<u>1,449,121</u>	<u>8,462,936</u>	<u>43,418,776</u>
<u>\$ (263,740)</u>	<u>\$ 1,693,764</u>	<u>\$ 9,365,232</u>	<u>\$ 45,824,650</u>

City of East Palo Alto

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 2,405,874
Amounts reported for governmental activities in the Statement of Activities were different because:	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	2,696,987
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.	(1,344,151)
In the statement of activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds, proceeds from the sales increase financial resources. The differences between the proceeds and the loss on disposal of capital assets.	(66,432)
Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	9,433
Payments on existing claims against the City are recorded as expenditures in governmental funds, but these payments reduced long-term liabilities in the Government-Wide Statement of Net Position. Expenses related to new claims and changes in claim estimates do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds.	106,164
Repayment of capital lease obligations was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	29,914
Grant revenues that did not meet the revenue recognition criteria in the governmental funds but were recognized as revenue in the Government-Wide Financial Statements.	<u>891,097</u>
Change in Net Position of Governmental Activities	<u>\$ 4,728,886</u>

PROPRIETARY FUND FINANCIAL STATEMENTS

Garbage Collection Fund accounts for the activities associated with garbage collection services.

Water Service Fund accounts for the activities associated with providing water services.

City of East Palo Alto
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds		
	Garbage Collection	Water Service	Total
ASSETS			
Current assets:			
Cash and investments	\$ 1,285,834	\$ 920,143	\$ 2,205,977
Cash with fiscal agents	-	834,882	834,882
Accounts receivable, net	36,045	22,014	58,059
Total current assets	1,321,879	1,777,039	3,098,918
Noncurrent assets:			
Capital assets:			
Non-depreciable	-	206,750	206,750
Depreciable, net	-	3,536,844	3,536,844
Total capital assets	-	3,743,594	3,743,594
Total noncurrent assets	-	3,743,594	3,743,594
Total assets	\$ 1,321,879	\$ 5,520,633	\$ 6,842,512
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 512,989	\$ 11,607	\$ 524,596
Total current liabilities	512,989	11,607	524,596
Noncurrent liabilities:			
Deposits payable	-	47,757	47,757
Advances from developers	-	5,865	5,865
Total noncurrent liabilities	-	53,622	53,622
Total liabilities	512,989	65,229	578,218
NET POSITION			
Net investment in capital assets	-	3,743,594	3,743,594
Restricted for:			
Capital projects	-	834,882	834,882
Unrestricted	808,890	876,928	1,685,818
Total net position	\$ 808,890	\$ 5,455,404	\$ 6,264,294

See accompanying Notes to Basic Financial Statements.

City of East Palo Alto
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended June 30, 2014

	Enterprise Funds		
	Garbage Collection	Water Service	Total
OPERATING REVENUES:			
Charges for services and other fees	\$ 2,298,597	\$ 247,827	\$ 2,546,424
Other	225,121	10,218	235,339
Total operating revenues	2,523,718	258,045	2,781,763
OPERATING EXPENSES:			
Outside services	2,262,240	207,355	2,469,595
Administration	91,350	268	91,618
Depreciation	-	195,291	195,291
Total operating expenses	2,353,590	402,914	2,756,504
OPERATING INCOME	170,128	(144,869)	25,259
NONOPERATING REVENUES (EXPENSES):			
Interest income	6,692	2,865	9,557
Total nonoperating revenues (expenses)	6,692	2,865	9,557
Change in net position	176,820	(142,004)	34,816
NET POSITION			
Beginning of year	632,070	5,597,408	6,229,478
End of year	\$ 808,890	\$ 5,455,404	\$ 6,264,294

See accompanying Notes to Basic Financial Statements.

City of East Palo Alto
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2014

	Enterprise Funds		
	Garbage Collection	Water Service	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from others	\$ 2,298,597	\$ 248,222	\$ 2,546,819
Cash received from customers	225,121	10,218	235,339
Cash payments to suppliers for goods and services	(3,280,516)	(198,621)	(3,479,137)
Cash paid to employees	(88,171)	(268)	(88,439)
Net cash provided by operating activities	(844,969)	59,551	(785,418)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income received	6,692	2,865	9,557
Net cash provided by investing activities	6,692	2,865	9,557
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(838,277)	62,416	(775,861)
CASH AND CASH EQUIVALENTS - Beginning of year	2,124,111	1,692,609	3,816,720
CASH AND CASH EQUIVALENTS - End of year	\$ 1,285,834	\$ 1,755,025	\$ 3,040,859
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 1,285,834	\$ 920,143	\$ 2,205,977
Cash with fiscal agents	-	834,882	834,882
Total	\$ 1,285,834	\$ 1,755,025	\$ 3,040,859
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 170,128	\$ (144,869)	\$ 25,259
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	195,291	195,291
Changes in assets and liabilities:			
Accounts receivable	-	395	395
Accounts payable	(1,015,097)	8,734	(1,006,363)
Deposits	-	-	-
Advances from developers	-	-	-
Total adjustments	(1,015,097)	204,420	(810,677)
Net cash provided by operating activities	\$ (844,969)	\$ 59,551	\$ (785,418)

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Private Purpose Trust Funds

Successor Agency Trust to the Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 14, all Californian redevelopment agencies were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. This fund continues payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

City of East Palo Alto
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Successor Agency Trust Fund
	<hr/>
ASSETS	
Current assets	
Cash and investments	\$ 2,680,221
Total current assets	<hr/> 2,680,221
Noncurrent assets	
Restricted cash and investments	15,977,097
Property held for resale	537,429
Capital assets:	
Non-depreciable	858,436
Depreciable, net	1,915,800
Total capital assets	<hr/> 2,774,236
Total noncurrent assets	<hr/> 19,288,762
Total assets	<hr/> <hr/> \$ 21,968,983
LIABILITIES	
Liabilities:	
Current liabilities	
Accounts payable	7,950
Other accrued liabilities	335,898
Bonds payable - due in one year	1,290,000
Total current liabilities	<hr/> 1,633,848
Noncurrent liabilities	
Refundable deposits	5,000
Advances from developers	101,940
Loans payable to City of East Palo Alto	11,690,612
Bonds payable	36,238,336
Total noncurrent liabilities	<hr/> 48,035,888
Total liabilities	<hr/> <hr/> 49,669,736
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	<hr/> 328,704
NET POSITION	
Held in trust for dissolution of RDA	<hr/> (28,029,457)
Total net position	<hr/> <hr/> \$ (28,029,457)

See accompanying Notes to Basic Financial Statements.

City of East Palo Alto
Statement of Changes in Fiduciary Net Position
All Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2014

	Successor Agency Trust Fund
ADDITIONS:	
RDA property tax trust fund distribution	7,601,754
Use of money and property	138,720
Miscellaneous	71,847
Total additions	7,812,321
DEDUCTIONS:	
Community development	5,706,409
Transfer to the City of East Palo Alto	195,424
Interest expense	1,177,545
Total Deductions	7,079,378
Change in net position	732,943
NET POSITION:	
Beginning of year	(28,762,400)
End of year	\$ (28,029,457)

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of East Palo Alto, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. *Financial Reporting Entity*

The City of East Palo Alto (City) was incorporated in 1983, under the General Laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City uses the City Council/Manager form of government. The local government is comprised of five Council members who are elected every four years and act under powers granted under State law. The City provides a variety of services including general administration, public safety, street and highway maintenance, economic development, and public works.

These basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. The City had no discretely presented component units. The blended component unit has a June 30 year-end. The following entity is reported as a blended component unit:

The East Palo Alto Public Financing Authority - The East Palo Alto Public Financing Authority (Authority) was organized in October 1999 under a joint exercise of power agreement to provide financing for public improvements for the City and the former East Palo Alto Redevelopment Agency. Separate financial statements of the Authority are not prepared.

B. *Basis of Accounting and Measurement Focus*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions, or limitation. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's 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.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

These financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. 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 liabilities are incurred.

Certain types of transactions reported as program revenues for the City are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards 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. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that meet specific qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City reports the following funds as major governmental funds of the City.

General Fund accounts for resources traditionally associated with governmental activities that are not required legally or by sound financial management to be accounted for in another fund.

Low and Moderate Income Housing Successor Special Revenue Fund accounts for the activities related to the housing assets assumed by the City as Housing Successor to the former Redevelopment Agency. The activities are governed by California redevelopment law and must be used to provide housing for people with low and moderate incomes. The main source of revenue is the repayment of loans restricted for housing activities.

Public Improvements in Lieu Special Revenue Fund accounts for revenues and expenditures for public improvement assets including in lieu of fees from developers.

Local Grants Special Revenue Fund accounts for revenues and expenditures from local public and private grants including the C/CAG Shuttle and the CA Endowment grants.

Capital Improvements Capital Projects Fund accounts for capital project improvement revenues and expenditures financed by various sources such as Federal and State grants, Measure A money, and Park in-lieu funds.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The City reports the following governmental funds as non-major governmental funds of the City.

NPDES Fees Special Revenue Fund accounts for the revenues and expenditures from assessments levied on property in the City in compliance with the provisions of the National Pollutant Discharge Elimination System for prevention of storm water and flood related damage.

Gas Tax Special Revenue Fund accounts for funds received from the State of California to use for street and highway related projects.

Federal and State Law Enforcement Special Revenue Fund accounts for the receipt and use of State and Federal law enforcement related grant money.

Park in Lieu Special Revenue Fund accounts for park in lieu fees collected from developers.

Rent Stabilization Fund accounts for revenues and expenditures to support rent stabilization activities.

Federal and State Grants Special Revenue Fund accounts for grant money received and expended from various Federal and State government grants.

US EPA Special Revenue Fund accounts for U.S. Environmental Protection Agency grant money received and expended.

Housing in Lieu Special Revenue Fund accounts for developer fees and deposits in lieu of providing affordable housing and 10% of TOT taxes collected as approved by voters and the expenditures related to housing.

Housing Assistance Special Revenue Fund accounts for first time home buyer assistance program activities.

Measure A Special Revenue Fund accounts for the City's Measure A revenues and expenditures. Measure A is a half-cent sales tax to support countywide (San Mateo County) transportation projects and programs.

CYSFF Children/Youth/Seniors/Family Special Revenue Fund accounts for 10% of TOT taxes collected as approved by voters and the City Council approved funding for various non-profit organizations related to Children/Youth/Seniors/Family programs.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Lighting District Special Revenue Fund accounts for revenues (property taxes) and expenditures for the Ravenswood Highway Lighting District.

Drainage District Special Revenue Fund accounts for revenues (property taxes) and expenditures for the East Palo Alto Maintenance Drainage District.

Measure C Special Revenue Fund accounts for the revenues and expenditures of Measure C Special Parcel tax. Measure C was approved by the voters in November 2006. The tax is annual parcel tax and the funds are to be used to support violence prevention and public safety intervention.

Measure M Special Revenue Fund accounts for the revenues and expenditures of Measure M San Mateo County Vehicle Registration Fee. Measure M was approved by the voters in November 2010. Measure M adds \$10 to the fees associated with registering a vehicle in the County to be used for pavement resurfacing, pothole repair, signs and striping, traffic signals, street sweeping, storm-inlet cleaning and local shuttles.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally those received 60 days after year-end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City are property taxes, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.), grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total 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 a liability is incurred.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements, Continued

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the Garbage Collection and Water Service enterprise funds as proprietary funds of the City.

Garbage Collection Fund accounts for the activities associated with garbage collection services.

Water Service Fund accounts for the activities associated with providing water services.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Private-purpose trust funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments (i.e. unclaimed property/escheat property). Fiduciary funds are accounted for using the accrual basis of accounting. The City reports the following fiduciary funds:

Successor Agency Private Purpose Trust Fund - accounts for assets and liabilities held by the City acting as a fiduciary. It accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 14, all California redevelopment agencies were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary fund financial statements.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California entitled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt, for acquisition and construction of capital projects, and to meet bond indenture debt reserve requirements. Cash and investments are also restricted for deposits held for others within the enterprise funds.

E. Prepayments

Payments made for services that will benefit periods beyond fiscal year end are recorded as prepaid items. In the governmental fund types, there is a portion of nonspendable fund balance equal to the amount of prepaid items since these are not available for appropriation.

F. Capital Assets

Capital assets used in governmental fund operations, including infrastructure assets (i.e. roads, curbs, gutters, bridges, sidewalks, drainage systems, lighting systems, and other assets) are reflected in the government-wide financial statements, along with related depreciation. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated life in excess of 1 year. Purchased capital assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their fair value on the date donated. Capital assets acquired under lease or purchase agreements are capitalized when the City accumulates an ownership equity in the assets acquired.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method whereby the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Infrastructure	7-55 years
Buildings and Improvements	30 years
Furniture, Fixture, and Equipment	5-10 years
Automobiles and Trucks	10 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Unearned revenue

Unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are prepaid charges for services.

H. Long-Term Debt

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount.

Fund Financial Statements – The governmental fund financial statements do not present long-term debt. As such, long-term debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period as other financing sources or uses. Bond proceeds are reported as other financing sources.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

I. Property Taxes

State Constitution Article 13 provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. At the time of transfer of ownership, assessed value is calculated at 100% of market value as defined by the above-referenced article 13; otherwise assessed value is calculated as the lesser of 100% of market value or 2% over the prior year assessed value. The State Legislature has determined the method of distribution of receipts from a \$1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities, school districts and other special districts, may levy such additional tax rate as is necessary to provide for voter-approved debt.

The County of San Mateo assesses properties and bills for and collects property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	On or before November 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. *Deferred Outflows/Inflows of Resources*

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

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

K. *Net Position*

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

L. *Fund Balances*

Fund Financial Statements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). The new classifications of fund balances are listed on the following page:

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Fund Balances, Continued

Nonspendable Fund Balances

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed, or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted Fund Balances

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed Fund Balances

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by resolution of the City Council. Encumbrances and nonspendable amounts subject to Council commitments are included along with spendable resources.

Assigned Fund Balances

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. This category includes encumbrances; Nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects, and Debt Service Funds, which have not been restricted or committed. The City Council has not delegated the authority to make assignments of fund balance.

Unassigned Fund Balance

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

Hierarchy of Expenditures to Classify Fund Balance Amounts

For expenditures made in any governmental fund, the restricted amounts will be reduced first, followed by committed amounts, assigned amounts, and then unassigned amounts.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Fund Balances, Continued

Minimum Fund Balance Policies

The City's Budget Guidelines and Fiscal Policies require the City to strive to maintain a reserve in the General Fund which represents 15% of the funds expenditures.

On June 30, 2014, the General Fund had recorded \$2,743,000 in reserve which meets the City's minimum 15% requirement level of \$2,593,398. The General Fund reserve fund balance is \$149,602 above this requirement.

M. Compensated Leave Payable

For governmental funds, compensated leave payable is recorded as current and noncurrent liabilities and as expenses only on the Government-Wide Financial Statements.

N. Use of Estimates

The preparation of the Basic Financial Statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

O. New Pronouncements

In 2014, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62* – The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no effect on net position as part of implementation of this standard.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* – The objective of this statement is to improve financial reporting by state and local governmental pension plans. There was no effect on net position as part of implementation of this standard.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. There was no effect on net position as part of implementation of this standard.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investment held by trustees.

A. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2014:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	\$ 23,689,387	\$ 2,205,977	\$ 2,680,221	\$ 28,575,585
Restricted cash and investments	2,407,992	834,882	15,977,097	19,219,971
Total cash and investments	\$ 26,097,379	\$ 3,040,859	\$ 18,657,318	\$ 47,795,556

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

Cash on hand	\$ 700
Deposits with financial institution	1,768,398
Total cash on hand and deposits	<u>1,769,098</u>
Local Agency Investment funds	3,433,213
San Mateo County Pool	23,373,274
Total investments	<u>26,806,487</u>
Total City Treasury	<u>28,575,585</u>
Cash with fiscal agent	<u>19,219,971</u>
Total cash and investments	<u><u>\$ 47,795,556</u></u>

B. Deposits

The carrying amount of the City's cash deposit was \$1,768,398 at June 30, 2014. Bank balances before reconciling items were a positive amount of \$2,273,602 at June 30, 2014. The City has waived the collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, CONTINUED

B. Deposits, Continued

The California Government Code (Code) requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. The Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by 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 period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

C. Authorized Investments by the City

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the Entity's investment policy.

Under the provisions of the City's investment policy, and in accordance with the Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Government Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Demand Deposits	2 years	None	None
Money Market/Mutual Funds	2 years	20%	None
Repurchase Agreements	92 days	None	None
Passbook Savings Accounts	2 years	None	None
Negotiable Certificates of Deposit	2 years	30%	None
State Local Agency Investment Fund (LAIF)	2 years	\$50 million	None
San Mateo County Pooled Investment Funds	2 years	None	None
Guaranteed Investment Contracts	2 years	None	None
Medium Term Notes	5 years	30%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

C. Investments

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds:

Interest income	\$ 204,096
Unrealized gain in changes in fair value of investments	<u>143</u>
Total investment income	<u>\$ 204,239</u>

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. Generally the City's practice is to buy and hold investments until maturity dates. Consequently, the City's investments are carried at fair value.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2014, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2014, the City had \$23,378,654 invested in LAIF, which had invested 1.86% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 1.96% in the previous year. The LAIF fair value factor of 1.000298750 was used to calculate the fair value of the investments in LAIF.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County. The City reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The fair value factor of 0.99995 was used to calculate the fair value of the investments in the County Pool.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures

Interest Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed three years.

Investments held in the City Treasury grouped by maturity date at June 30, 2014, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years
City Local Agency Investment Fund	\$ 3,433,213	\$ 3,433,213	\$ -	\$ -	\$ -	\$ -
San Mateo County Pool	23,373,654	23,373,654	-	-	-	-
Total	\$ 26,806,867	\$ 26,806,867	\$ -	\$ -	\$ -	\$ -

Credit Risk: 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. Presented below is the actual rating as of June 30, 2014 for each investment type:

	Credit Quality Ratings	
	Moody's	S&P
Local Agency Investment Funds	Not Rated	Not Rated
San Mateo County Pool	Not Rated	Not Rated

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2014, the City had the following due to/from other funds:

<u>Due To General Fund</u>	<u>Due From Other Funds</u>
Local Grants Special Revenue Fund	\$ 204,454
Non-Major Governmental Funds	205,442
Total	<u>\$ 409,896</u>

The amounts due to the General Fund from other funds represent reclassified temporary negative cash balances pending grant reimbursements or other receivables. Current interfund balances arise in the normal course of operations and are expected to be repaid shortly after the end of the fiscal year.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

3. INTERFUND TRANSACTIONS, Continued

B. Transfers

At June 30, 2014, the City had the following transfers in/out which arise in the normal course of operations.

Transfers Out	Transfers In				Total
	General	Public Improvements in Lieu	Capital Improvements	Non-Major Governmental Funds	
Major Funds					
General Fund	\$ -	\$ 8,347	\$ 1,089,882	\$ 114,302	\$ 1,212,531
Non-major Govtl Funds	13,454	-	-	-	13,454
Total	<u>\$ 13,454</u>	<u>\$ 8,347</u>	<u>\$ 1,089,882</u>	<u>\$ 114,302</u>	<u>\$ 1,225,985</u>

Transfers to the General Fund from non-major funds were made for maintenance of park expenditures. Transfers from the General fund were made to: 1) the Public Improvements in Lieu Fund to set aside revenues, the Capital Improvements Fund for funding various capital improvement projects, and to non-major funds to fund drainage activities.

4. LOANS AND NOTES RECEIVABLE

Loans receivable as of June 30, 2014, composed of the following, were held by the City:

	Balance as of June 30, 2014
Nairobi Housing Associates Loan	\$ 5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	395,000
First Time Home Buyer Assistance Loan	370,011
Habitat for Humanity	300,000
Total:	<u>\$ 7,665,011</u>

A. Nairobi Housing Associates Loan

On June 1, 1999, the former Agency entered into a loan agreement with Nairobi Housing Associates (Nairobi), a California Limited Partnership. The \$5,500,000 loan made by the former Agency to Nairobi was funded by a loan originally made by the David and Lucille Packard Foundation (Packard Foundation) to Bridge Housing Corporation and then passed through to Nairobi Housing Associates via the Agency. Nairobi used the loan proceeds to develop approximately 129 multi-family rental housing units and ancillary landscaping, and other improvements inside the Gateway 101 redevelopment project area. The loan receivable accrues simple interest at the rate of one percent 1% per annum, commencing February 1, 2001. The entire principal amount is due to the Agency, now the housing successor, on June 18, 2036. The entire loan is secured by a note and deed of trust with Nairobi.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

4. LOANS AND NOTES RECEIVABLE, Continued

B. Nugent Square Partners

On August 1, 2003, the former Agency entered into a loan agreement in the amount of \$1,100,000 with Nugent Square Partners, L.P. (Nugent), a California Limited Partnership to develop multi-family rental housing units and ancillary landscaping, and other improvements on the property located on University Avenue and Weeks Street. The loan accrues simple interest at the rate of 1% per annum. The entire principal amount is due to the former Agency, now the housing successor, in 2043.

C. Bay Road Housing Loan

In December 2004, the former Agency entered into a loan agreement with a housing developer. The Agency agreed to loan the developer a maximum loan of \$1.2 million over 20 years. Outstanding principal of the loan accrues at the simple interest rate of 2% per annum. The loan matures in December 2024.

D. First Time Home Buyer Assistance Loans

On December 21, 2004, Council approved a program for a down payment assistance loans to qualified homebuyers who met the criterion to purchase a below-market rate (BMR) home in East Palo Alto. Generally, the assistance consists of 30 year loans at a fixed rate of 3% interest; with payments deferred for the first five years.

E. Habitat for Humanity Loan

On May 24, 2011, the Agency entered into a loan agreement in the amount of \$300,000 with Habitat for Humanity Greater San Francisco, Inc., a California nonprofit public benefit corporation to acquire, rehabilitate and sale of eligible properties to low income households. The loan bears a 3% per annum, commencing on initial disbursement. As of June 30, 2014, the outstanding loan balance was \$300,000 for principal and \$12,041 for interest.

F. Loans to Successor Agency

Prior to former Redevelopment Agency dissolution on January 31, 2012, the following General Fund loans receivable from the Successor Agency were recorded as long-term interfund advances. At June 30, 2014, the outstanding balance of \$11,690,612 in General Fund was comprised of two advances to the former Redevelopment Agency Capital Projects Fund which were assumed by the Successor Agency on February 1, 2012.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

4. LOANS AND NOTES RECEIVABLE, Continued

F. Loans to Successor Agency, Continued

The first loan is for the ongoing assistance and services in connection with the implementation of the redevelopment plan for the Ravenswood Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement to provide for a repayment schedule to ensure full repayment of the outstanding balance. The repayment terms were that the advance will be repaid in 35 years, the rate of interest on the advance was 12% and the repayment of the advance is limited to property tax increment revenues. AB 1484 this loan has been recalculated using the LAIF rate discussed below. Due to the former Redevelopment Agency's dissolution as of January 31, 2012, the advance was assumed by the Successor Agency.

The second loan is for the funding of the Ravenswood High School Site. This property was developed into a retail shopping center in the Gateway 101 Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement and the Purchase and Sale Agreement to specify the repayment terms for the purchase price of the property. The repayment terms are that the advance will be repaid in 35 years, there is no interest provision and the repayment of the advance is limited to property tax increment revenues. As of June 30, 2014, the advance balance was \$5,276,883. Per

Under the Dissolution Act, certain agreements between the cities and the former redevelopment agencies no longer qualify as enforceable obligations. However, with the passage of AB 1484 on June 28, 2012, upon meeting certain requirements including the issuance of a finding of completion by the State Department of Finance and approval from the Oversight Board, these two advances may be restored at LAIF rates from inception. Using the LAIF rate, the recomputed balance as of June 30, 2014 was \$6,413,729 for the Ravenswood advance. There was no LAIF rate adjustment for the Gateway 101 advance since it is a zero interest loan.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

5. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2014, are comprised of the following:

	Balance as of June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Government activities				
Capital assets not being depreciated:				
Land	\$ 605,144	\$ 15,950	\$ -	\$ 621,094
Construction in progress	2,937,227	2,367,845	-	5,305,072
Total capital assets not being depreciated	<u>3,542,371</u>	<u>2,383,795</u>	<u>-</u>	<u>5,926,166</u>
Capital assets being depreciated:				
Infrastructure				
Streets and roadways	43,239,334	-	-	43,239,334
Storm drain system	4,089,492	-	-	4,089,492
Buildings and Improvements	5,126,781	162,000	-	5,288,781
Improvements other than buildings	4,941,663	-	-	4,941,663
Furniture, Fixtures, and Equipment	2,019,033	39,525	(157,638)	1,900,920
Vehicles	1,902,212	111,667	(470,631)	1,543,248
Total capital assets being depreciated	<u>61,318,515</u>	<u>313,192</u>	<u>(628,269)</u>	<u>61,003,438</u>
Less accumulated depreciation for:				
Infrastructure				
Streets and roadways	(27,335,955)	(653,698)	-	(27,989,653)
Storm drain system	(2,232,466)	(37,074)	-	(2,269,540)
Buildings and Improvements	(1,884,666)	(175,063)	-	(2,059,729)
Improvements other than building	(911,393)	(148,166)	-	(1,059,559)
Furniture, Fixtures and Equipment	(1,510,795)	(169,900)	140,668	(1,540,027)
Vehicles	(1,054,772)	(160,250)	421,169	(793,853)
Total accumulated depreciation	<u>(34,930,047)</u>	<u>(1,344,151)</u>	<u>561,837</u>	<u>(35,712,361)</u>
Total capital assets, being deing depreciated, net	<u>26,388,468</u>	<u>(1,030,959)</u>	<u>(66,432)</u>	<u>25,291,077</u>
Government activities capital assets, net	<u>\$ 29,930,839</u>	<u>\$ 1,352,836</u>	<u>\$ (66,432)</u>	<u>\$ 31,217,243</u>

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

5. CAPITAL ASSETS, Continued

	Balance as of June 30, 2013	Additions	Transfers	Balance at June 30, 2014
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 206,750	\$ -	\$ -	\$ 206,750
Total capital assets not being depreciated	206,750	-	-	206,750
Capital assets being depreciated:				
Buildings and Improvements	43,790	-	-	43,790
Improvements other than buildings	7,057,659	-	-	7,057,659
Furniture, Fixtures, and Equipment	63,943	-	-	63,943
Vehicles	89,890	-	-	89,890
Total capital assets being depreciated	7,255,282	-	-	7,255,282
Less accumulated depreciation for:				
Buildings and Improvements	(43,790)	-	-	(43,790)
Improvements other than building	(3,325,525)	(195,290)	-	(3,520,815)
Furniture, Fixtures and Equipment	(63,943)	-	-	(63,943)
Vehicles	(89,890)	-	-	(89,890)
Total accumulated depreciation	(3,523,148)	(195,290)	-	(3,718,438)
Total capital assets, being deing depreciated, net	3,732,134	(195,290)	-	3,536,844
Business-type activities capital assets, net	\$ 3,938,884	\$ (195,290)	\$ -	\$ 3,743,594

A. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

5. CAPITAL ASSETS, Continued

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or programs are as follows:

Governmental Activities:	
General Government	\$ 27,047
Public Safety	214,791
Culture and Recreation	4,362
Public Works	838,938
Community Development	259,013
Total Governmental Activities	\$ 1,344,151
Business-Type Activities:	
Water Service	\$ 195,290
Total Business-Type Activities	\$ 195,290

C. Capital Project Commitments

The City has commitments under the following significant capital, infrastructure and other projects and programs.

Project	Project Authorization	Expended through June 30, 2014	Committed
Safe Route to School	\$ 1,112,300	\$ 1,088,683	\$ 23,617
Runnymede Storm Drain Phase II	1,262,000	200,274	1,061,726
Gloria Wells	372,000	266,550	105,450
Highway 101 Pedestrian/Bicycle Overcrossing	1,614,979	375,736	1,239,243
Big Road Phase II Improvement	1,254,200	349,522	904,678
General Plan Update	1,550,000	540,885	1,009,115
Citywide Storm Drain Master Plan	282,850	170,223	112,627
Street Resurfacing	863,690	388,712	474,978
Bell Street Playground Project	45,000	22,331	22,669
Cooley Landing Park	5,000,000	1,698,279	3,301,721
Second Ground Water Well	300,000	-	300,000
	\$ 13,657,019	\$ 5,101,195	\$ 8,555,824

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

6. LONG-TERM DEBT

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2014	Current Portion
2013 Capital Lease - 5 Police Vehicles 3.25% due 2/1/17	\$ 114,635	\$ -	\$ 29,914	\$ 84,721	\$ 30,895

On February 1, 2013, the City of East Palo Alto purchased five 2013 Dodge Chargers for the police department and entered into an equipment lease purchase agreement with Capital One Public Funding, LLC, in an amount not to exceed \$127,212 with an interest rate of 3.25% and due on February 1, 2017. Principal and interest is payable on the first day of every month and commencing on March 1, 2013.

Under the capital leases terms, the City will have the option to purchase the vehicles upon giving written notice to the lessor at least thirty days before the date of purchase. Therefore, these capital leases have been recorded at the present value of the future minimum lease payments at the date of inception of the lease, and the corresponding assets have been included in the Statement of Net Position as appropriate. Capital lease payments are made exclusively from legally available funds.

Debt Service Requirements

Future capital lease payments at June 30, 2014, are as follows:

For the Year Ending June 30, 2014	Police Vehicle Capital Lease		
	Principal	Interest	Total
2014	\$ 30,895	\$ 2,299	\$ 33,194
2016	31,921	1,273	33,194
2017	21,905	267	22,172
Total Payments Due	\$ 84,721	\$ 3,839	\$ 88,560

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

7. OPERATING LEASE

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$476,883 for governmental activities and \$56,020 for business-type activities for the fiscal year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2015	\$ 539,128
2016	549,879
	<u>\$ 1,089,007</u>

8. COMPENSATED ABSENCES

Compensated absences comprise of unpaid vacation and are accrued as earned. The City's liability for compensated absences is recorded in various governmental funds. The liability for compensated absences is determined annually. Compensated absences are reported in governmental funds only if they have matured. The long-term portion of governmental activities compensated absences is liquidated primarily by the general fund.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Governmental Activities					
Compensated Leave Payable	\$ 690,186	\$ 552,907	\$ (562,340)	\$ 680,753	\$ 291,245

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

9. FUND BALANCES

Detailed classifications of the City's Fund Balances, as of June 30, 2014, are below:

	Major Governmental Funds						Total
	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund	Local Grants Special Revenue Fund	Capital Improvements Capital Projects Fund	Other Government Funds	
Fund Balances							
Nonspendable fund balance:							
Loans to Successor Agency	11,690,612	-	-	-	-	-	11,690,612
Deposits and prepayments	85,416	-	-	-	-	-	85,416
	<u>11,776,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,776,028</u>
Restricted fund balance for:							
Low and Moderate							
Income Housing	-	10,662,090	-	-	-	-	10,662,090
Gas Tax	-	-	-	-	-	1,770,626	1,770,626
Federal and State							
Law Enforcement	-	-	-	-	-	17,104	17,104
Park in Lieu	-	-	-	-	-	116,033	116,033
Rent Stabilization	-	-	-	-	-	256,731	256,731
Housing in Lieu	-	-	-	-	-	1,809,580	1,809,580
Housing Assistance	-	-	-	-	-	380,550	380,550
Public Improvement in Lieu	-	-	209,247	-	-	-	209,247
Measure A	-	-	-	-	-	1,869,576	1,869,576
CYSFF Children/Youth/ Seniors/Family	-	-	-	-	-	305,661	305,661
Lighting District	-	-	-	-	-	1,164,981	1,164,981
Drainage District	-	-	-	-	-	176,713	176,713
Measure C	-	-	-	-	-	1,483,198	1,483,198
Capital projects	-	-	-	-	990,538	-	990,538
Other Purposes	-	-	-	-	-	91,661	91,661
	<u>-</u>	<u>10,662,090</u>	<u>209,247</u>	<u>-</u>	<u>990,538</u>	<u>9,442,414</u>	<u>21,304,289</u>
Assigned fund balance for:							
Capital projects	-	-	-	-	703,226	-	703,226
Other Purposes	77,915	-	-	-	-	-	77,915
	<u>77,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>703,226</u>	<u>-</u>	<u>781,141</u>
Unassigned fund balance							
Minimum fund balance reserve	2,743,000	-	-	-	-	-	2,743,000
CIP Reserve	5,316,801	-	-	-	-	-	5,316,801
Information Technology Reserve	719,619	-	-	-	-	-	719,619
Vehicles and Equipment Reserve	249,449	-	-	-	-	-	249,449
Self Insurance Reserve	1,158,760	-	-	-	-	-	1,158,760
Other	2,116,485	-	-	(263,740)	-	(77,182)	1,775,563
	<u>12,304,114</u>	<u>-</u>	<u>-</u>	<u>(263,740)</u>	<u>-</u>	<u>(77,182)</u>	<u>11,963,192</u>
Total Fund Balances	<u>24,158,057</u>	<u>10,662,090</u>	<u>209,247</u>	<u>(263,740)</u>	<u>1,693,764</u>	<u>9,365,232</u>	<u>45,824,650</u>

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

10. FUND BALANCE/NET POSITION DEFICIT AND EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Local Grants Special Revenue Fund, NPDES Special Revenue Fund, and Measure M Special Revenue Fund had fund balance deficits of \$263,740, \$4, and \$77,178 respectively at June 30, 2014. The deficit is expected to be eliminated with the receipt of grant awards and future revenues.

The following funds had expenditures in excess of appropriations:

Fund	Excess
Special Revenue Fund:	
Local Grants	\$ 60,790
Federal and State Law Enforcement	180,944
Park in Lieu	29,404
Federal and State Grants	20,987
US EPA	44,001
Housing in lieu	56,189
Housing Assistance	39,386
CYSFF Child/Family	54,835

11. RETIREMENT BENEFITS

A. CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined on an actuarial basis as of June 30 of each year. The City must contribute the amounts determined by CALPERS. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

11. RETIREMENT PLANS, Continued

A. CALPERS Safety and Miscellaneous Employees Plans, Continued

	<u>Safety</u>	<u>Miscellaneous</u>
Hire Date	Prior to January 1, 2014	Prior to January 1, 2014
Benefit vesting schedule	5 years service	5 years service
Benefit payment	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4 - 3%	2 - 2.5%
Required employee contribution rates	9.00%	8.00%
Required employer contribution rates	26.753%	15.544%
	<u>Safety</u>	<u>Miscellaneous</u>
Hire Date	On or after January 1, 2014	On or after January 1, 2014
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	57	62
Monthly benefits, as a % of annual salary	2.70%	2.00%
Required employee contribution rates	11.50%	6.25%
Required employer contribution rates	11.50%	6.25%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Gain and losses that occur in the operation of risk pool are amortized over a rolling thirty year period.

As required by new State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new Statewide pool. One of the conditions of entry to these pools was that the City true-up any funding difference between the former Plan and the new Statewide pool, either by paying cash or by paying an additional annual payment through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous Plan's funding difference of \$875,764, as of June 30 2011, by agreeing to contribute amounts to the Side Fund over the next 13 years. It satisfied its Safety Plan's funding difference of \$2,792,094, as of June 30, 2011, by agreeing to contribute amounts to the Side Fund over the next 16 years.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

11. RETIREMENT PLANS, Continued

A. CALPERS Safety and Miscellaneous Employees Plans, Continued

Three-year historical trend information is presented below:

Safety Plan

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 1,011,694	100%	\$ -
6/30/2013	\$ 979,836	100%	-
6/30/2014	\$ 862,122	100%	-

Miscellaneous Plan

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 618,220	100%	\$ -
6/30/2013	\$ 546,345	100%	-
6/30/2014	\$ 625,274	100%	-

Audited annual financial statements and ten year statistical comparison are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The City retirement plans for safety employees and miscellaneous employees are part of the CalPERS risk pool for cities and other governmental entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule funding progress for the City's safety and miscellaneous employees are no longer available.

B. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan (Plan) created in accordance with Internal Revenue Code Section 401(a) and (k). Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. The City has contracts with various outside third party administrators to manage and invest the assets of the Plan. The administrators pool the assets of the Plan with those of other participants and do not make separate investments for the City. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

12. RISK MANAGEMENT

A. Insurance Coverage

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. ABAG Plan Corporation (ABAG) covers general liability claims in an amount up to \$5 million. The City has a deductible or uninsured liability of up to \$100,000 per claim. Once the City's deductible is met, ABAG becomes responsible for payment of all claims up to the limit.

The State Compensation Insurance Fund provides workers' compensation insurance with a \$1 million per occurrence coverage. The City has no deductible for the worker's compensation insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is reported in the general long-term debt account group because it is not expected to be liquidated with expendable available financial resources.

B. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments in the Workers' Compensation and General Liability. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims.

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2014 and 2013:

	2014	2013
Beginning balance of claims payable	\$ 198,000	\$ 194,625
Increase/Decrease in estimated claims liability	324,165	438,682
Claims paid	(430,329)	(435,307)
Ending balance of claims payable	<u>\$ 91,836</u>	<u>\$ 198,000</u>
Current Portion	<u>\$ 13,775</u>	<u>\$ 29,700</u>

During the past three fiscal 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 East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

12. JOINT VENTURES

The City participates in the joint ventures discussed below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

A. South Bayside Waste Management Authority

The City is one of twelve members of the South Bayside Waste Management Authority (SBWMA), which is a joint powers agreement that commenced operations March 1, 2000. The SBWMA was formed for the purpose of financing and administration of the San Carlos Transfer Station and the San Mateo Recycler; and the planning, administration management, review, monitoring, enforcement, and reporting of solid waste, recyclable material, and plant material collection activities with the service area of the SBWMA. The City has no equity interest in SBWMA.

Through the operation of franchise agreements with each member, RECOLOGY collects fees charged for the use of the facilities and remits them to the SBWMA. Pursuant to an Operations Agreement with the SBWMA, BFI will operate the facilities and be paid compensation based on costs, a provision for profit and incentives for cost savings and performance. Financial statements may be obtained by mailing a request to 610 Elm Street, Suite 202, San Carlos, CA 94070.

B. San Francisquito Creek Joint Powers Authority

The City is also one of five members of the San Francisquito Creek Joint Powers Authority (SFCJPA) which exists to manage flood control and other environmental issues surrounding the San Francisquito Creek. The City has no equity interest in the SFCJPA. Financial statements may be obtained by mailing a request to 3723 Haven Avenue, Suite 127, Menlo Park, CA 94025.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

13. CONTINGENT LIABILITIES AND COMMITMENTS

A. *Lease Agreement with American Water Service, Inc.*

On April 9, 2001, the City entered into a lease agreement with American Water Services, Inc. (the Company) and agreed to lease the water system owned by the City to the Company. The Company is responsible to operate, maintain and manage the water system as well as bill and collect water services charges and utility tax from the City's resident. The Company also agreed to pay lease payment and franchise fee to the City. The franchise fee and lease payment represents 5% and 6%, respectively, of the net revenue, defined as gross revenue of the Company received from the City's residents net of utility tax collected and transferred to the City.

The City has retained the titles of the Water System and related capital assets related with the lease. The Company agrees to use the Water System to furnish potable water service and water service for fire protection to all customers in the service area. The Company may not retire, sell, transfer; convey, or encumber any real property or personal property of the Water System without the prior written consent of City.

As of June 30, 2014, the City has capitalized \$3,938,884 for the Water system and services related capital asset. For the year ended June 30, 2014, the Company paid lease payment and franchise fee to the City in the amount of \$247,827 and \$204,607, respectively.

B. *Contingent Liabilities*

The City is subject to litigation arising in the normal course of operations. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City has received federal and state grants for specific purposes that are subject to reviews by the grantor agencies. Such reviews could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although City expects such amounts, if any, to be immaterial.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. Redevelopment Dissolution

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies as of January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

ABx1 26 and AB 1484 allowed three regulatory oversight authorities, the Successor Authority's Oversight Board, State Controller and Department of Finance (DOF), to review the former Authority's asset transfer, obligation payments and wind down activities. ABx1 26 specifically directs the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. As of June 30, 2014 the State Controller's Office has yet to complete its asset transfer review.

In November 2012, the DOF completed its Due Diligence Review (DDR) of the Low and Moderate Housing Fund's cash balance available for allocation to the affected taxing entities. The Successor Agency complied with the DOF's determination by transmitting the payment of \$3,012,815 and additional accrued interest to the County Auditor-Controller in November 2012. This amount was recorded as an extraordinary item.

In April 2013, the DOF completed its Due Diligence Review (DDR) for the other funds of the Successor Agency and determined that the cash balance available for allocation to the affected taxing entities are \$2,408,518. The Successor Agency complied with the DOF's determination by transmitting two payments of \$475,200 and \$1,933,318, and additional accrued interest to the County Auditor-Controller in June and April 2013 respectively. This amount was recorded as an extraordinary item.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

A. *Redevelopment Dissolution, Continued*

Effective January 31, 2012, all California redevelopment agencies were dissolved. Certain assets of the Authority's Low and Moderate Income Housing Fund were distributed to a Housing Successor; and all remaining Authority assets and liabilities were distributed to a Successor Agency.

Under the provisions of AB 1484, the City could elect to become the Housing Successor and retain the housing assets. The City elected to become the Housing Successor and on January 10, 2012, and on February 1, 2012 certain housing assets were transferred to the City's Housing Successor Special Revenue Fund.

Cash and investments of the Successor Agency as of June 30, 2014 are discussed in Note 2. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2014.

B. *Property Held for Resale*

As of June 30, 2014, the property held for resale was recorded in the amount of \$537,429 for the purpose of resale to developers in regard to the development of the Gateway 101 retail center.

C. *Capital Assets*

The Successor Agency assumed the capital assets of the Redevelopment Agency as of February 1, 2012.

All capital assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date donated.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

C. Capital Assets, Continued

Depreciation is provided using the straight line method whereby the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Infrastructure	7-55 years
Buildings and Improvements	30 years
Furniture, Fixtures and Equipment	5-10 years
Automobiles and Trucks	10 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets recorded at June 30 comprise:

	Balance as of June 30, 2013	Additions	Transfers	Balance at June 30, 2014
Successor Agency				
Capital assets not being depreciated:				
Land	\$ 296,466	\$ -	\$ -	\$ 296,466
Construction in progress	561,970	-	-	561,970
Total capital assets not being depreciated	<u>858,436</u>	<u>-</u>	<u>-</u>	<u>858,436</u>
Capital assets being depreciated:				
Improvements other than buildings	1,956,092	90,114	-	2,046,206
Total capital assets being depreciated	<u>1,956,092</u>	<u>90,114</u>	<u>-</u>	<u>2,046,206</u>
Less accumulated depreciation for:				
Improvements other than buildings	(65,203)	(65,203)	-	(130,406)
Total accumulated depreciation	<u>(65,203)</u>	<u>(65,203)</u>	<u>-</u>	<u>(130,406)</u>
Total capital assets, being deing depreciated, net	<u>1,890,889</u>	<u>24,911</u>	<u>-</u>	<u>1,915,800</u>
Successor Agency capital assets, net	<u>\$ 2,749,325</u>	<u>\$ 24,911</u>	<u>\$ -</u>	<u>\$ 2,774,236</u>

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

D. Long-Term Debt

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2013	Retirements	Discount/ Premium Amortization	Balance at June 30, 2014	Current Portion
Former Redevelopment Agency						
1999 Tax Allocation Bonds						
4.200-6.625% due 10/1/2032	\$ 22,785,000	\$ 14,290,016	\$ (490,000)	\$ 3,034	\$ 13,803,050	\$ 520,000
2003 Tax Allocation Refunding Bonds						
Series A						
4.00-5.00% due 10/1/2032	5,155,000	4,931,115	(15,000)	2,836	4,918,951	15,000
2003 Tax Allocation Refunding Bonds						
Series B						
4.12-6.45% due 10/1/2032	3,600,000	2,990,000	(80,000)	-	2,910,000	85,000
Public Financing Authority						
2005 Revenue Bonds, Series A						
3.40-5.00% due 10/1/2029	17,995,000	16,564,424	(645,000)	(23,089)	15,896,335	670,000
Total		<u>\$ 38,775,555</u>	<u>\$ (1,230,000)</u>	<u>\$ (17,219)</u>	<u>\$ 37,528,336</u>	<u>\$ 1,290,000</u>

1999 Tax Allocation Bonds

On October 28, 1999, the former Agency issued \$22,785,000 of Universal Circle-Gateway 1010 Corridor Merged Project Area Tax Allocation Bonds, Series 1999 (1999 Bonds). The bonds were issued to finance the redevelopment activities within the Successor Agency's Gateway 101 Corridor Redevelopment Project Area, to refinance and retire certain obligations related to the project area, to fund capitalized interest on a portion of the 1999 bonds, to fund a reserve account for the bonds, and to pay issuance costs.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

D. Long-Term Debt, Continued

1999 Tax Allocation Bonds, Continued

Future debt service on the 1999 bonds, which are payable to the East Palo Alto Financing Authority, at June 30 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 520,000	\$ 895,138	\$ 1,415,138
2016	550,000	861,663	1,411,663
2017	585,000	824,775	1,409,775
2018	620,000	785,612	1,405,612
2019	665,000	743,850	1,408,850
2020-2024	4,024,000	2,983,300	7,007,300
2025-2029	5,550,000	1,409,799	6,959,799
2030	1,340,000	44,388	1,384,388
Subtotal	13,854,000	<u>\$ 8,548,525</u>	<u>\$ 22,402,525</u>
Bond Discount	(50,950)		
Total	<u>\$ 13,803,050</u>		

2003 Tax Allocation Bonds

On December 11, 2003, the former Agency issued \$5,155,000 University Circle-Gateway 101 Corridor Merged Project Area Tax Allocation Bonds-Series 2003A and \$3,600,000 Refunding Bonds, Series 2003B. The bonds were issued to refund the portion of the 1999 Bonds that mature on October 1, 2032, to refinance and retire certain obligations related to the project area, to fund capitalized interest on a portion of the 2003 bonds, to fund a reserve account for the bonds, and to pay issuance costs.

Future debt service on the 2003A bonds at June 30, 2014, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 15,000	\$ 247,594	\$ 262,594
2016	15,000	246,882	261,882
2017	15,000	246,169	261,169
2018	20,000	245,337	265,337
2019	20,000	244,387	264,387
2020-2024	110,000	1,207,212	1,317,212
2025-2029	135,000	1,177,594	1,312,594
2030-2033	4,640,000	584,250	5,224,250
Subtotal	4,970,000	<u>\$ 4,199,425</u>	<u>\$ 9,169,425</u>
Bond Discount	(51,049)		
Total	<u>\$ 4,918,951</u>		

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

D. Long-Term Debt, Continued

2003 Tax Allocation Bonds, Continued

Future debt service on the 2003B bonds at June 30, 2014, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 85,000	\$ 182,273	\$ 267,273
2016	90,000	176,848	266,848
2017	95,000	171,113	266,113
2018	100,000	165,068	265,068
2019	105,000	158,713	263,713
2020-2024	640,000	682,740	1,322,740
2025-2029	875,000	444,245	1,319,245
2030-2033	920,000	122,874	1,042,874
Subtotal	<u>\$ 2,910,000</u>	<u>\$ 2,103,874</u>	<u>\$ 5,013,874</u>

2005 East Palo Alto Public Financing Authority Bonds

On August 1, 2005, the East Palo Alto Public Financing Authority (Authority) issued \$17,995,000 University Circle-Gateway 101 Corridor Merged Project Area Revenue Bonds, 2005 Series A. The proceeds of the 2005 Authority Bonds were used to execute a purchase in lieu of redemption of the 1999 Bonds scheduled to mature on October 1, 2010 through and including October 1, 2029 on their October 1, 2009 call date; pay interest costs on the 2005 Authority Bonds up to and including October 1, 2009; and provide the City, through the Authority, with additional funds for infrastructure costs. The purchase in lieu of redemption of the 1999 Bonds through the issuance of the 2005 Authority Bonds generated \$1,360,000 in additional funds for general government projects throughout the City.

The purchase in lieu of redemption is structured differently from a standard refunding in that on the October 1, 2009 call date, the 1999 Bonds scheduled to mature on October 1, 2010 through and including October 1, 2029, were purchased from bond holders and became the property of the Authority. In other words, there were no changes to the 1999 Bonds after the October 1, 2009 purchase date. After the October 1, 2009 purchase date the Authority, in its role as a Joint Powers Authority (the "JPA"), became the owner of the 1999 Bonds. As a result of the redevelopment agency dissolution, as of June 30, 2012, both the direct investment of the 1999 bonds and the long-term debt bond are recorded in the Successor Agency Private Purpose Trust Fund.

City of East Palo Alto
Notes to Basic Financial Statements
For the year ended June 30, 2014

14. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,
Continued

D. Long-Term Debt, Continued

2005 Tax Allocation Bonds, Continued

Future debt service on the 2005 bonds at June 30, 2014, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 670,000	\$ 741,240	\$ 1,411,240
2016	700,000	706,990	1,406,990
2017	735,000	671,115	1,406,115
2018	770,000	633,490	1,403,490
2019	815,000	596,921	1,411,921
2020-2024	4,620,000	2,394,663	7,014,663
2025-2029	5,880,000	1,103,500	6,983,500
2030	1,360,000	34,000	1,394,000
Subtotal	15,550,000	<u>\$ 6,881,919</u>	<u>\$ 22,431,919</u>
Bond Premium	346,335		
Total	<u>\$ 15,896,335</u>		

E. Deferred Inflows of Resources

The Agency recorded the following item as deferred inflows of resources as of June 30, 2014.

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
2003 Refunding Tax Allocation				
Bonds Deferred Gain on Refunding	\$ 346,965	\$ -	\$ (18,261)	\$ 328,704

15. SUBSEQUENT EVENTS

On October 30, 2014, the City of East Palo Alto Successor Agency (Agency) was notified by the California Department of Finance that the Oversight Board Resolution No. OB 2014-04 approving loans between the City of East Palo Alto (City) and the former City of East Palo Alto Redevelopment Agency (RDA) as enforceable obligations and making findings they were for legitimate redevelopment purposes was not approved. Subsequently, the City scheduled a meet and confer to appeal the Department of Finance decision as the City believes the loans to be valid obligations of the Successor Agency that were made for legitimate redevelopment purposes.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

City of East Palo Alto
Required Supplementary Information
For the year ended June 30, 2014

BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

The City adopts a budget annually for all governmental fund types, except for capital projects. This budget is effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted at the fund level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The legal level of budgetary control is the fund level. The City Council may amend the budget by resolution during the fiscal year. The City Manager has the authority to make adjustments to the operating budget between departments within the same fund. Transfers of operating budgets between funds, use of unappropriated fund balances, and significant changes in capital improvement project budgets require the approval of the City Council.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States except for Housing Assistance and Public Improvements in Lieu Special Revenue Funds; and Capital Improvements Capital Projects Fund which are adopted on a project length basis.

B. Encumbrances

The City uses an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to set aside that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

City of East Palo Alto
Required Supplementary Information, Continued
For the year ended June 30, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

C. Budgetary Comparison Schedules

The following are the budget comparison schedules for all major Governmental Funds.

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 8,176,500	\$ 8,747,248	\$ 8,922,818	\$ 175,570
Sales taxes	3,154,600	3,053,270	3,113,705	60,435
Transient occupancy tax	1,692,500	1,966,000	2,019,680	53,680
Utility users tax	1,524,900	1,465,700	1,464,049	(1,651)
Other taxes	-	-	20,296	20,296
Licenses, fees and permits	771,600	836,500	927,194	90,694
Charges for services	1,280,100	1,284,400	1,331,825	47,425
Fines and forfeitures	253,400	239,500	261,440	21,940
Use of money and property	51,000	51,000	68,002	17,002
Grants and intergovernmental	117,000	157,000	121,208	(35,792)
Miscellaneous	31,500	82,600	122,066	39,466
Total revenues	17,053,100	17,883,218	18,372,283	489,065
EXPENDITURES:				
Current:				
General government	4,017,688	3,669,504	3,030,755	638,749
Public safety	9,584,020	9,732,824	9,743,889	(11,065)
Public works	1,709,890	1,621,034	1,505,441	115,593
Culture and recreation	415,102	290,559	172,539	118,020
Community development	2,165,457	1,990,489	1,614,886	375,603
Capital Outlay	-	-	7,849	(7,849)
Debt service:				
Interest, and fiscal charges	-	-	1,429	(1,429)
Total expenditures	17,892,157	17,304,410	16,076,788	1,227,622
REVENUES OVER (UNDER) EXPENDITURES	(839,057)	578,808	2,295,495	1,716,687
OTHER FINANCING SOURCES (USES):				
Transfers in	12,238	12,238	13,454	(1,216)
Transfers out	(1,204,184)	(1,612,521)	(1,212,531)	399,990
Total other financing sources (uses)	(1,191,946)	(1,600,283)	(1,199,077)	398,774
Net change in fund balance	\$ (2,031,003)	\$ (1,021,475)	1,096,418	\$ 2,117,893
FUND BALANCE:				
Beginning of year			23,061,639	
End of year			\$ 24,158,057	

City of East Palo Alto
Required Supplementary Information, Continued
For the year ended June 30, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule, Low and Moderate Income Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ -	\$ -	\$ 9	\$ 9
Use of money and property	-	1,600	86,252	84,652
Miscellaneous	-	-	227,255	227,255
Total revenues	-	1,600	313,516	311,916
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,600</u>	313,516	<u>\$ 311,916</u>
FUND BALANCE:				
Beginning of year			<u>10,348,574</u>	
End of year			<u>\$ 10,662,090</u>	

City of East Palo Alto
Required Supplementary Information, Continued
For the year ended June 30, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule, Public Improvements in Lieu Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ -	\$ -	\$ 23,684	\$ 23,684
Use of money and property	-	-	469	469
Miscellaneous	-	-	172,734	172,734
Total revenues	-	-	196,887	196,887
EXPENDITURES:				
Current:				
General government	60,000	60,000	-	60,000
Public works	-	185,393	175,984	9,409
Culture and recreation	-	5,000	-	5,000
Community development	-	-	6,053	(6,053)
Total expenditures	60,000	250,393	182,037	68,356
REVENUES OVER (UNDER) EXPENDITURES	(60,000)	(250,393)	14,850	265,243
OTHER FINANCING SOURCES (USES):				
Transfer in	-	8,346	8,347	1
Total other financing sources (uses)	-	8,346	8,347	1
Net change in fund balance	\$ (60,000)	\$ (242,047)	23,197	\$ 265,244
FUND BALANCE:				
Beginning of year			186,049	
End of year			<u>\$ 209,246</u>	

City of East Palo Alto
Required Supplementary Information, Continued
For the year ended June 30, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule, Local Grants Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 332,008	\$ 349,866	\$ 244,459	\$ (105,407)
Total revenues	<u>332,008</u>	<u>349,866</u>	<u>244,459</u>	<u>(105,407)</u>
EXPENDITURES:				
Current:				
Public safety	-	32,858	69,437	(36,579)
Public works	15,000	-	-	-
Community development	317,008	317,008	349,219	(32,211)
Total expenditures	<u>332,008</u>	<u>349,866</u>	<u>418,656</u>	<u>(68,790)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(174,197)	<u>\$ (174,197)</u>
FUND BALANCE:				
Beginning of year			(89,543)	
End of year			<u>\$ (263,740)</u>	

City of East Palo Alto
Required Supplementary Information, Continued
For the year ended June 30, 2014

2. DEFINED BENEFIT PENSION PLAN

The City retirement plans for safety employees and miscellaneous employees are part of the CalPERS risk pool for cities and other governmental entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule funding progress for the City's safety and miscellaneous employees are no longer available.

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SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

NPDES Fees Fund accounts for the revenues and expenditures from assessments levied on property in the City in compliance with the provisions of the National Pollutant Discharge Elimination System for prevention of storm water and flood related damage.

Gas Tax Fund accounts for funds received from the State of California to use for street and highway related projects.

Federal and State Law Enforcement Fund accounts for the receipt and use of State and Federal law enforcement related grant money.

Park in Lieu Fund accounts for park in lieu fees collected from developers.

Rent Stabilization Fund accounts for revenues and expenditures to support rent stabilization activities.

Federal and State Grants Fund accounts for grant money received and expended from various Federal and State government grants.

US EPA Fund accounts for U.S. Environmental Protection Agency grant money received and expended.

Housing in Lieu Fund accounts for developer fees and deposits in lieu of providing affordable housing and 10% of TOT taxes collected as approved by voters and the expenditures related to housing.

Housing Assistance Fund accounts for first time home buyer assistance program activities.

Measure A Fund accounts for the City's Measure A revenues and expenditures. Measure A is a half-cent sales tax to support countywide (San Mateo County) transportation projects and programs.

CYSFF Children/Youth/Seniors/Family Fund accounts for 10% of TOT taxes collected as approved by voters and the City Council approved funding for various non-profit organizations related to Children/Youth/Seniors/Family programs.

Lighting District Fund accounts for revenues (property taxes) and expenditures for the Ravenswood Highway Lighting District.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (CONTINUED)

Drainage District Fund accounts for revenues (property taxes) and expenditures for the East Palo Alto Maintenance Drainage District.

Measure C Fund accounts for the revenues and expenditures of Measure C Special Parcel tax. Measure C was approved by the voters in November 2006. The tax is annual parcel tax and the funds are to be used to support violence prevention and public safety intervention.

Measure M Fund accounts for the revenues and expenditures of Measure M San Mateo County Vehicle Registration Fee. Measure M was approved by the voters in November 2010. Measure M adds \$10 to the fees associated with registering a vehicle in the County to be used for pavement resurfacing, pothole repair, signs and striping, traffic signals, street sweeping, storm-inlet cleaning and local shuttles.

City of East Palo Alto
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Special Revenue				
	NPDES	Gas Tax	Federal and	Park in	Rent
	Fees		State Law	Lieu	Stabilization
			Enforcement		Fund
ASSETS					
Cash and investments	\$ 5,640	\$ 1,795,112	\$ 9,393	\$ 116,033	\$ 292,581
Restricted cash and investments	-	-	-	37,199	-
Receivables:					
Taxes	-	-	-	-	-
Intergovernmental	-	-	100,028	-	-
Accounts receivable	-	-	-	-	-
Deposits and prepayments	-	-	-	-	-
Loans and notes receivable	-	-	-	-	-
Total assets	\$ 5,640	\$ 1,795,112	\$ 109,421	\$ 153,232	\$ 292,581
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,644	\$ 24,486	\$ 5,778	\$ -	\$ 35,850
Retentions payable	-	-	-	-	-
Unearned revenue	-	-	-	37,199	-
Due to other funds	-	-	70,922	-	-
Total liabilities	5,644	24,486	76,700	37,199	35,850
Deferred inflows of resources:					
Unavailable revenue - grants	-	-	6,224	-	-
Fund Balances:					
Restricted	-	1,770,626	26,497	116,033	256,731
Unassigned	(4)	-	-	-	-
Total fund balances	(4)	1,770,626	26,497	116,033	256,731
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,640	\$ 1,795,112	\$ 109,421	\$ 153,232	\$ 292,581

Special Revenue

Federal and State Grants	US EPA	Housing in Lieu	Housing Assistance	Measure A	CYSFF Child/ Family	Lighting District
\$ 82,274	\$ -	\$ 1,786,069	\$ 118,790	\$ 1,915,615	\$ 359,589	\$ 1,174,401
-	-	-	-	-	-	-
-	-	23,511	-	-	23,511	-
13,280	61,352	-	-	-	-	-
-	-	-	1,473	49,829	-	-
-	-	-	-	2,665	-	-
-	-	-	260,287	-	-	-
<u>\$ 95,554</u>	<u>\$ 61,352</u>	<u>\$ 1,809,580</u>	<u>\$ 380,550</u>	<u>\$ 1,968,109</u>	<u>\$ 383,100</u>	<u>\$ 1,174,401</u>
\$ -	\$ 2,767	\$ -	\$ -	\$ 35,754	\$ 77,439	\$ 9,420
-	-	-	-	72,172	-	-
-	-	-	-	-	-	-
-	57,342	-	-	-	-	-
-	60,109	-	-	107,926	77,439	9,420
5,136	-	-	-	-	-	-
90,418	1,243	1,809,580	380,550	1,860,183	305,661	1,164,981
-	-	-	-	-	-	-
<u>90,418</u>	<u>1,243</u>	<u>1,809,580</u>	<u>380,550</u>	<u>1,860,183</u>	<u>305,661</u>	<u>1,164,981</u>
<u>\$ 95,554</u>	<u>\$ 61,352</u>	<u>\$ 1,809,580</u>	<u>\$ 380,550</u>	<u>\$ 1,968,109</u>	<u>\$ 383,100</u>	<u>\$ 1,174,401</u>

City of East Palo Alto
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Special Revenue			Total Non-Major Governmental Funds
	Drainage District	Measure C	Measure M	
ASSETS				
Cash and investments	\$ 179,135	\$ 1,532,904	\$ -	\$ 9,367,536
Restricted cash and investments	-	-	-	37,199
Receivables:				
Taxes	-	-	-	47,022
Intergovernmental	-	-	77,178	251,838
Accounts receivable	-	-	-	51,302
Deposits and prepayments	-	-	-	2,665
Loans and notes receivable	-	-	-	260,287
Total assets	\$ 179,135	\$ 1,532,904	\$ 77,178	\$ 10,017,849
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,422	\$ 49,706	\$ -	\$ 249,266
Retentions payable	-	-	-	72,172
Unearned revenue	-	-	-	37,199
Due to other funds	-	-	77,178	205,442
Total liabilities	2,422	49,706	77,178	564,079
Deferred inflows of resources:				
Unavailable revenue - grants	-	-	77,178	88,538
Fund Balances:				
Restricted	176,713	1,483,198	-	9,442,414
Unassigned	-	-	(77,178)	(77,182)
Total fund balances	176,713	1,483,198	(77,178)	9,365,232
Total liabilities, deferred inflows of resources, and fund balances	\$ 179,135	\$ 1,532,904	\$ 77,178	\$ 10,017,849

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City of East Palo Alto
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2014

	Special Revenue				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization Fund
REVENUES:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Transient occupancy tax	-	-	-	-	-
Utility users tax	-	-	-	-	-
Other taxes	-	1,032,356	-	-	-
Licenses, fees and permits	-	-	-	-	-
Charges for services	130,255	-	-	-	624,059
Fines and forfeitures	-	-	-	-	-
Use of money and property	185	7,880	459	713	1,867
Grants and intergovernmental	-	-	363,661	-	-
Miscellaneous	-	8,618	-	12,741	6,773
Total revenues	130,440	1,048,854	364,120	13,454	632,699
EXPENDITURES:					
Current:					
General government	16,084	173,446	-	15,950	635,073
Public safety	4,933	-	504,228	-	1,066
Public works	72,838	401,563	-	-	-
Culture and recreation	-	-	-	-	-
Community development	1,882	-	-	-	31
Capital outlay	-	-	1,037	-	2,911
Total expenditures	95,737	575,009	505,265	15,950	639,081
REVENUES OVER (UNDER) EXPENDITURES	34,703	473,845	(141,145)	(2,496)	(6,382)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(13,454)	-
Total other financing sources (uses)	-	-	-	(13,454)	-
Net change in fund balances	34,703	473,845	(141,145)	(15,950)	(6,382)
FUND BALANCES:					
Beginning of the year	(34,707)	1,296,781	167,642	131,983	263,113
End of year	\$ (4)	\$ 1,770,626	\$ 26,497	\$ 116,033	\$ 256,731

Special Revenue

Federal and State Grants	US EPA	Housing in Lieu	Housing Assistance	Measure A	CYSFF Child/ Family	Lighting District
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259,977
-	-	-	-	544,755	-	-
-	-	207,147	-	-	226,124	-
-	-	-	-	-	-	-
-	-	-	-	-	-	126,572
-	-	-	243	-	-	-
-	-	-	-	-	-	-
-	-	9,161	5,319	10,712	2,012	5,573
150,372	160,849	-	-	-	-	-
-	-	4,132	-	27,569	3,296	12,710
150,372	160,849	220,440	5,562	583,036	231,432	404,832
-	-	45,941	-	35,808	16,068	61,286
-	-	-	-	-	-	-
3,562	-	-	-	-	-	173,980
-	-	20,000	-	-	155,712	-
47,314	-	18,925	39,386	190,762	70,024	250
6,111	44,001	-	-	251,992	-	-
56,987	44,001	84,866	39,386	478,562	241,804	235,516
93,385	116,848	135,574	(33,824)	104,474	(10,372)	169,316
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
93,385	116,848	135,574	(33,824)	104,474	(10,372)	169,316
(2,967)	(115,605)	1,674,006	414,374	1,755,709	316,033	995,665
\$ 90,418	\$ 1,243	\$ 1,809,580	\$ 380,550	\$ 1,860,183	\$ 305,661	\$ 1,164,981

City of East Palo Alto
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2014

	Special Revenue			Total Non-Major Governmental Funds
	Drainage District	Measure C	Measure M	
REVENUES:				
Property taxes	\$ 63,956	\$ -	\$ -	\$ 323,933
Sales taxes	-	-	-	544,755
Transient occupancy tax	-	-	-	433,271
Utility users tax	-	-	-	-
Other taxes	-	699,408	-	1,858,336
Licenses, fees and permits	-	-	-	-
Charges for services	-	-	-	754,557
Fines and forfeitures	-	-	-	-
Use of money and property	922	7,925	-	52,728
Grants and intergovernmental	-	-	-	674,882
Miscellaneous	589	9,423	-	85,851
Total revenues	65,467	716,756	-	4,728,313
EXPENDITURES:				
Current:				
General government	12,142	7,695	-	1,019,493
Public safety	-	381,674	-	891,901
Public works	86,779	-	-	738,722
Culture and recreation	-	349,233	77,178	602,123
Community development	-	-	-	368,574
Capital outlay	-	-	-	306,052
Total expenditures	98,921	738,602	77,178	3,926,865
REVENUES OVER (UNDER) EXPENDITURES	(33,454)	(21,846)	(77,178)	801,448
OTHER FINANCING SOURCES (USES):				
Transfers in	114,302	-	-	114,302
Transfers out	-	-	-	(13,454)
Total other financing sources (uses)	114,302	-	-	100,848
Net change in fund balances	80,848	(21,846)	(77,178)	902,296
FUND BALANCES:				
Beginning of the year	95,865	1,505,044	-	8,462,936
End of year	\$ 176,713	\$ 1,483,198	\$ (77,178)	\$ 9,365,232

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City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

NPDES Fees Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 120,000	\$ 127,500	\$ 130,255	\$ 2,755
Use of money and property	-	-	185	185
Total revenues	120,000	127,500	130,440	2,940
EXPENDITURES:				
Current:				
General government	14,375	14,352	16,084	(1,732)
Public safety	7,500	7,500	4,933	2,567
Public works	111,919	112,314	72,838	39,476
Culture and recreation	465	465	-	465
Community development	137,836	138,877	1,882	136,995
Total expenditures	272,095	273,508	95,737	177,771
REVENUES OVER (UNDER) EXPENDITURES	(152,095)	(146,008)	34,703	180,711
OTHER FINANCING SOURCES (USES):				
Transfer in	149,159	149,159	-	(149,159)
Total other financing sources (uses)	149,159	149,159	-	(149,159)
Net change in fund balance	\$ (152,095)	\$ (146,008)	34,703	\$ 31,552
FUND BALANCE:				
Beginning of year			(34,707)	
End of year			\$ (4)	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Gas Tax Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other taxes	\$ 978,891	\$ 948,675	\$ 1,032,356	\$ 83,681
Use of money and property	-	7,000	7,880	880
Miscellaneous	-	-	8,618	8,618
Total revenues	978,891	955,675	1,048,854	93,179
EXPENDITURES:				
Current:				
General government	175,528	175,528	173,446	2,082
Public works	513,966	521,028	401,563	119,465
Total expenditures	689,494	696,556	575,009	121,547
Net change in fund balance	\$ 289,397	\$ 259,119	473,845	\$ 214,726
FUND BALANCE:				
Beginning of year			1,296,781	
End of year			\$ 1,770,626	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Federal and State Law Enforcement Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ 200	\$ 459	\$ 259
Grants and intergovernmental	327,500	327,500	363,661	36,161
Total revenues	327,500	327,700	364,120	36,420
EXPENDITURES:				
Current:				
Public safety	341,330	291,330	504,228	(212,898)
Culture and recreation	32,991	32,991	-	32,991
Capital outlay	-	-	1,037	(1,037)
Total expenditures	374,321	324,321	505,265	(180,944)
Net change in fund balance	\$ (46,821)	\$ 3,379	(141,145)	\$ (144,524)
FUND BALANCE:				
Beginning of year			167,642	
End of year			\$ 26,497	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Park in Lieu Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 713	\$ 713
Miscellaneous	-	-	12,741	12,741
Total revenues	-	-	13,454	13,454
EXPENDITURES:				
Current:				
General government	-	-	15,950	(15,950)
Total expenditures	-	-	15,950	(15,950)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(2,496)	(2,496)
OTHER FINANCING SOURCES (USES):				
Transfer out	-	-	(13,454)	(13,454)
Total other financing sources (uses)	-	-	(13,454)	(13,454)
Net change in fund balance	\$ -	\$ -	(15,950)	\$ (15,950)
FUND BALANCE:				
Beginning of year			131,983	
End of year			\$ 116,033	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Rent Stabilization Fund Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 570,000	\$ 575,000	\$ 624,059	\$ 49,059
Use of money and property	-	6,400	1,867	(4,533)
Miscellaneous	-	-	6,773	6,773
Total revenues	570,000	581,400	632,699	51,299
EXPENDITURES:				
Current:				
General government	676,714	672,913	635,073	37,840
Public safety	-	-	1,066	(1,066)
Community development	-	-	31	(31)
Capital outlay	-	2,911	2,911	-
Total expenditures	676,714	675,824	639,081	36,743
Net change in fund balance	\$ (106,714)	\$ (94,424)	(6,382)	\$ 88,042
FUND BALANCE:				
Beginning of year			263,113	
End of year			\$ 256,731	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Federal and State Grants Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and intergovernmental	\$ 31,000	\$ 36,000	\$ 150,372	\$ 114,372
Total revenues	31,000	36,000	150,372	114,372
EXPENDITURES:				
Current:				
Public works	-	-	3,562	(3,562)
Community development	31,000	36,000	47,314	(11,314)
Capital outlay	-	-	6,111	(6,111)
Total expenditures	31,000	36,000	56,987	(20,987)
Net change in fund balance	\$ -	\$ -	93,385	\$ 93,385
FUND BALANCE:				
Beginning of year			(2,967)	
End of year			\$ 90,418	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

US EPA Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and intergovernmental	\$ -	\$ -	\$ 160,849	\$ 160,849
Total revenues	-	-	160,849	160,849
EXPENDITURES:				
Capital outlay	-	-	44,001	(44,001)
Total expenditures	-	-	44,001	(44,001)
Net change in fund balance	\$ -	\$ -	116,848	\$ 116,848
FUND BALANCE:				
Beginning of year			(115,605)	
End of year			\$ 1,243	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Housing in Lieu Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Transient occupancy tax	\$ 211,600	\$ 244,250	\$ 207,147	\$ (37,103)
Use of money and property	-	6,200	9,161	2,961
Miscellaneous	-	-	4,132	4,132
Total revenues	211,600	250,450	220,440	(30,010)
EXPENDITURES:				
Current:				
General government	28,677	28,677	45,941	(17,264)
Culture and recreation	-	-	20,000	(20,000)
Community development	-	-	18,925	(18,925)
Total expenditures	28,677	28,677	84,866	(56,189)
Net change in fund balance	\$ 182,923	\$ 221,773	135,574	\$ (86,199)
FUND BALANCE:				
Beginning of year			1,674,006	
End of year			\$ 1,809,580	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Housing Assistance Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ -	\$ -	\$ 243	\$ 243
Use of money and property	-	-	5,319	5,319
Total revenues	-	-	5,562	5,562
EXPENDITURES:				
Current:				
Community development	-	-	39,386	(39,386)
Total expenditures	-	-	39,386	(39,386)
Net change in fund balance	\$ -	\$ -	(33,824)	\$ (33,824)
FUND BALANCE:				
Beginning of year			414,374	
End of year			\$ 380,550	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Measure A Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Sales taxes	\$ 510,220	\$ 541,250	\$ 544,755	\$ 3,505
Use of money and property	-	10,000	10,712	712
Miscellaneous	-	-	27,569	27,569
Total revenues	510,220	551,250	583,036	31,786
EXPENDITURES:				
Current:				
General government	12,786	12,786	35,808	(23,022)
Culture and recreation	20,000	20,000	-	20,000
Community development	302,992	302,992	190,762	112,230
Capital outlay	660,000	660,000	251,992	408,008
Total expenditures	995,778	995,778	478,562	517,216
Net change in fund balance	\$ (485,558)	\$ (444,528)	104,474	\$ 549,002
FUND BALANCE:				
Beginning of year			1,755,709	
End of year			\$ 1,860,183	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

CYSFF Child/Family Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Transient occupancy tax	\$ 211,600	\$ 244,250	\$ 226,124	\$ (18,126)
Use of money and property	-	2,000	2,012	12
Miscellaneous	-	-	3,296	3,296
Total revenues	211,600	246,250	231,432	(14,818)
EXPENDITURES:				
Current:				
General government	16,069	16,069	16,068	1
Culture and recreation	100,000	100,000	155,712	(55,712)
Community development	70,900	70,900	70,024	876
Total expenditures	186,969	186,969	241,804	(54,835)
Net change in fund balance	\$ 24,631	\$ 59,281	(10,372)	\$ (69,653)
FUND BALANCE:				
Beginning of year			316,033	
End of year			\$ 305,661	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Lighting District Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 277,900	\$ 256,200	\$ 259,977	\$ 3,777
Other taxes	-	127,840	126,572	(1,268)
Use of money and property	-	5,400	5,573	173
Miscellaneous	-	-	12,710	12,710
Total revenues	277,900	389,440	404,832	15,392
EXPENDITURES:				
Current:				
General government	59,721	59,921	61,286	(1,365)
Public works	320,106	322,364	173,980	148,384
Community development	2,000	2,000	250	1,750
Total expenditures	381,827	384,285	235,516	148,769
Net change in fund balance	\$ (103,927)	\$ 5,155	169,316	\$ 164,161
FUND BALANCE:				
Beginning of year			995,665	
End of year			\$ 1,164,981	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Drainage District Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 57,000	\$ 61,360	\$ 63,956	\$ 2,596
Use of money and property	-	-	922	922
Miscellaneous	-	-	589	589
Total revenues	57,000	61,360	65,467	4,107
EXPENDITURES:				
Current:				
General government	12,028	12,028	12,142	(114)
Public works	160,008	160,885	86,779	74,106
Total expenditures	172,036	172,913	98,921	73,992
REVENUES OVER (UNDER) EXPENDITURES	(115,036)	(111,553)	(33,454)	78,099
OTHER FINANCING SOURCES (USES):				
Transfer in	114,302	114,302	114,302	-
Total other financing sources (uses)	114,302	114,302	114,302	-
Net change in fund balance	\$ (115,036)	\$ (111,553)	80,848	\$ 78,099
FUND BALANCE:				
Beginning of year			95,865	
End of year			\$ 176,713	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Measure C Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other taxes	\$ 700,000	\$ 700,000	\$ 699,408	\$ (592)
Use of money and property	-	8,100	7,925	(175)
Miscellaneous	-	-	9,423	9,423
Total revenues	700,000	708,100	716,756	8,656
EXPENDITURES:				
Current:				
General government	8,612	8,512	7,695	817
Public safety	419,579	422,116	381,674	40,442
Culture and recreation	571,241	524,690	349,233	175,457
Total expenditures	999,432	955,318	738,602	216,716
Net change in fund balance	\$ (299,432)	\$ (247,218)	(21,846)	\$ 225,372
FUND BALANCE:				
Beginning of year			1,505,044	
End of year			\$ 1,483,198	

City of East Palo Alto

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Measure M Special Revenue Fund

For the year ended June 30, 2014

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and intergovernmental	\$ 207,459	\$ 207,459	\$ -	\$ (207,459)
Total revenues	<u>207,459</u>	<u>207,459</u>	<u>-</u>	<u>(207,459)</u>
EXPENDITURES:				
Current:				
Culture and recreation	58,300	59,342	77,178	(17,836)
Total expenditures	<u>58,300</u>	<u>59,342</u>	<u>77,178</u>	<u>(17,836)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>149,159</u>	<u>148,117</u>	<u>(77,178)</u>	<u>(225,295)</u>
OTHER FINANCING SOURCES (USES):				
Transfer out	(149,159)	(149,159)	-	149,159
Total other financing sources (uses)	<u>(149,159)</u>	<u>(149,159)</u>	<u>-</u>	<u>149,159</u>
Net change in fund balance	<u>\$ 149,159</u>	<u>\$ 148,117</u>	<u>(77,178)</u>	<u>\$ (225,295)</u>
FUND BALANCE:				
Beginning of year			-	
End of year			<u>\$ (77,178)</u>	

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, noted disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balances of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed and Estimated Actual Value of Taxable Property
2. Property Tax Rates, All Overlapping Governments
3. Principal Property Taxpayers
4. Property Tax Levies and Collections

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Bonded Debt Pledged Revenue Coverage, Redevelopment Tax Allocation Bonds

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Number of Positions - City Government by Function
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program

Operating Information

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City Implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

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City of East Palo Alto
Net Position by Component
June 30, 2014
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Government activities										
Net investment in capital assets	20,799,470	20,574,619	\$ 21,288,218	\$ 24,175,266	\$ 24,877,257	\$ 25,163,127	\$ 28,011,307	\$ 28,412,193	\$ 29,816,204	\$ 31,132,522
Restricted For:										
Debt Service	136,650	239,521	97,796	19,881,567	20,744,394	4,421,602	2,034,560	-	-	-
Public Safety	1,934,130	2,622,482	3,372,600	3,725,541	4,152,124	4,234,053	2,851,472	2,771,433	3,017,783	15,634,589
Highways and streets	1,231,943	1,431,231	1,304,783	1,379,246	1,147,341	940,572	703,171	713,964	358,473	496,583
Parks and recreation	1,278,216	2,132,049	9,616,232	10,937,302	11,546,134	12,383,908	10,997,923	-	-	-
Low and moderate income housing							1,342,896	1,517,432	2,088,380	13,108,951
Housing programs										726,772
Special programs										2,342,665
Capital projects										1,483,198
Measure C programs										33,792,758
Total restricted	4,580,939	6,425,283	14,391,411	36,383,949	38,924,340	23,200,043	19,088,514	6,353,056	6,969,680	33,792,758
Unrestricted	(19,174,140)	(19,556,466)	(20,401,483)	(29,124,597)	(27,641,786)	(13,680,807)	(8,749,180)	33,078,872	37,447,102	14,036,592
Total governmental activities net position	6,206,269	7,443,436	15,288,146	31,434,618	36,159,811	34,682,363	38,350,641	67,844,121	74,232,986	78,961,872
Business-type activities										
Net investment in capital assets	5,887,825	5,657,772	5,381,783	5,100,616	4,867,912	4,503,722	4,319,814	4,134,175	3,938,884	3,743,594
Restricted For:										
Capital Projects										
Total restricted										
Unrestricted	1,153,837	1,186,307	1,738,594	2,459,697	2,360,001	1,483,820	834,286	834,470	836,720	834,882
Total business-type activities net position	7,041,662	6,844,079	7,120,377	7,560,313	7,227,913	6,821,637	6,209,862	6,005,950	6,229,478	6,264,294
Primary Government										
Net investment in capital assets	26,687,295	26,232,391	26,680,001	29,275,882	29,745,169	29,666,849	32,331,121	32,546,368	33,755,088	34,876,116
Restricted	4,580,939	6,425,283	14,391,411	36,383,949	38,924,340	24,034,138	19,922,800	7,187,526	7,806,400	34,627,640
Unrestricted	(18,020,303)	(18,370,159)	(18,662,889)	(26,664,900)	(25,281,785)	(12,196,987)	(7,693,418)	34,116,177	38,900,976	15,722,410
Total primary government net position	13,247,931	14,287,515	22,408,523	38,994,931	43,387,724	41,504,000	44,560,503	73,850,071	80,462,464	85,226,166

City of East Palo Alto
Change in Net Position
June 30, 2014
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental Activities:										
General government	3,168,537	2,991,380	3,170,200	3,932,553	3,859,589	5,119,297	4,700,459	4,634,178	4,396,506	4,065,087
Public safety	8,627,051	9,010,553	9,220,203	8,935,880	10,309,298	11,005,614	10,972,657	10,374,212	10,408,814	10,808,292
Culture and recreation	919,419	779,360	798,679	700,497	4,076,009	1,228,036	1,333,904	1,525,961	513,923	775,115
Public works	2,995,043	2,190,525	2,964,223	3,063,920	459,853	4,036,926	3,055,334	3,028,589	3,521,107	3,371,899
Community Development	3,081,094	3,303,821	3,131,545	3,603,493	5,920,364	7,230,567	5,333,924	3,340,428	2,608,543	3,147,112
Interest on long-term debt	1,771,580	1,959,772	2,744,481	2,618,397	3,067,294	2,882,117	2,291,283	1,295,832	1,306	1,429
Total governmental activities	20,562,724	20,235,411	22,029,331	22,854,740	27,692,407	31,502,557	27,687,561	24,199,200	21,450,199	22,168,934
Business-type activities										
Water Service	597,795	511,861	440,589	524,709	460,887	619,277	439,826	326,502	340,916	402,914
Garbage collection:	1,603,614	1,732,952	1,765,870	1,895,331	1,708,893	1,616,967	2,602,083	2,583,098	2,174,074	2,353,590
Total business-type activities	2,201,409	2,244,813	2,206,459	2,420,040	2,169,780	2,236,244	3,041,909	2,909,600	2,514,990	2,756,504
Total primary government expenses	22,764,133	22,480,224	24,235,790	25,274,780	29,862,187	\$ 33,738,801	30,729,470	27,108,800	23,965,189	24,915,438
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	16,214	16,227	41,641	3,481	19,249	2,536	18,101	4,744	5,153	6,549
Public safety	305,717	222,306	99,012	186,210	173,177	207,305	249,676	248,855	242,704	283,271
Culture and recreation	13,602	7,235	7,696	11,808	43,638	11,411	91,961	311,158	11,429	-
Public works	333,960	539,740	178,202	121,665	104,772	47,852	169,034	79,138	114,107	337,426
Community Development	1,003,516	1,270,591	966,262	1,211,953	765,015	455,586	1,049,045	1,203,310	1,427,453	1,440,886
Operating Grants and Contributions	2,953,045	2,256,982	4,419,015	3,214,779	4,162,714	4,896,638	3,621,393	3,799,544	4,616,972	2,794,311
Capital Grants and Contributions	728,800	461,214	435,188	3,416,868	1,614,942	178,073	1,266,486	703,817	1,414,317	2,767,803
Total governmental activities program revenue	5,354,854	4,774,295	6,147,016	8,166,764	6,883,507	5,799,401	6,465,696	6,350,566	7,832,135	7,630,246
Business-type activities										
Charges for services:										
Water Service	277,442	218,900	329,539	885,986	199,816	174,743	243,750	223,037	259,353	268,045
Garbage collection:	1,868,865	1,757,508	2,059,546	1,895,698	1,679,492	1,642,054	2,163,837	2,462,700	2,465,513	2,523,718
Operating Grants and Contributions										
Capital Grants and Contributions										
Total business-type activities program revenue	2,146,307	1,976,408	2,389,085	2,781,684	1,879,308	1,816,797	2,407,587	2,685,737	2,724,866	2,781,763
Total primary government primary revenues	7,501,161	6,750,703	8,536,101	10,948,448	8,762,815	7,616,198	8,873,283	9,036,303	10,557,001	10,412,009
Net Revenue (Expenses):										
Governmental Activities	(15,207,870)	(15,461,116)	(15,882,315)	(14,687,976)	(20,808,900)	(25,703,156)	(21,221,865)	(17,848,634)	(13,618,064)	(14,528,688)
Business-type Activities	(55,102)	(268,405)	182,626	361,644	(290,472)	(419,447)	(634,322)	(223,863)	209,876	25,269
Total Net Revenue (Expenses)	(15,262,972)	(15,729,521)	(15,699,689)	(14,326,332)	(21,099,372)	(26,122,603)	(21,856,187)	(18,072,497)	(13,408,188)	(14,503,429)

City of East Palo Alto
Change in Net Position
June 30, 2014
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property Taxes	9,705,355	10,604,932	16,143,870	16,230,210	17,193,291	15,934,214	15,291,232	12,338,184	10,752,244	9,411,575
Utility Users Tax	1,254,066	1,417,642	1,585,722	1,582,042	1,647,057	1,591,204	1,502,939	1,418,457	1,434,208	1,464,049
Parcel Tax	2,709,643	2,750,392	2,481,442	702,840	710,500	717,549	704,164	717,528	702,084	719,704
Sales Tax	988,787	980,973	1,586,173	2,524,797	2,424,013	2,301,318	2,870,854	3,003,836	3,022,310	3,113,705
Transient occupancy tax	818,011	230,561	201,344	1,959,798	1,610,286	1,720,233	2,269,128	1,886,852	2,145,044	2,452,951
Franchise and business Tax	634,543	644,602	1,638,500	139,173	94,542	97,979	177,344	1,264,674	1,407,440	1,470,410
Investment earnings	223,034	71,607	89,974	2,131,569	1,138,926	1,442,654	1,388,987	1,260,104	240,412	194,682
Miscellaneous	-	-	-	-	715,478	420,557	692,898	395,396	303,188	430,498
Transfers	-	-	-	-	-	-	(7,403)	-	-	-
Extraordinary Items	-	-	-	-	-	-	-	25,057,083	-	-
Total Governmental activities	16,333,439	16,700,709	23,727,025	25,270,429	25,534,093	24,225,708	24,890,143	47,342,114	20,006,930	19,257,574
Business-type activities:										
Investment earnings	48,945	70,822	93,672	78,282	(41,928)	13,171	15,144	19,951	13,652	9,557
Transfers	-	-	-	-	-	-	7,403	-	-	-
Total Business-type activities	48,945	70,822	93,672	78,282	(41,928)	13,171	22,547	19,951	13,652	9,557
Total primary government	16,382,384	16,771,531	23,820,697	25,348,721	25,492,165	24,238,879	24,912,690	47,362,065	20,020,582	19,267,131
Changes in net Assets										
Governmental Activities	1,125,569	1,239,593	7,844,710	10,582,453	4,725,193	(1,477,448)	3,668,278	29,493,480	6,388,866	4,728,886
Business-type Activities	(6,157)	(197,583)	276,298	439,936	(332,400)	(406,276)	(611,775)	(203,912)	223,528	34,816
Changes in Net Assets	1,119,412	1,042,010	8,121,008	11,022,389	4,392,793	(1,883,724)	3,056,503	29,289,568	6,612,394	4,763,702

City of East Palo Alto
Fund Balances-Governmental Funds
June 30, 2014
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Reserved	11,713,911	11,916,073	11,379,597	12,676,253	\$ 13,597,260	\$ 13,710,502	-	-	-	-
Unreserved	1,425,019	729,939	3,154,308	5,406,886	6,976,500	6,575,765	-	-	-	-
Nonspendable							12,760,896	11,662,202	11,760,041	11,776,028
Assigned							248,259	2,117,679	2,187,004	77,915
Unassigned							6,612,069	6,822,196	9,114,594	12,304,114
Total General Fund	13,138,930	12,646,012	14,533,905	18,083,139	20,573,760	20,286,267	19,621,224	20,602,077	23,061,639	24,158,057
All Other Governmental Funds										
Reserved	15,851,827	28,803,392	28,930,206	29,665,723	30,755,524	17,220,741	-	-	-	-
Unreserved, reported in:										
Special revenue funds	1,133,716	1,642,166	3,016,232	10,947,512	10,728,072	8,390,162	-	-	-	-
Capital projects funds	(14,683,942)	(10,608,195)	(9,330,371)	(8,279,431)	(8,556,368)	(12,293,874)	-	-	-	-
Permanent funds	3,808,483	4,877,558	6,464,873	-	-	-	-	-	-	-
Restricted							40,241,982	18,085,109	19,093,787	21,304,289
Nonspendable									57,051	-
Assigned							4,213,590	1,309,475	1,449,121	703,226
Unassigned							(12,935,810)	(205,168)	(242,822)	(340,922)
Total all other governmental funds	6,110,084	24,714,921	29,080,940	32,333,804	32,927,228	\$ 13,317,029	\$ 31,519,762	\$ 19,189,416	\$ 20,357,137	\$ 21,666,593

Notes:

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

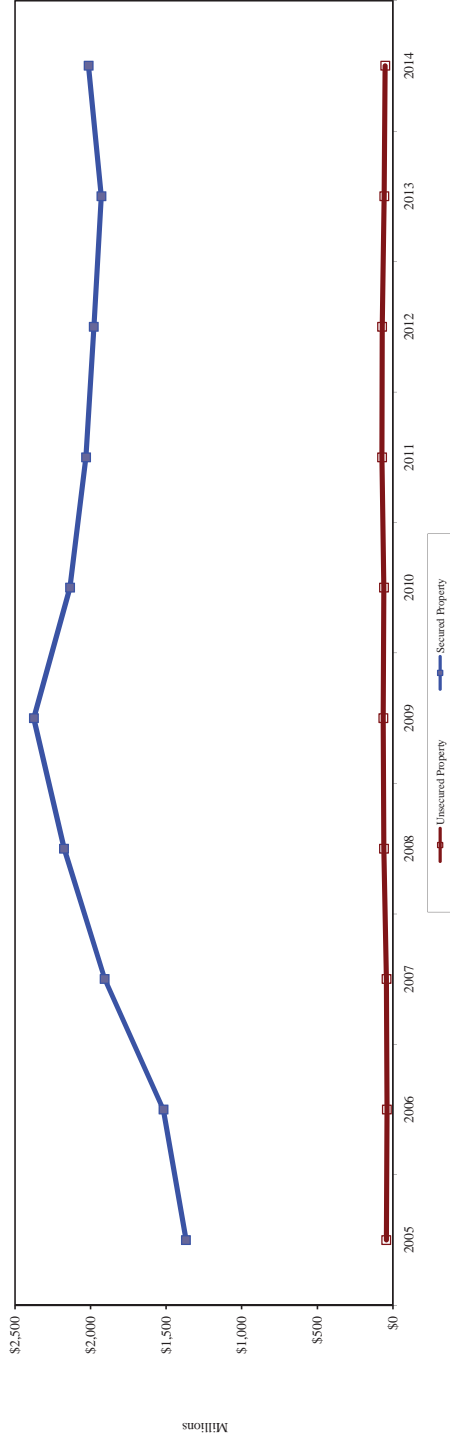
City of East Palo Alto
Changes in Fund Balances-Governmental Funds
June 30, 2014
Last Ten Fiscal Years

(modified accrual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	13,574,214	14,729,697	20,480,740	22,093,509	23,265,450	21,854,984	22,046,785	19,849,192	18,545,522	18,700,903
Licenses and permits	832,783	854,222	741,979	695,105	684,903	758,510	1,451,605	1,474,305	1,637,444	927,194
Charges for services	1,644,136	1,640,193	1,757,569	1,960,341	1,565,339	1,188,851	1,094,850	1,398,072	1,345,024	2,110,075
Fines and forfeitures							239,233	239,475	225,680	261,440
Investment earnings	634,543	1,312,057	2,112,772	2,793,335	535,836	644,080	4,308,643	1,299,287	189,795	207,461
Contributions and Donations (a)	1,124,554	698,316	2,047,965	1,218,408						
Intergovernmental revenues	2,662,270	2,448,174	2,862,795	2,230,043	5,169,616	4,319,092	4,286,769	3,882,039	4,091,814	3,181,804
Miscellaneous	348,456	90,025	89,974	376,924	253,140	222,793	1,173,265	407,755	372,686	607,906
Total revenues	20,820,956	21,772,684	30,093,794	31,367,665	31,494,284	28,988,310	34,601,150	28,550,125	26,407,965	25,996,783
Expenditures										
Current										
General Government	2,802,995	2,994,610	3,218,307	4,168,820	3,842,178	5,009,536	4,817,557	4,601,057	4,361,346	4,050,248
Public Safety	8,426,629	8,814,019	9,317,197	8,862,537	10,278,800	11,301,946	10,767,107	10,205,449	10,089,238	10,705,227
Public Works	1,818,944	1,661,489	2,447,594	2,583,643	3,206,456	3,989,167	3,359,333	2,853,818	3,338,504	2,421,820
Culture and recreation	801,800	626,076	605,279	693,526	830,598	1,351,058	714,746	709,236	509,561	774,662
Community Development	1,908,979	2,136,579	1,974,137	3,361,924	4,963,224	6,999,593	5,080,138	3,069,120	2,486,567	3,969,143
Administration (b)	396,222	388,413	332,570							
Outside Services	2,500									
Tax increment pass-through payments (c)	613,840	648,776	1,030,352							
Capital Outlay	957,510	576,123	867,633	1,430,536	1,564,730	872,973	3,568,500	3,300,116	2,124,427	1,668,320
Debt Service										
Principal repayment	1,589,118	1,269,510	1,156,063	420,000	445,000	16,120,000	1,075,000	1,120,000	9,718	-
Interest & fiscal charges	1,844,965	2,361,859	2,890,750	3,054,581	3,269,253	3,241,729	3,323,676	1,611,102	1,306	1,429
Bond Issue Costs		686,269								
Total expenditures	21,163,502	22,163,723	23,839,882	24,575,567	28,400,239	48,886,002	32,706,057	27,469,898	22,920,667	23,590,849
Excess of revenues over (under) expenditures	(342,546)	(391,039)	6,253,912	6,792,098	3,094,045	(19,897,692)	1,895,093	1,080,227	3,487,298	2,405,934
Other financing sources (uses)										
Transfers in	3,114,580	2,088,071	2,826,543	2,866,768	3,794,238	3,739,006	10,827,081	9,710,054	795,353	1,225,985
Transfers (out)	(3,114,580)	(2,088,071)	(2,826,543)	(2,866,768)	(3,794,238)	-3,739,006	(10,834,484)	(9,710,054)	(795,353)	(1,225,985)
Contributed capital assets								224,805		
Bonds issued / Proceeds from Bonds										
Proceeds on Loans	22,838	17,995,000								
Advances on Loans		507,958								
Capital leases									124,353	
Total other financing sources(uses)	22,838	18,502,958	-	-	-	(7,403)	-	224,805	124,353	-
Special item and extraordinary item										
Net change in fund balances	(319,708)	18,111,919	6,253,912	6,792,098	3,094,045	(19,897,692)	15,650,000	(12,654,525)	3,611,651	2,405,934
	3,434,083	4,317,638	4,046,813	3,474,581	3,714,253	19,361,729	4,398,676	2,731,102	11,024	1,429
Total Expenditures	21,163,502	22,163,723	23,839,882	24,575,567	28,400,239	48,886,002	32,706,057	27,469,898	22,920,667	23,590,849
Less: Debt Serv. Exp	(3,434,083)	(4,317,638)	(4,046,813)	(3,474,581)	(3,714,253)	(19,361,729)	(4,398,676)	(2,731,102)	(11,024)	(1,429)
Less: Capital Outlay	(957,510)	(576,123)	(867,633)	(1,430,536)	(1,564,730)	(872,973)	(3,568,500)	(3,300,116)	(2,124,427)	(1,668,320)
Noncapital expenditures	16,771,909	17,269,962	18,925,436	19,670,450	23,121,256	28,651,300	24,738,881	21,438,680	20,785,216	21,921,100
Debt service as a percentage of noncapital (d) expenditures	20%	25%	21%	18%	16%	68%	18%	13%	0%	0%

(a) Contributions and donations beginning fiscal year 2008-09 were included in Intergovernmental revenues
(b) Administrative expenses beginning fiscal year 07-08 were included in General government expenditures
(c) As suggested by City auditors for fiscal years 07-08 and 08-09 Tax Increment pass through payments were included in the functional area rather than a separate line item.

CITY AND REDEVELOPMENT AGENCY OF EAST PALO ALTO
ASSESSED AND ESTIMATED ACTUAL
VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS



Fiscal Year	Secured				Unsecured				Total Assessed (a)	Total Estimated Full Market (a)	Total Direct Tax Rate (b)
	Gateway 101 Corridor	University Circle	Ravenswood	City	Gateway 101 Corridor	University Circle	Ravenswood	Property			
2005	281,087,465	105,172,961	65,880,186	5,134,547	10,541,193	20,009,124	8,039,438	\$43,724,302	1,368,840,028	1.368,840,028	1.00%
2006	289,348,595	115,592,414	68,670,547	7,316,832	10,377,700	18,552,585	3,520,421	\$39,767,538	1,518,412,155	1,518,412,155	1.00%
2007	297,541,707	348,165,460	73,562,973	5,095,167	9,849,847	24,836,342	3,427,001	\$43,208,357	1,906,606,095	1,906,606,095	1.00%
2008	306,561,634	372,177,677	88,893,136	5,414,795	10,104,010	40,495,044	3,378,665	\$59,392,514	2,175,501,028	2,175,501,028	1.00%
2009	327,844,925	379,621,229	92,952,830	5,604,572	13,006,019	42,195,488	3,241,611	\$64,047,690	2,374,758,605	2,374,758,605	1.00%
2010	315,872,778	379,888,089	96,422,143	4,686,491	8,807,463	43,695,337	2,870,813	\$60,060,104	2,136,075,564	2,136,075,564	1.00%
2011	305,966,439	379,147,248	84,571,225	7,363,881	20,146,922	41,919,469	3,191,957	\$72,622,229	2,030,719,472	2,030,719,472	1.00%
2012	308,388,843	380,672,649	81,727,775	7,509,043	19,268,455	41,047,879	3,672,974	\$71,498,351	1,978,176,923	1,978,176,923	1.00%
2013	317,394,502	369,327,260	79,254,165	6,898,342	19,933,559	28,078,757	3,282,000	\$58,192,658	1,928,669,749	1,928,669,749	1.00%
2014	330,429,999	376,804,050	81,596,056	6,125,013	18,274,858	22,893,647	3,370,914	\$50,664,432	2,013,487,648	2,013,487,648	1.00%

2013-14 Total Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
1,288,330,489	568,903,819	52,381,514	53,207,394	1,962,823,216

Source: San Mateo County Assessors 2004/05 - 2013/14 Combined Tax Rolls & California Municipal Statistics, Inc. (CalMuni)

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. The assessed valuation data shown above represents the only data currently available with respect to the actual market value property and is subject to the limitations described in the note below.

(b) California cities do not set their own direct tax rate. The State constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all taxing entities within a tax rate area. This represents the Total Direct Tax rate for the City (excludes the Redevelopment Agency).

Note:

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At this point, the new assessed value is reassessed at the purchase price of the property sold.

**CITY OF EAST PALO ALTO
PROPERTY TAX RATES
ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	Basic County-wide Rate	Ravenswood School District	Sequoia Union High School District	San Mateo Community College District	Total
2005	1.000	0.0331	0.0164	0.0065	1.0560
2006	1.000	0.0374	0.0223	0.0065	1.0662
2007	1.000	0.0335	0.0208	0.0184	1.0727
2008	1.000	0.0316	0.0205	0.0171	1.0692
2009	1.000	0.0299	0.0282	0.0165	1.0746
2010	1.000	0.0364	0.0277	0.0182	1.0823
2011	1.000	0.0364	0.0311	0.0193	1.0868
2012	1.000	0.0397	0.0358	0.0199	1.0954
2013	1.000	0.0417	0.0356	0.0194	1.0967
2014	1.000	0.0415	0.0313	0.0194	1.0922

Source: California Municipal Statistics, Inc. (CalMuni) & San Mateo County

Note:

1. The above tax rates are applied per \$100 of assessed valuation.
2. In 1978, California passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, the property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

**CITY OF EAST PALO ALTO
PRINCIPAL PROPERTY TAX PAYERS
Current Fiscal Year and Fiscal Year 2008-2009**

Fiscal Year 2013-14				Fiscal Year 2008-09			
Property Tax Payer	Rank	Total Assessed Value	% of Total Assessed Value	Property Tax Payer	Rank	Total Assessed Value	% of Total Assessed Value
Wells REIT II-University Circle LP	1	\$325,159,118	16.57%	Wells REIT II-University Circle LP	1	\$304,837,200	9.43%
EQR-Woodland Park LP	2	160,312,916	8.17%	IKEA Property Inc.	2	\$73,667,021	2.28%
IKEA Property Inc.	3	78,578,017	4.00%	LD Riviera LLC	3	\$73,163,767	2.26%
SHR Palo Alto LLC	4	50,818,338	2.59%	HD Development of Maryland Inc.	4	\$36,267,239	1.12%
Gateway 101 LLC	5	25,830,016	1.32%	One Newell LLC	5	\$34,884,000	1.08%
HD Development of Maryland Inc.	6	19,562,168	1.00%	Romic Environmental Tech Corp.	6	\$16,852,229	0.52%
Nairobi Housing Inc. (2)	7	13,236,076	0.67%	Deutsche Bank National Trust Co.	7	\$15,781,249	0.49%
Avery H. Smith & Co.	8	12,318,336	0.63%	TMG/MFP Ravenswood Palms LLC	8	\$14,083,451	0.44%
East Palo Alto at 101 LLC	9	11,548,439	0.59%	45/55 Newell LLC	9	\$12,662,790	0.39%
DKB Homes LLC	10	9,662,363	0.49%	Nairobi Housing Inc.	10	\$12,062,152	0.37%
D&C Lee Second LP	11	7,357,675	0.37%	1751 East Bayshore Investors LLC	11	\$9,928,907	0.31%
Green Valley Corp.	12	7,213,426	0.37%	402/430 O'Keefe LLC	12	\$9,794,399	0.30%
Romic Environmental Tech Corp	13	6,750,000	0.34%	DKB Homes LLC	13	\$9,058,593	0.28%
Storage Portfolio I LLC	14	6,544,180	0.33%	Cummings Park Associates	14	\$8,720,389	0.27%
Commercial Net Lease Realty	15	6,393,501	0.33%	US Bank NA Trustee	15	\$7,935,826	0.25%
Cummings Park Associates	16	4,862,439	0.25%	Storage Portfolio I LLC	16	\$7,802,019	0.24%
SEI PSP II Joint Ventures	17	4,760,773	0.24%	1820 Bayshore LLC	17	\$7,537,800	0.23%
University Plaza EPA LLC	18	4,620,600	0.24%	1920/1928 Cooley LLC	18	\$7,497,000	0.23%
Sobrato Interests (2)	19	4,615,500	0.24%	2555 Pulgas EPA LLC	19	\$7,012,869	0.22%
EPA Bayshore Properties LLC	20	4,593,968	0.23%	D&C Lee Second LP	20	\$6,897,849	0.21%
Total Top 20 Taxpayers' Total		\$764,737,849	38.96%	Total Top 20 Taxpayers' Total		\$676,446,749	20.92%
City's Total Assessed Valuation		\$1,962,823,216	100%	City's Total Assessed Valuation		\$3,233,620,707	100%

Source: California Municipal Statistics, Inc. (CalMuni)

Note: The City began publishing Principal Property Taxpayers in Fiscal Year 2008-09; therefore, only six years of data available.

**City of East Palo Alto
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Total Tax Levied for Fiscal Year (1)	Collected Within the Fiscal Year of the Levy			Total Collections To Date		
		Current Tax Collections (2)	Percentage of Levy	Delinquent Tax Collections (3)	Total Tax Collections	Percentage of Levy	
2005	8,106,022	7,884,378	97.3%		7,884,378	97%	
2006	8,612,902	8,237,968	95.6%		8,237,968	96%	
2007	13,701,921	12,884,456	94.0%		12,884,456	94%	
2008	13,778,302	12,927,420	93.8%		12,927,420	94%	
2009	14,628,038	13,892,862	95.0%		13,892,862	95%	
2010	13,439,564	13,051,893	97.1%		13,051,893	97%	
2011	12,975,746	12,551,184	96.7%		12,551,184	97%	
2012	13,220,832	12,851,595	97.2%		12,851,595	97%	
2013	12,108,270	11,916,231	98.4%		11,916,231	98%	
2014	12,355,379	12,192,663	98.7%		12,192,663	99%	

Source: San Mateo County Assessor 2004/05 - 2013/14 Combined Tax Rolls

Notes:

- (1) Beginning in 1993, Current Tax Collections are reduced by a mandatory tax allocation imposed by the State of California (Educational Revenue Augmentation Fund (ERAF)).
- (2) City of East Palo Alto General Ledger. Includes secured, unsecured, supplemental, tax increment, unitary tax, and excess ERAF payments. Excluded are property tax in lieu of VLF, transfer taxes, and Measure C parcel tax.
- (3) The County of San Mateo collects and allocates property taxes under the Teeter Plan whereby the City receives property tax revenues based on the total amount billed, but not yet collected; therefore, the City has no direct delinquent tax collections.

City of East Palo Alto
Ratios of Outstanding Debt by Type
June 30, 2014
Last Ten Fiscal Years

Fiscal Year	Redevelopment Tax Allocation Bonds ¹	Revenue Bond ¹	Less: Restricted Bonds/ Bond Proceeds ²	Total Primary Government Bonded Debt (including Redevelopment Agency Bonds)	Percentage of Personal Income per Capita ³	Outstanding Debt Per Capita ⁴
2005	26,005,000	17,995,000	16,040,000	27,960,000	1.4%	\$871
2006	25,620,000	17,995,000	16,040,000	27,575,000	1.3%	860
2007	25,220,000	17,995,000	16,040,000	27,175,000	1.2%	838
2008	24,800,000	17,995,000	16,040,000	26,755,000	1.1%	816
2009	24,355,000	17,995,000	16,040,000	26,310,000	1.1%	793
2010	23,700,500	17,995,000	15,650,000	26,045,500	1.1%	777
2011	23,390,000	17,415,000	15,240,000	25,565,000	1.3%	903
2012	22,870,000	16,815,000	14,805,000	24,880,000	1.2%	874
2013	22,320,000	16,195,000	14,345,000	24,170,000	n/a	843
2014	21,735,000	15,550,000	13,855,000	23,430,000	n/a	810

Source: City of East Palo Alto

Notes:

- 1 Tax Allocation Bonds and Revenue Bonds for financing Redevelopment Agency projects and activities.
- 2 Bond proceeds invested and, in October of 2010, used as part of a purchase in lieu of redemption structure. In 2009 the Public Finance Authority proceeds were used to purchase, and hold as investment, the 1999 Tax Allocation Bonds.
- 3 County of San Mateo per capita personal income.
- 4 State of California Department of Finance, population.

n/a: Data not available

**CITY OF EAST PALO ALTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2014**

2013-14 Assessed Valuation: \$2,013,487,648

<u>OVERLAPPING TAX INCREMENT DEBT</u>	Total Debt 6/30/2014	(1) Percentage Applicable	City's Share of Debt 6/30/2014
2003 A Refunding Tax Allocation Bonds	\$4,970,000	100%	\$4,970,000
2003 B Refunding Tax Allocation Bonds (Taxable)	2,910,000	100	2,910,000
2005 Series A Revenue Bonds	15,550,000	100	15,550,000
SUBTOTAL OVERLAPPING TAX INCREMENT DEBT			\$23,430,000

Ratios to Increment Valuation (\$772,199,328):

Overlapping Tax Increment Debt..... 3.03%

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/2014	Percentage Applicable (1)	City's Share of Debt 6/30/2014
San Mateo Community College District	\$563,069,994	1.282%	\$7,218,557
Sequoia Union High School District	328,635,000	3.083	10,131,817
Ravenswood School District	9,303,246	58.675	5,458,680
City of East Palo Alto	0	100	0
California Statewide Communities Development Authority 1915 Act Bonds	3,102,189	100	3,102,189
SUBTOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$25,911,243

GRAND TOTAL DIRECT AND OVERLAPPING TAX, ASSESSMENT AND TAX INCREMENT DEBT \$49,341,243

<u>OVERLAPPING GENERAL FUND DEBT:</u>	Total Debt	Percentage	City's Share of
San Mateo County General Fund Obligations	\$473,769,816	1.282%	\$6,073,729
San Mateo County Board of Education Certificates of Participation	10,950,000	1.282	140,379
Menlo Park Fire Protection District Certificates of Participation	11,515,000	8.225	947,109
Midpeninsula Regional Open Space District General Fund Obligations	133,209,717	1.04	1,385,381
TOTAL OVERLAPPING GENERAL FUND DEBT			\$8,546,598

TOTAL DIRECT DEBT \$0

COMBINED TOTAL DEBT \$57,887,841 (2)

Notes:

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:

Direct Debt	0.00%
Direct and Overlapping Tax and Assessment Debt	1.29%
Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.45%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt	0.00%
Combined Total Debt	2.88%

State School Building Aid Repayable as of 6/30/2013: \$0
AB:(\$475)

Source: California Municipal Statistics, Inc.

**CITY OF EAST PALO ALTO
COMPUTATION OF LEGAL BONDED DEBT MARGIN
LAST TEN FISCAL YEARS**

	2005	2006	2007	2008	2009
Gross Assessed Valuation	878,109,661	1,012,349,893	1,149,222,765	1,353,890,862	1,515,896,503
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	219,527,415	253,087,473	287,305,691	338,472,716	378,974,126
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	32,929,112	37,963,121	43,095,854	50,770,907	56,846,119
<i>Debt Applicable to Limit:</i>					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	<u>32,929,112</u>	<u>37,963,121</u>	<u>43,095,854</u>	<u>50,770,907</u>	<u>56,846,119</u>
	2010	2011	2012	2013	2014
Gross Assessed Valuation	1,288,518,941	1,195,776,212	1,143,398,348	1,111,399,506	1,180,118,124
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	322,129,735	298,944,053	285,849,587	277,849,877	295,029,531
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	48,319,460	44,841,608	42,877,438	41,677,481	44,254,430
<i>Debt Applicable to Limit:</i>					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	<u>48,319,460</u>	<u>44,841,608</u>	<u>42,877,438</u>	<u>41,677,481</u>	<u>44,254,430</u>

Source: California Municipal Statistics, Inc. (CalMuni) and San Mateo County Assessors Office

NOTE: California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value.

City of East Palo Alto
Bonded Debt Pledged-Revenue Coverage
June 30, 2014
Last Ten Fiscal Years

Fiscal Year	RDA Tax Allocation Bonds				Public Financing Authority Revenue Bonds							
	Tax Increment	Debt Service (1)		Coverage	Principal and Interest From 1999 TABS	Capitalized Interest Acct		Debt Service (2)				
		Principal	Interest			Total	Principal	Interest	Total	Coverage		
2005	4,557,353	470,000	1,812,260	2,282,260	2.0	-	-	-	-	-	-	100%
2006	4,409,635	385,000	1,792,133	2,177,133	2.0	-	507,986	507,986	507,986	507,986	507,986	100%
2007	7,996,776	400,000	1,772,923	2,172,923	3.7	-	846,644	846,644	846,644	846,644	846,644	100%
2008	7,857,564	420,000	1,752,425	2,172,425	3.6	-	846,644	846,644	846,644	846,644	846,644	100%
2009	7,996,776	445,000	1,730,325	2,175,325	3.7	-	846,644	846,644	846,644	846,644	846,644	100%
2010	7,891,237	470,000	1,706,055	2,176,055	3.6	-	846,644	846,644	846,644	846,644	846,644	100%
2011	7,625,928	495,000	1,455,833	1,950,833	3.9	1,416,784	-	580,000	836,784	1,416,784	1,416,784	100%
2012	7,376,396	520,000	1,425,525	1,945,525	3.8	1,418,570	-	600,000	818,570	1,418,570	1,418,570	100%
2013	7,376,779	550,000	1,394,064	1,944,064	3.8	1,416,938	-	620,000	796,938	1,416,938	1,416,938	100%
2014	7,601,754	585,000	1,360,764	1,945,764	3.9	1,415,438	-	645,000	770,438	1,415,438	1,415,438	100%

NOTE: The above reflects the 1999, 2003A, and 2003 B Tax Allocation Bonds (TABs). Note that the bond proceeds from the 2005 East Palo Alto Public Financing Authority revenue bonds were used to purchase the outstanding 1999 Tax Allocation bonds on October 01, 2009. The 1999 TABs are held with a fiscal agent and recorded as an asset in the Public Financing Authority; a blended component unit of the City.

SOURCES: 1) Tax Allocation bonds 1999, 2003A, 2003B
2) PFA Revenue bonds 2005A

**City of East Palo Alto
Demographic and Economic Statistics
June 30, 2014
Last Ten Fiscal Years**

Calendar Year	City Population (1)	City's Unemployment Rate (2)	City's Per Capita Personal Income (3)	County's Unemployment Rate (4)	County's Per Capita Personal Income (5)	K-12 Public School Enrollments (6)
2005	32,090	10.5%	16,283	4.3%	61,678	4,883
2006	32,049	9.1%	17,762	3.7%	67,279	4,453
2007	32,413	9.4%	18,943	3.8%	71,753	4,607
2008	32,800	11.6%	19,493	4.7%	73,839	4,936
2009	33,164	19.8%	18,364	8.6%	69,562	4,554
2010	33,524	16.8%	17,942	7.1%	67,964	4,385
2011	28,300	20.0%	18,368	8.3%	69,577	4,290
2012	28,467	16.8%	19,690	7.1%	74,582	4,296
2013	28,675	13.2%	n/a	5.5%	n/a	4,077
2014	28,934	11.2%	n/a	4.6%	n/a	4,030

Sources:

1 State of CA, Department of Finance estimates.

2 State of CA, Employment Development Department, City Unemployment Rates (not seasonally adjusted).

These are calendar year annual unemployment rates. Year 2014 rate is an average of six months (January 2014 to June 2014).

3 Fy 2005 to fy2008 data derived from 2009 ratio of County's per capita to City's. Year 2010 is actual.

4 State of CA, Employment Development provides annual Unemployment rates on calendar year basis for San Mateo County,

The 2014 Unemployment rate is a an average of six months (January 2014 to June 2014).

5 U.S. Department of Commerce, Bureau of Economic Analysis

<http://bea.gov/regional/reis/default.cfm?selTable=CA1-3§ion=2>

6 Ed-Data (www.ed-data.com) updated by California Department of Education. These are fiscal year enrollment figures for Ravenswood School District. For instance, 2012 represents fiscal year 2011-2012.

<http://www.ed-data.k12.ca.us/Navigation/fsTwoPanel.asp?bottom=%2Fprofile.asp%3Flevel%3D06%26reportNumber%3D16>

na - Not available as these statistics lag by one or two years.

City of East Palo Alto

Principal Employers Last Fiscal Year and Nine Years Ago

Business Name	2013-14		2004-05	
	Number of Employees	Percent of Total Employment (%)	Number of Employees	Percent of Total Employment (%)
Ravenswood City School District	538	3.90%	0	0.00%
Ikea*	343	2.49%	0	0.00%
Four Seasons Hotel - Silicon Valley	285	2.07%	0	0.00%
Home Depot	175	1.27%	0	0.00%
Ravenswood Family Health Center*	163	1.18%	0	0.00%
US Post Office	150	1.09%	0	0.00%
NTT Group	120	0.87%	0	0.00%
City of East Palo Alto*	102	0.74%	0	0.00%
Nordstrom Rack	77	0.56%	0	0.00%
Ropes and Gray Law Firm	63	0	0	0.00%
Total Top 10 Employers	2,016	14.61%	0	0.00%
Total City Labor Force (1)	13,800			

Source: MuniServices, LLC

Prior year data unavailable.

Results based on direct correspondence with city's local businesses.

*Includes full and part time.

(1.) Total City Labor Force provided by EDD Labor Force Data.

City of East Palo Alto
Number of Positions - City Government by Function
June 30, 2014
Last Ten Fiscal Years

Function	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Government (City Council, CM, CC, Finance, HR, CA Rent Stabilization, Youth and Family Svcs)	20	19	17.8	21	22	22.5	23	23	23	26
Public Safety										
Police										
Officers	48	48	42	43	43	44	40	40	38	38
Civilians	16	12	9.75	9.75	7	7	11	13.5	9.5	9.5
Community Development										
Administration					2	2	2	5.5	5.5	7
Economic Development/Redevelopment Agency	6	6	6	6	6	6	6	5	5	2
Planning Division	6	6	4	5	5	5	5	3	3	4
Building Services	6	4	4	5	5	5	5	3	3	4
Engineering Services								5	5	6
Maintenance Division								11	11	11
Senior Services								1.63	1.63	1.63
Public Works (Eliminated 2011)										
Administration	3	3	2	2	2	2	2	0	0	0
Engineering	6	6	5	6	6	6	6	0	0	0
Maintenance	12	13	12	12	12	12	13	0	0	0
Culture & Recreation (Eliminated 2011)										
Administration	2	2	2	2	2	2	2	0	0	0
Recreation	6.28	1	1	1	1	2	2	0	0	0
Senior Services	3.13	1.38	1.38	1.38	1.38	1.63	1.63	0	0	0
Housing Services & Rent Stabilization Eliminated 2011	5	4	4	4	4	5	5	0	0	0
Total	139.41	125.38	110.93	118.13	118.38	122.13	123.1	110.6	104.6	109.1

Source: City of East Palo Alto Government Budget.

Note: The City began publishing budgeted positions by function in Fiscal Year 2004-05; therefore, only nine years of data available.
Public Works, Culture & Recreation, and Housing Services Divisions were eliminated in fiscal year 2010-11.

**Operating Indicators by Function
June 30, 2014
Last Six Fiscal Years**

Function	<u>Fiscal Year 2008-2009</u>	<u>Fiscal Year 2009-2010</u>	<u>Fiscal Year 2010-2011</u>	<u>Fiscal Year 2011-2012</u>	<u>Fiscal Year 2012-2013</u>	<u>Fiscal Year 2013-2014</u>
Police						
Calls for Service	37,385	35,736	35,337	31,277	28,443	29,123
Number of serious crimes *	630	551	440	475	572	510
Number of burglaries	347	424	399	425	285	213
Number of assaults	482	385	316	350	460	436
Number of auto thefts reported	256	213	194	123	134	174
Number of homicides	8	9	2	10	8	4
Number of robberies	121	137	104	102	87	60
Number of physical arrests	713	1,172	1,385	612	635	640
Community Development						
<u>Transportation</u>						
Shuttle Passengers						
Caltrain/Commuter Shuttle	21,433	32,872	46,894	65,770	72,878	76,879
Shopper Shuttle (now Redwood City #4)	7,055	5,186	7,666	8,734	4,197	4,076
Youth Shuttle (now MidTown #3)	12,835	18,471	13,233	14,557	7,185	4,539
Weekend Shuttle	14,321	17,783	13,509	15,382	12,865	23,582
<u>Streets</u>						
Street Resurfacing (lane miles)	1.30	1.30	4.40	1.6		2.5
Potholes repaired	12	67	20	42	29	16
<u>Engineering</u>						
Encroachment permits	76	44	42	55	41	49
Culture & recreation						
Facility Rentals	25	27	21	25	35	74
Lunches Served to Seniors	8,188	9,225	8,437	7,331	6,842	5,784
Transportation trips provided to Seniors	3,457	3,375	3,234	3,580	2,743	2,183
Special Event participants	1,899	2,600	1,800	2,450	5,200	4,900
Program Registration participants(Fit Zone)	115	206	150	122	10,074	5,436
<u>Building Permits Issued:</u>						
Residential - Count	650	425	373	577	408	324
Commercial Count	27	22	22	52	36	126
Water **						
Hydrant Breaks	13	7	7	8	9	9
Water main breaks	18	6	12	16	21	5
Average daily consumption per family (in gallons)	227	332	224	229	385	239

Source: City Departments

- * Crimes against a person (homicide, rape, robbery, assault)
- ** The water related data was obtained from American Water Company which services approximately 90% residents in East Palo Alto

Data prior to 2008-09 is not available

City of East Palo Alto
Capital Asset Statistics by Function
June 30, 2014
Last Ten Fiscal Years

FUNCTION	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Government owned buildings										
Public Works & Comm Development Building	1	1	1	1	1	1	1	1	1	1
Housing (Water Enterprise Fund)	1	1	1	1	1	1	1	1	1	1
Highways & Streets										
Streets (miles)	38	38	38	38	38	38	38	38	38	38
Streetlights	809	827	827	827	827	827	827	827	827	827
Traffic Signals	14	14	14	14	14	14	14	14	14	14
Culture & recreation										
Parks (number of parks)	6	6	6	6	6	6	6	6	6	6
Parks acreage (acres)	16	16	16	16	16	16	16	25.38	25.38	25.38
Senior Centers	1	1	1	1	1	1	1	1	1	1
Water *										
Water pipelines (miles)	39.2	39.2	39.2	39.2	39.2	38.6	38.6	38.6	38.6	38.6
Fire hydrants	230	230	230	230	230	230	282	283	283	283
Maximum daily capacity (millions of gallons per day)	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.07	2.02

Source: Various city departments

* Data obtained from American Water Company, which services services approximately 90% residents in East Palo Alto.