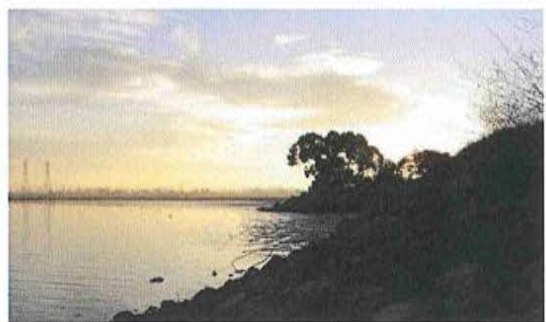


Comprehensive Annual Financial Report For the Year Ended June 30, 2012



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, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

Prepared by
FINANCE DEPARTMENT

INTRODUCTORY SECTION

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CITY OF EAST PALO ALTO
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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City of East Palo Alto

December 13, 2012

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, 2012. 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, 2012.

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 Maze & Associates, a firm of Certified Public Accountants 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, 2012 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 "unqualified" or "clean" opinion. The independent auditor's report includes an explanatory paragraph discussing the dissolution of redevelopment agencies pursuant to legislation passed by the State of California under ABx1 26 and AB 1484 and the impact on the City of East Palo Alto. The independent auditor's report is located in the Financial Section of this report.

In addition, Maze & 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.

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 28,400.

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 Redevelopment Agency and the East Palo Alto Public Financing Authority.

ECONOMIC CONDITION AND FISCAL OUTLOOK

Over the past year, the United States continued its slow recovery from the great recession of December 2007 to June 2009 with gross domestic products (GDP) growth ranging between 1.3 percent to 4.1 percent. National unemployment contracted from a high of 10.0 percent in 2009 to 7.7 percent as of November 2012. While this is an improvement, it is still significantly short of a healthy level. Interest rates remain near zero percent as the Federal Reserve Bank continued its efforts to stimulate economic activity.

The somewhat positive national developments were tempered regionally by California's actions to address its on-going multi-billion dollar budget deficits on the backs of local government. As indicated earlier, legislation was passed by the State to eliminate 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.

While the City projected some improvement in its major revenue sources, it was still insufficient to cover its base level of expenditures, particularly in the City's General Fund. As a result, city staff accepted wage concessions to help moderate the General Fund's operating deficit. Upon the dissolution of its Redevelopment Agency, the City also implemented an organizational restructure and embarked on the development of an economic development strategy to address the loss of its property tax increment revenues.

LONG TERM FINANCIAL PLANNING

As part of a strategic budget planning process, management annually presents a multi-year financial plan 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, 2012, the City Council established a reserve of \$2.0 million, representing approximately 12% 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 enhancing the Measure C grant process, implementing a re-entry program to serve local parolees, and developing and adopting an anti-graffiti program.

Enhance Economic Vitality: This set of initiatives includes goals to complete a mitigation agreement with Facebook and the City of Menlo Park, developing a transition plan for address the dissolution of the City's Redevelopment Agency, adopt the specific plan for the Ravenswood Business District, begin allocating General Fund monies for key capital improvement projects, initiate the next stages of the Bay Road Improvements project, and develop a strategy to access additional water for the City.

Increase Organizational Effectiveness and Efficiency: These goals include the adoption of updated financial policies and a citywide master fee schedule.

Improve Public Facilities and Infrastructure: These goals and objectives pertain to completion of the safe routes to school street improvement project, acquiring additional park land, and completing a community process on the pedestrian bicycle bridge project.

Improve Communication and Enhance Community Engagement: This set of objectives includes goals to redesign and improve the City website, developing a quarterly newsletter, and planning for a multi-event 30 year anniversary celebration.

Create a Healthy and Safe Community: This set of objectives includes goals to initiate a General Plan update to include a complete streets policy, developing a joint-use agreement with the school districts, develop a comprehensive Healthy Community Plan, and create more pocket parks.

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, 2011. This was the third 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.

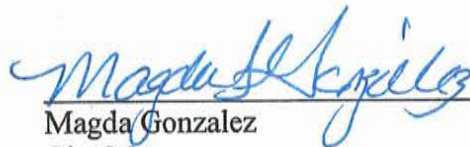
The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the entire staff of the Finance Department and the audit staff at Maze & Associates. Each member of the department demonstrated exemplary personal dedication, including many long hours spent producing 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



Magda Gonzalez
City Manager



CITY OF EAST PALO ALTO

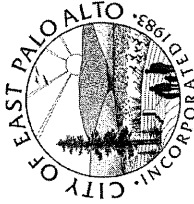
DIRECTORY OF OFFICIALS

City Council

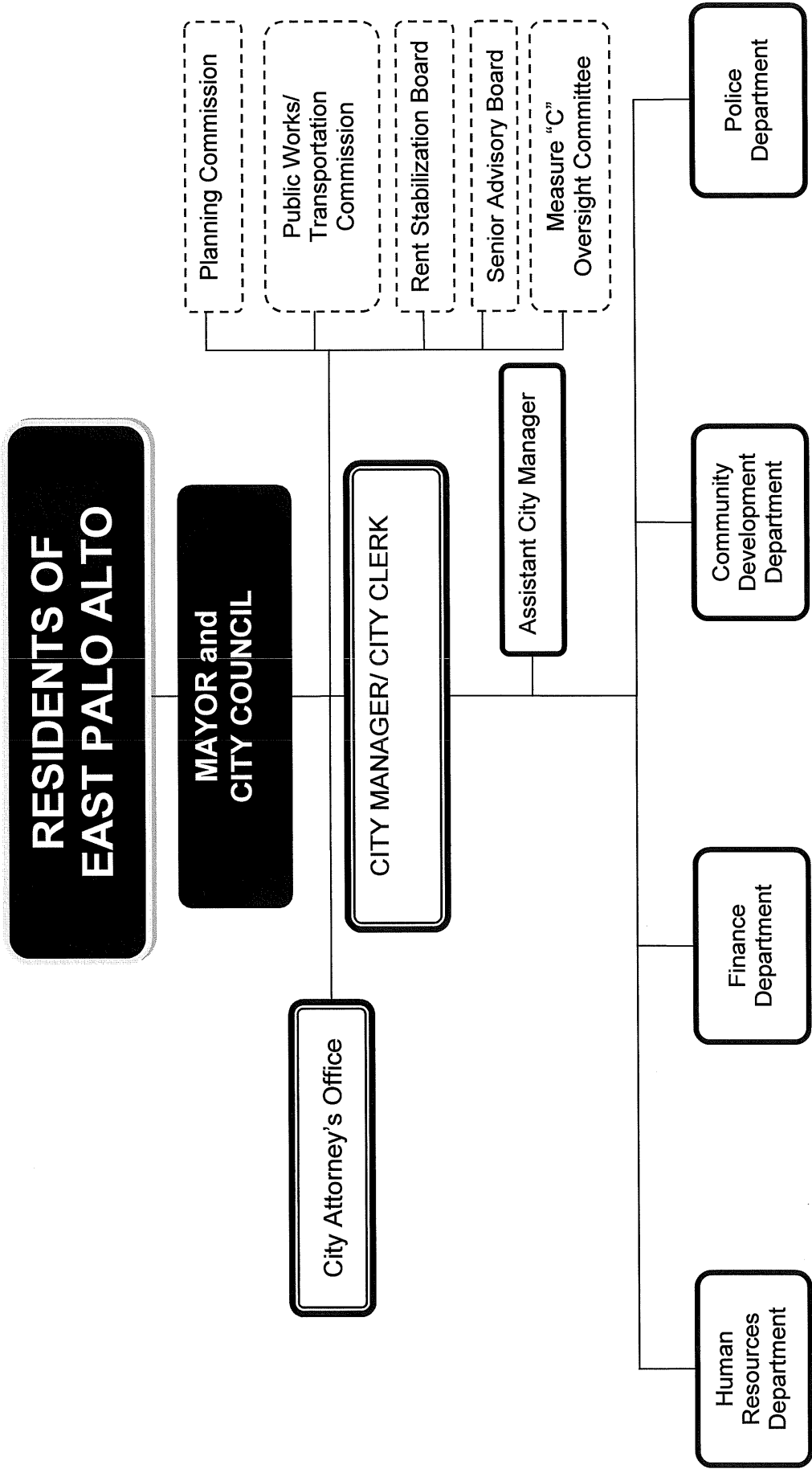
Laura Martinez Mayor
Ruben Abrica... Vice Mayor
A. Peter Evans..... Councilmember
Carlos Romero..... Councilmember
David Woods Councilmember

Administration

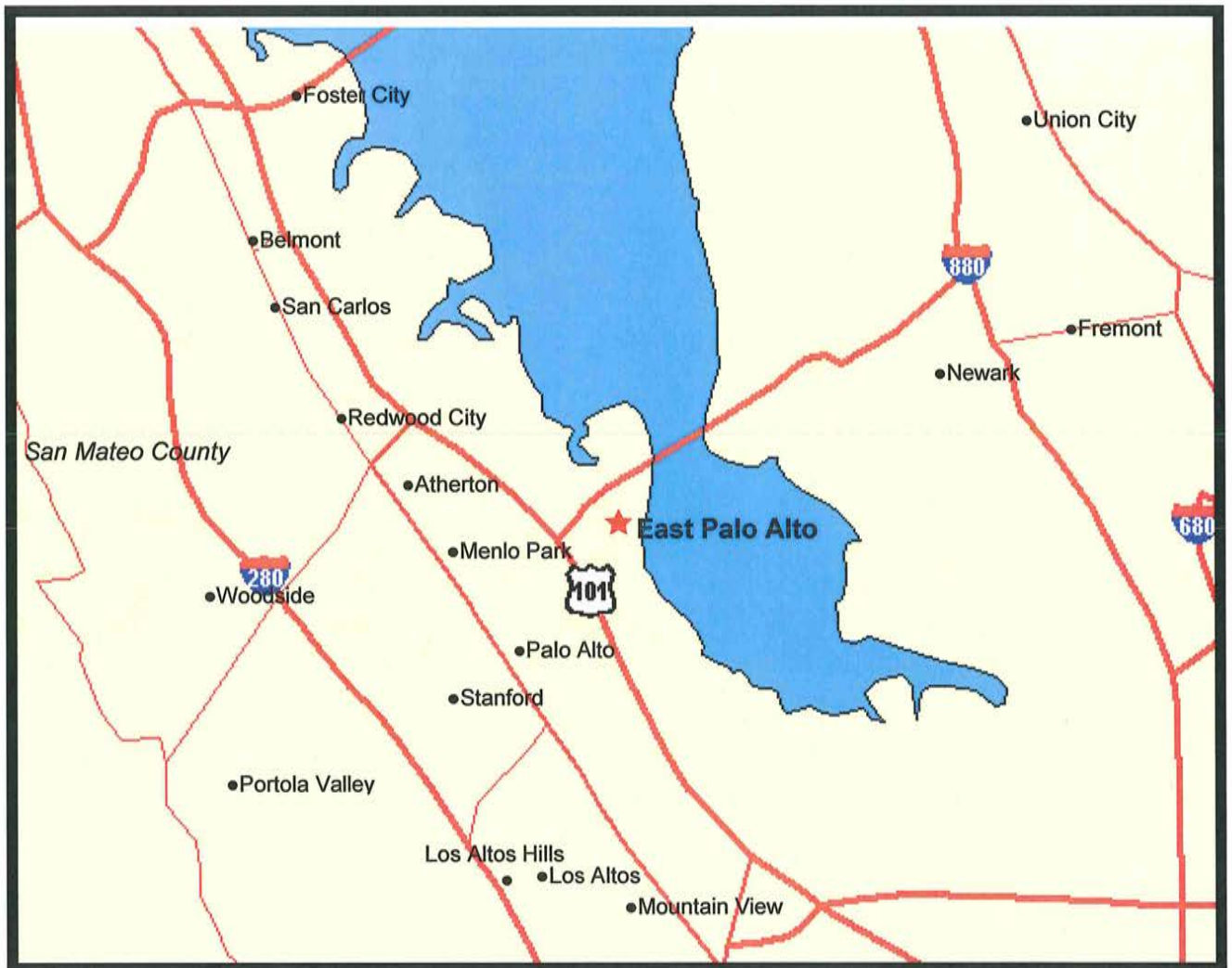
Ronald L Davis.....Interim City Manager
Stephanie OsazeAssistant City Manager
Katherine Kane.. City Attorney
Edmund Suen Finance Director
Federico RochaInterim Police Chief
John Doughty Community Development Director



**CITY OF EAST PALO ALTO
 MASTER ORGANIZATIONAL CHART 2011-2012**



Regional Map



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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morinell

President

Jeffrey R. Emer

Executive Director

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of East Palo Alto, California

We have audited the basic 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 (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto at June 30, 2012 and the results of its operations and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As discussed in Note 14, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Redevelopment Agency of the City of East Palo Alto has been dissolved and its assets turned over to and liabilities assumed by Successor Agencies effective February 1, 2012. Certain transactions undertaken by the former Redevelopment Agency of the City prior to the date of dissolution may be subject to review by the State as discussed in Note 14, but the effect of that review can not be determined as of June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information 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 this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City of East Palo Alto's, financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole. 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.

Mare & Associates

December 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis is designed to provide, for the fiscal year ending June 30, 2012, (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

- In an effort to balance its budget, the State of California passed legislation under ABx1 26, which was further amended by AB 1484 to eliminate redevelopment agencies as of January 31, 2012. Tax increment revenues of former redevelopment agencies have now been diverted to the State. On February 1, 2012, certain housing assets of the former City of East Palo Alto Redevelopment Agency (Former RDA) were transferred to the City's Housing Authority Special Revenue Fund. The remaining assets and liabilities of the Former RDA were distributed and assumed by a Successor Agency Private-Purpose Trust Fund under the control of an Oversight Board (see additional information on Note 14 of the Financial Statements). As a result, the Former RDA's assets that were distributed and liabilities that were assumed by the Successor Agency and Housing Successor are reported as an extraordinary item in these financial statements.
- At June 30, 2012, government-wide net assets totaled \$73.8 million, an increase of \$29.3 million during the fiscal year. Of these net assets, \$32.5 million is invested in capital assets and \$7.2 million are restricted for specific uses, leaving an unrestricted balance in the amount of \$34.1 million. This \$34.1 million represents a \$41.8 improvement from the unrestricted deficit balance of \$7.7 million a year ago and can be attributable primarily to due to the dissolution of the Former RDA and the transfer of \$40.3 million of long-term debt to the Successor Agency Private Purpose Trust Fund.
- Total government-wide revenues, including program and general revenues were \$31.3 million and total expenses were \$27.1 million in fiscal year 2011-12. This compares to total revenues of \$33.8 million and expenses of \$30.7 million in fiscal year 2010-11. The reduction in both revenues and expenses are also largely attributable to the dissolution of the Former RDA. Effective February 1, 2012, tax increment property tax revenues were no longer available. Similarly, community development costs of the Former RDA were eliminated and partially absorbed by the General Fund and interest on debt from the Former RDA was paid by the Successor Agency Private Purpose Trust Fund.
- Governmental program revenues were \$6.4 million in fiscal year 2011-12 compared to \$6.5 million in fiscal year 2010-11. Business-type program revenues were \$2.7 million compared to \$2.4 million in fiscal year 2010-11.
- Governmental general revenues were \$22.3 million in fiscal year 2011-12 compared to \$24.9 million in fiscal year 2010-11. Business-type general revenues were \$20 thousand compared to \$22 thousand in fiscal year 2010-11.

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 Assets: Presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, the change in net assets (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 assets changed during the most recent fiscal year. All changes in net assets 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 Assets 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 Assets 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 Assets 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 assets serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by approximately \$73.8 million. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$81.0 million total assets; only \$48.5 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 Assets

Government-wide assets exceeded liabilities by \$73.8 million at the end of the current fiscal year. The following table is a summary of the government-wide net assets for the governmental and business-type activities:

STATEMENT OF NET ASSETS						
(Dollars in thousands)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	44,342	58,715	4,157	3,028	48,499	61,743
Capital Assets	28,413	28,011	4,134	4,320	32,547	32,331
Total assets	<u>72,755</u>	<u>86,726</u>	<u>8,291</u>	<u>7,348</u>	<u>81,046</u>	<u>94,074</u>
Liabilities:						
Current and other liabilities	4,444	7,551	2,285	1,138	6,729	8,689
Noncurrent liabilities	466	40,825	-	-	466	40,825
Total liabilities	<u>4,910</u>	<u>48,376</u>	<u>2,285</u>	<u>1,138</u>	<u>7,195</u>	<u>49,514</u>
Net Assets:						
Investment in capital, net of debt	28,412	28,010	4,134	4,320	32,546	32,330
Restricted	6,353	19,089	834	834	7,187	19,923
Unrestricted	33,079	(8,749)	1,037	1,056	34,116	(7,693)
Total Net Assets	<u>67,844</u>	<u>38,350</u>	<u>6,005</u>	<u>6,210</u>	<u>73,849</u>	<u>44,560</u>

Numbers may not add due to rounding

Governmental Activity

Total assets of \$72.8 million consist of current and other assets of \$44.3 million and capital assets of \$28.4 million. The \$14 million decrease from the prior year is primarily due to the \$13.3 million transfer of assets from the Former RDA to the Successor Agency as a result of the dissolution of redevelopment agencies mandated by the passage of AB x1 26.

Total liabilities of \$4.9 million consist of \$4.4 million of current liabilities and \$466 thousand of long-term debt. Total liabilities decreased by \$43.4 million primarily due to a long-term debt payment of \$1.1 million and the transfer of \$40.3 million of Former RDA bond debt to the Successor Agency upon its dissolution on February 1, 2012. In addition, Accounts Payable and Accrued Liabilities declined by \$1.4 million.

Net assets are comprised of 1) \$28.4 million 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 investment in capital assets is reported 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) \$6.4 million represents resources that are subject to external restrictions on how they may be expended; and, 3) a remaining unrestricted balance of \$33.1 million.

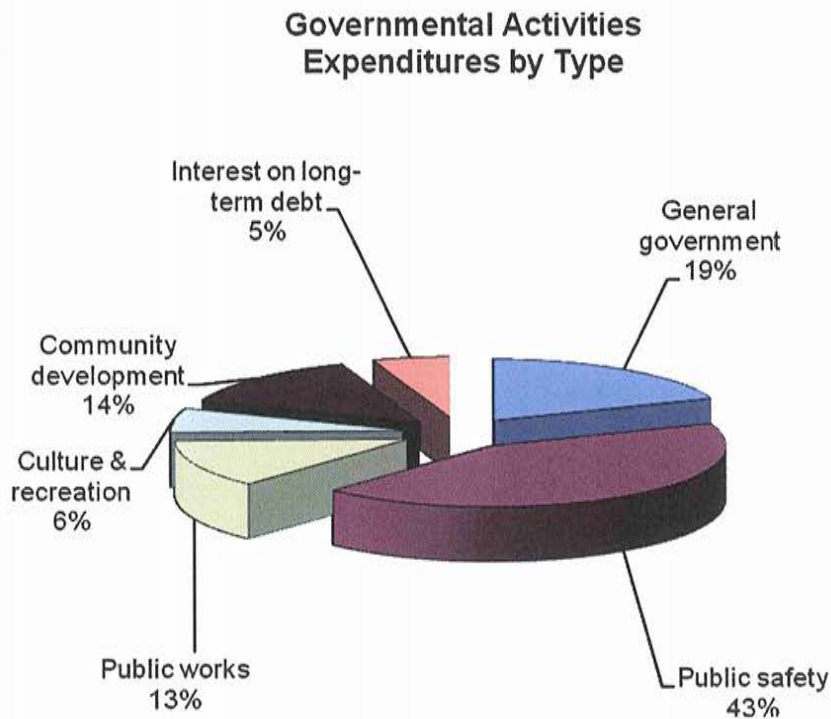
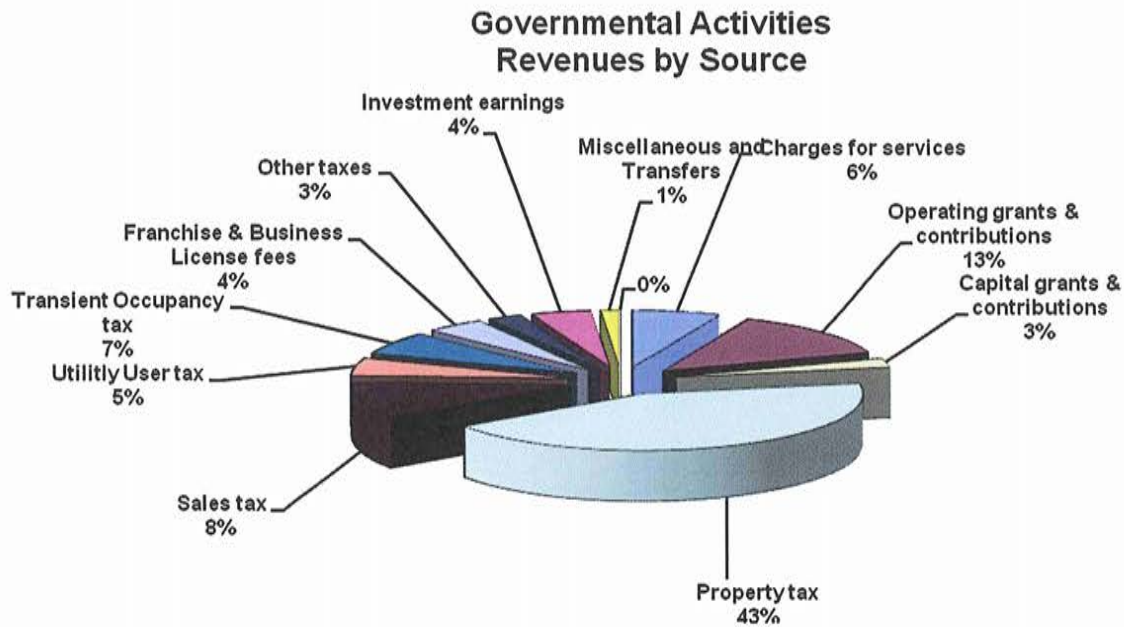
Business-type Activity

The City's business-type activities include \$4.1 million in capital assets, consisting primarily of municipal water-service assets and infrastructure. Approximately, \$1.0 million of unrestricted net assets are available at year-end to pay current and future obligations.

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

STATEMENT OF ACTIVITIES						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	1,847	1,578	2,686	2,408	4,533	3,986
Operating grants & contributions	3,800	3,621	-	-	3,800	3,621
Capital grants & contributions	704	1,266	-	-	704	1,266
General revenues:						
Property taxes	12,338	15,291	-	-	12,338	15,291
Sales taxes	3,004	2,871	-	-	3,004	2,871
Utility user tax	1,418	1,503	-	-	1,418	1,503
Transient Occupancy taxes	1,870	1,015	-	-	1,870	1,015
Franchise & Business taxes	1,265	1,247	-	-	1,265	1,247
Other taxes	734	881	-	-	734	881
Investment Earnings	1,260	1,389	20	15	1,280	1,404
Miscellaneous and Transfers	396	693	-	7	396	700
Total revenues	<u>28,636</u>	<u>31,355</u>	<u>2,706</u>	<u>2,430</u>	<u>31,342</u>	<u>33,785</u>
Expenses						
Program expenses:						
General government	4,634	4,700	-	-	4,634	4,700
Public safety	10,374	10,973	-	-	10,374	10,973
Public works	3,029	3,055	-	-	3,029	3,055
Culture and recreation	1,526	1,334	-	-	1,526	1,334
Community development	3,340	5,334	-	-	3,340	5,334
Water services	-	-	327	440	327	440
Garbage collection	-	-	2,583	2,602	2,583	2,602
Interest on long-term debt	1,296	2,291	-	-	1,296	2,291
Total expenses	<u>24,199</u>	<u>27,687</u>	<u>2,910</u>	<u>3,042</u>	<u>27,109</u>	<u>30,729</u>
Change in net assets before extraordinary item	4,437	3,668	(204)	(612)	4,233	3,056
Extraordinary item	25,057	-	-	-	25,057	-
Beginning net assets	38,350	34,682	6,210	6,822	44,560	41,504
Ending net assets	<u>67,844</u>	<u>38,350</u>	<u>6,006</u>	<u>6,210</u>	<u>73,850</u>	<u>44,560</u>

Government-wide net assets (before the extraordinary item) increased by approximately \$4.2 million as noted in the table above as governmental activities revenues exceeded expenses by \$4.4 million while business-type activities expenses exceeded revenues by \$204 thousand. A further depiction of governmental type revenues and expenditures are illustrated in the charts below:



Governmental activities

- Overall total revenues were \$28.6 million; a decrease of \$2.7 million or 8.7% from the prior year. The decrease was due to the loss of \$3.6 million in Former RDA tax increment revenues which was modestly offset by a small \$133 thousand increase in sales tax and an \$855 thousand gain in transient occupancy tax with the expiration of economic incentives previously provided to a Hotel.
- Overall, total expenses were \$24.2 million, a decrease of \$3.5 million or 12.6% from the prior year. This is primarily due a \$2.0 million reduction in community development expenses and the assumption of \$1.1 million of bond payment by the Successor Agency, both as a result of the dissolution of the Former RDA.
- An extraordinary gain of \$25.1 million was recorded in governmental activities from the excess of liabilities (primarily from the long-term bond debt) over assets assumed by the Successor Agency from the former RDA. Additional information can be found in Note 14 of the financial statements.

Business-type activities

- Net assets declined by \$204 thousand as a result in a decline in Water net assets of \$97 thousand and also a decline in Garbage net assets of \$107 thousand.
- Water revenues decreased by \$21 thousand to \$223 thousand from the previous year due to a decline in water connection fees. Water expenses decreased by \$113 thousand to \$326 thousand due to the elimination of the Public Works Division and the restructure of the Engineering and Maintenance Divisions.
- Garbage operating revenues improved by \$299 thousand to \$2.46 million as the rate adjustment approved by the City Council in 2010 had a full year effect beginning July 1, 2011. Operating expenses were essentially unchanged, decreasing slightly from \$2.60 million to \$2.58 million.

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, 2012, the City's governmental funds reported a combined ending fund balance of \$39.8 million.

- Governmental revenues were \$28.6 million and expenditures totaled \$27.5 million compared to the prior year's amounts of \$34.6 million and \$32.7 million respectively. The \$6.0 million decline in revenues was largely due to a \$3.6 loss in property tax increment and a \$2.4 million reduction in loan payments from the former RDA to the City. The \$5.2 million reduction in expenditures is primarily attributable to organization restructure savings, employee concessions, and the elimination of the Former RDA. General government, public safety, and the consolidation of public works into community development, and the elimination of redevelopment contributed approximately \$3.3 million in operating cost savings and the decrease in interest on debt service assumed by the Successor Agency from the former RDA added approximately \$1.1 million in savings.

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 \$16.5 million; a decrease of \$1.4 million or 7.8% from the prior year. The decrease is primarily due to a reduction of RDA loan repayment to the City during the year, but was offset by modest gains in sales tax and property tax of \$133 thousand and \$477 thousand respectively. The increase in property tax was entirely attributable to \$717,000 of residual tax increment from the Former RDA that was distributed to the City as one of the taxing entities in the former redevelopment project areas. Absent this, property tax revenues would otherwise have been \$240 thousand lower than the Fiscal Year 2010-11 levels as property assessed values have yet to recover in the East Palo Alto community. Transient Occupancy tax revenues increased by \$712 thousand as economic incentives previously provided to a Hotel was completed in November 2010 and room occupancy improved with the pickup of economic activity in the general Silicon Valley area. In addition, there was a \$3.6 million transfer in from the Capital Improvement Fund to the General Fund as the loan repayments made in fiscal year 2010-11 by the former RDA to the City were deemed unenforceable by the State under the AB x1 26 dissolution of redevelopment agencies. As a result, the loan repayment received by the General Fund that was subsequently transferred to the Capital Projects Fund for capital improvement projects were transferred back to the General Fund. The General Fund in turn had to readjust its Loan Advance balance due from the former RDA before its dissolution.

Expenditures (before Transfers Out) were \$15.4 million, a decrease of \$1 million or 6.2% from the prior year as the City implemented an organizational restructure and reduced staffing to address its structural deficit as well as to address the impacts from the dissolution of its Former RDA.

On June 30, 2012, Fund Balance was \$20.6 million, a decrease of \$1 million or 5.1% from the prior year. Of the total fund balance approximately \$6.8 million is unassigned, which is \$200 thousand higher from the prior year, and is available for spending at the City's discretion. The \$6.6 million unassigned fund balance represents 40.2% (down from 42.7% in the prior year) of the current year total fund expenditures of \$16.43 million. The City has available funds for unanticipated emergencies based on its adopted financial plan policy, which recommends a minimum reserve set aside of 10% percent of operating costs. Although the General Fund maintained an unassigned fund balance in the current year, being able to meet such level of reserves annually will be a challenge for the City, as the cost of services may continue to increase while overall revenue sources decline or remain stable. Management intends to continue meeting these challenges through careful financial planning, monitoring of budget expenditures, and by identifying ways to reduce costs and/or generate greater revenues for the City.

Low and Moderate Income Housing Successor Special Revenue Fund: This new 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 were not distributed, but was retained by the Successor Agency to be distributed to the taxing entities in the Former RDA project area. In addition, there will no longer be any property tax increment for the Housing Successor Fund.

Former RDA Capital Projects Fund and Debt Service Funds: Due to the dissolution of the City's Former RDA, all assets and liabilities of these funds were distributed and assumed by the new Successor Agency Private Purpose Trust Fund on February 1, 2012. Debt services payments have since been also assumed by the Successor Agency. There are no balances left on the Former RDA Capital Projects and Debt Service funds. See Note 14 of the financial statements for more information regarding the redevelopment dissolution.

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 decreased by \$6.0 million from \$7.3 million on June 30, 2011 to \$1.3 million on June 30, 2012. As required by the State of California under the dissolution of redevelopment agencies, land previously held and transfer out of the Former RDA had to be transferred back to the Former RDA for distribution to the Successor Agency and Housing Successor. The Capital Projects Fund transferred \$2.6 million of Housing Assets and \$537 thousand of non-housing asset back to the Former RDA. As indicated previously in General Fund Analysis section, the \$3.6 million loan repayment previously received by the General Fund from the Former RDA that was subsequently transferred to the Capital Projects Fund for capital improvement projects were transferred back to the General Fund.

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 assets for the Water and Garbage Funds were \$334 thousand and \$703 thousand respectively. The combined decrease in net assets for both funds was \$204 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 2011-12 General Fund budget and the final amended budget resulted in an approximate \$236 thousand increase in budgeted revenues (including transfers in) and a \$314 thousand increase in expenditure appropriations (including transfers out). Following are the main components of the changes in revenues and expenditure appropriations.

- The fiscal year 2011-12 adopted revenues were \$16.86 million (including transfers in) and the final amended revenues were \$17.10 million (including transfers in); an increase of approximately \$236 thousand from the original budget. The increase is from a \$225 thousand developer contribution. The adopted 2011-12 appropriations (including transfers out) totaled \$18.2 million while the final appropriations were \$17.9 million. The \$314 thousand reduction was made primarily as a result of a City organizational restructure to address the dissolution of its Former RDA.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City’s capital assets for its governmental and business-type activities as of June 30, 2012 amounted to \$32.5 million (net of accumulated depreciation), an increase of \$215 thousand or 0.7% from the prior year. 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, 2012						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	605	902	\$ 207	\$ 207	\$ 812	\$ 1,109
Buildings and Improvements	5,127	5,127	44	44	5,171	5,171
Improvements Other than Bldgs.	3,831	3,712	7,058	7,058	10,889	10,770
Construction in Progress	1,768	1,585			1,768	1,585
Furnishings & Equipment	1,889	1,829	64	64	1,953	1,893
Vehicles	1,749	1,577	89	89	1,838	1,666
Street and Roadways	42,992	41,583			42,992	41,583
Storm Drain System	4,089	4,089			4,089	4,089
Less: Accumulated Depreciation	<i>(33,638)</i>	<i>(32,393)</i>	<i>\$ (3,328)</i>	<i>\$ (3,142)</i>	<i>(36,966)</i>	<i>(35,535)</i>
Total	\$ 28,412	\$ 28,011	\$ 4,134	\$ 4,320	\$ 32,546	\$ 32,331

Major capital assets events during the current fiscal year included the following:

Governmental Activities:

- Capital assets increased by \$401 thousand, net of current year depreciation of \$1.24 million. New assets acquired and in progress of \$ 3.12 million included street resurfacing, sidewalk repairs, street light replacements, Cooley Landing Park improvements, Gloria Well rehabilitation, safe routes to school improvements, police vehicles, and maintenance equipment. The City also transferred \$1.47 million consisting of land and construction in progress for Cooley Landing Parking and the University Avenue freeway overpass from its Former RDA to the Successor Agency as a result of the State’s dissolution redevelopment agencies.

Business-Type Activities:

- There were no additions to Water Services’ capital assets during the year. Net Capital assets decreased \$186 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 assumed the long-term term debt of the Former RDA as of February 1, 2012 for \$40,331,034. 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 modestly from 20.0% in June 2011 to 16.8% in June 2012. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2012, the State and County unemployment rates were 10.7% and 7.1%, respectively. Compared to June 2011, the State and County unemployment rates were 11.8% and 8.3% respectively. Overall, the State of CA, County of San Mateo, and local economies are experiencing a slow and gradual recovery. Some sectors of the economy are doing well but overall as evidenced by the unemployment information, business confidence remains guarded.

During this past year, the State dismantled all redevelopment agencies as a means of balancing its budget deficit. As a result, the City's primary tool and resource for economic development was snatched. The City had to do another organizational restructure to address the loss of property tax increment revenue and as well as to identify future replacement funding for capital projects as well as economic development needs.

The above mentioned conditions were considered in preparing the City's operating budget for fiscal year 2012-13. In addition, the City has since adopted an updated Master Fee Schedule to address its costs for providing City services. Changes in conditions and circumstances after the City had finalized its budget and will be taken under consideration with fiscal year 2012-13 budget amendments.

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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CITY OF EAST PALO ALTO

**STATEMENT OF NET ASSETS
AND STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

Both of these Statements include the financial activities of the City, the East Palo Alto Redevelopment Agency, and the East Palo Alto Public Financing Authority which are legally separate entities accounted for as blended component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

CITY OF EAST PALO ALTO
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations (Note 3)	\$18,088,224	\$2,835,065	\$20,923,289
Restricted cash and investments (Note 3)	1,716,752	834,470	2,551,222
Receivables:			
Accounts	605,174	487,122	1,092,296
Accrued interest	159,594		159,594
Taxes	459,764		459,764
Intergovernmental	1,193,239		1,193,239
Loans and notes (Note 5)	7,616,087		7,616,087
Deposits and prepayments	237,602		237,602
Loans to Successor Agency (Note 5F)	11,662,202		11,662,202
Property held for resale (Note 1I)	2,603,736		2,603,736
Capital assets (Note 6):			
Non-depreciable	2,372,666	206,750	2,579,416
Depreciable, net of accumulated depreciation	26,039,527	3,927,425	29,966,952
Total Assets	72,754,567	8,290,832	81,045,399
LIABILITIES			
Accounts payable	\$1,274,255	\$1,813,598	\$3,087,853
Accrued liabilities	476,838	417,662	894,500
Retentions payable	143,651		143,651
Deposits payable	467,485	53,622	521,107
Deferred revenue	1,716,752		1,716,752
Advance from developers	1,175		1,175
Compensated absences (Note 1F):			
Due within one year	334,544		334,544
Due in more than one year	301,121		301,121
Claims payable (Note 1I)			
Due within one year	29,625		29,625
Due in more than one year	165,000		165,000
Total Liabilities	4,910,446	2,284,882	7,195,328
NET ASSETS (Note 9)			
Invested in capital assets	28,412,193	4,134,175	32,546,368
Restricted for:			
Highway and streets projects	2,771,433		2,771,433
Parks and recreation	713,964		713,964
Measure C programs	1,350,227		1,350,227
Housing programs	1,517,432		1,517,432
Capital projects		834,470	834,470
Unrestricted	33,078,872	1,037,305	34,116,177
Total Net Assets	\$67,844,121	\$6,005,950	\$73,850,071

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$4,634,178	\$4,744	\$199,156	\$81,545	(\$4,348,733)		(\$4,348,733)
Public safety	10,374,212	248,855	910,873		(9,214,484)		(9,214,484)
Public works	3,028,589	79,138	2,689,710		(259,741)		(259,741)
Culture and recreation	1,525,961	311,158		1,159	(1,213,644)		(1,213,644)
Community development	3,340,428	1,203,310	(195)	621,113	(1,516,200)		(1,516,200)
Interest on long-term debt	1,295,832				(1,295,832)		(1,295,832)
Total Governmental Activities	24,199,200	1,847,205	3,799,544	703,817	(17,848,634)		(17,848,634)
Business-type Activities:							
Garbage collection	2,583,098	2,462,700				(\$120,398)	(120,398)
Water service	326,502	223,037				(103,465)	(103,465)
Total Business-type Activities	2,909,600	2,685,737				(223,863)	(223,863)
Total	\$27,108,800	\$4,532,942	\$3,799,544	\$703,817	(\$17,848,634)	(\$223,863)	(\$18,072,497)
General revenues:							
Taxes:							
Property taxes					\$12,338,184		\$12,338,184
Sales taxes					3,003,836		3,003,836
Utility users tax					1,418,457		1,418,457
Transient occupancy tax					1,870,266		1,870,266
Other taxes					734,114		734,114
Franchise and business tax					1,264,674		1,264,674
Investment earnings					1,260,104	\$19,951	1,280,055
Miscellaneous					395,396		395,396
Extraordinary items (Note 14):							
Assets transferred to/liabilities assumed by Successor Agency					25,057,083		25,057,083
Total general revenues and extraordinary items					47,342,114	19,951	47,362,065
Change in Net Assets					29,493,480	(203,912)	29,289,568
Net Assets-Beginning					38,350,641	6,209,862	44,560,503
Net Assets-Ending					\$67,844,121	\$6,005,950	\$73,850,071

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2012. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is established to account 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

To account 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.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

To account for the revenues and expenditures related to implementing redevelopment projects in accordance with California Redevelopment Law, including property acquisition, site improvements, and other expenditures that benefit the projects.

CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND

To account 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.

REDEVELOPMENT AGENCY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on East Palo Alto Redevelopment Agency debt. The Agency receives revenues from property tax increments.

PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on East Palo Alto Public Financing Authority Revenue Bond, 2005 Series A. The Public Financing Authority receives revenue from the Agency's debt service payments on the 1999 Tax Allocation Bonds.

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Capital Projects Funds	
			Redevelopment Agency	Capital Improvements
ASSETS				
Cash and investments (Note 3)	\$9,245,521	\$60,242		\$1,446,237
Restricted cash and investments (Note 3)				
Receivables:				
Accrued interest		159,594		
Taxes	422,137			
Intergovernmental	27,162			334,310
Accounts receivable	112,847			
Deposits and prepayments	180,551	15,000		
Due from other funds (Note 4A)	435,274			
Loans to Successor Agency (Note 5F)	11,662,202			
Property held for resale (Note 1I)		2,603,736		
Loans and notes receivable (Note 5)		7,347,612		
Total Assets	<u>\$22,085,694</u>	<u>\$10,186,184</u>		<u>\$1,780,547</u>
LIABILITIES				
Accounts payable	\$604,435	\$242		\$255,999
Retentions payable				80,763
Deposits payable	467,485			
Other accrued liabilities	410,522			
Due to other funds (Note 4A)				
Deferred revenue				134,310
Advances from developers	1,175			
Total Liabilities	<u>1,483,617</u>	<u>242</u>		<u>471,072</u>
FUND BALANCES (NOTE 9)				
Nonspendable	11,662,202			
Restricted		\$10,185,942		
Assigned	2,117,679			1,309,475
Unassigned	6,822,196			
Total Fund Balances	<u>20,602,077</u>	<u>10,185,942</u>		<u>1,309,475</u>
Total Liabilities and Fund Balances	<u>\$22,085,694</u>	<u>\$10,186,184</u>		<u>\$1,780,547</u>

See accompanying notes to financial statements

Debt Service Funds			
Redevelopment Agency	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
		\$7,336,224	\$18,088,224
		1,716,752	1,716,752
			159,594
		37,627	459,764
		831,767	1,193,239
		492,327	605,174
		42,051	237,602
			435,274
			11,662,202
			2,603,736
		268,475	7,616,087
		<u>\$10,725,223</u>	<u>\$44,777,648</u>
		\$413,579	\$1,274,255
		62,888	143,651
			467,485
		66,316	476,838
		435,274	435,274
		2,053,167	2,187,477
			1,175
		<u>3,031,224</u>	<u>4,986,155</u>
			11,662,202
		7,899,167	18,085,109
			3,427,154
		(205,168)	6,617,028
		<u>7,693,999</u>	<u>39,791,493</u>
		<u>\$10,725,223</u>	<u>\$44,777,648</u>

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CITY OF EAST PALO ALTO
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances reported on the Governmental Funds Balance Sheet	\$39,791,493
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds	28,412,193
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ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Governmental Fund balance sheet because they are not available currently are taken into revenue in the Statement of Activities.	470,725
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LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below not due and payable in the current period and therefore are not reported in the Governmental Funds:

Compensated absences	(635,665)
Claims payable	<u>(194,625)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$67,844,121</u></u>
---------------------------------------	----------------------------

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Capital Projects Funds	
			Redevelopment Agency	Capital Improvements
REVENUES				
Property tax	\$7,787,826			
Property tax increment			\$4,037,764	
Sales tax	3,003,836			
Transient occupancy tax	1,523,772			
Utility users tax	1,418,457			
Other taxes	16,585			
Licenses, fees and permits	1,474,305			
Charges for services	285,247			
Fines and forfeitures	239,475			
Use of money and property	538,853	\$46,737	5,232	
Grants and Intergovernmental	100,812			\$702,658
Miscellaneous	128,152	11,217		200,000
Total Revenues	16,517,320	57,954	4,042,996	902,658
EXPENDITURES				
Current:				
General government	3,078,152		673,567	
Public safety	9,021,568			
Public works	1,658,771		883	
Culture and recreation	211,096			
Community development	1,245,996	1,672	999,400	
Capital outlay	192,040		614,053	1,763,550
Debt service:				
Principal				
Interest and fiscal charges			471,463	
Total Expenditures	15,407,623	1,672	2,759,366	1,763,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,109,697	56,282	1,283,630	(860,892)
OTHER FINANCING SOURCES (USES)				
Contributed capital	224,805			
Transfers in (Note 4B)	3,608,637		537,429	1,559,849
Transfers (out) (Note 4B)	(53,200)		(813,949)	(6,744,237)
Total Other Financing Sources (Uses)	3,780,242		(276,520)	(5,184,388)
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	4,889,939	56,282	1,007,110	(6,045,280)
EXTRAORDINARY ITEMS (NOTE 14)				
Assets transferred to Housing Successor		13,341,498		
Assets transferred to/liabilities assumed by Successor Agency	(3,909,086)	(3,211,838)	11,315,833	
NET CHANGE IN FUND BALANCES	980,853	10,185,942	12,322,943	(6,045,280)
BEGINNING FUND BALANCES	19,621,224		(12,322,943)	7,354,755
ENDING FUND BALANCES	\$20,602,077	\$10,185,942		\$1,309,475

See accompanying notes to financial statements

Debt Service Funds			
Redevelopment Agency	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
		\$469,460	\$8,257,286
			4,037,764
		346,494	3,003,836
			1,870,266
		1,244,998	1,418,457
			1,261,583
		1,112,825	1,474,305
			1,398,072
\$67,405	\$496,705	144,355	239,475
		3,078,569	1,299,287
		68,386	3,882,039
			407,755
<u>67,405</u>	<u>496,705</u>	<u>6,465,087</u>	<u>28,550,125</u>
		849,338	4,601,057
		1,183,881	10,205,449
		1,194,164	2,853,818
		498,140	709,236
		822,052	3,069,120
		730,473	3,300,116
520,000	600,000		1,120,000
<u>724,177</u>	<u>415,462</u>		<u>1,611,102</u>
<u>1,244,177</u>	<u>1,015,462</u>	<u>5,278,048</u>	<u>27,469,898</u>
<u>(1,176,772)</u>	<u>(518,757)</u>	<u>1,187,039</u>	<u>1,080,227</u>
			224,805
1,177,522	2,496	2,824,121	9,710,054
		(2,098,668)	(9,710,054)
<u>1,177,522</u>	<u>2,496</u>	<u>725,453</u>	<u>224,805</u>
750	(516,261)	1,912,492	1,305,032
		(13,341,498)	
<u>(2,035,310)</u>	<u>(14,814,124)</u>		<u>(12,654,525)</u>
(2,034,560)	(15,330,385)	(11,429,006)	(11,349,493)
<u>2,034,560</u>	<u>15,330,385</u>	<u>19,123,005</u>	<u>51,140,986</u>
		<u>\$7,693,999</u>	<u>\$39,791,493</u>

CITY OF EAST PALO ALTO
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the Statement of Activities
 FOR THE YEAR ENDED JUNE 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$11,349,493)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over the estimated useful lives and reported as depreciation expense:

Capital outlay and other capitalized expenditures are added back to fund balance	3,118,586
Capital assets transferred to the Successor Agency	(1,472,489)
Depreciation expense is deducted from the fund balance	(1,245,211)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal are added back to fund balance	1,120,000
Interest expense are deducted from fund balance	315,270
Long-term debt assumed by the Successor Agency	39,184,097

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue	(139,333)
Compensated absences	109,174
Claims	(117,965)
Amortization of bond issuance cost	(67,670)
Net amortization of bond discount and premium	38,514

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$29,493,480

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City has identified the funds below as major proprietary funds in fiscal 2012.

GARBAGE COLLECTION FUND

To account for activities associated with garbage collection services.

WATER SERVICE FUND

To account for activities associated with providing water services.

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Garbage Collection	Water Service	Totals
ASSETS			
Current Assets:			
Cash and investments (Note 3)	\$2,098,963	\$736,102	\$2,835,065
Cash with fiscal agents (Note 3)		834,470	834,470
Accounts receivables, net	433,764	53,358	487,122
Total Current Assets	2,532,727	1,623,930	4,156,657
Noncurrent Assets:			
Capital assets (Note 6)			
Non-depreciable		206,750	206,750
Depreciable capital assets, net		3,927,425	3,927,425
Total Non-current Assets		4,134,175	4,134,175
Total Assets	2,532,727	5,758,105	8,290,832
LIABILITIES			
Current Liabilities:			
Accounts payable	\$1,781,222	\$32,376	\$1,813,598
Other Accrued Liabilities	417,662		417,662
Total current liabilities	2,198,884	32,376	2,231,260
Noncurrent Liabilities:			
Deposits		53,622	53,622
Total Liabilities	2,198,884	85,998	2,284,882
NET ASSETS (Note 9)			
Invested in capital assets		4,134,175	4,134,175
Restricted for capital projects		834,470	834,470
Unrestricted	333,843	703,462	1,037,305
Total Net Assets	\$333,843	\$5,672,107	\$6,005,950

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services and other fees	\$2,254,800	\$220,860	\$2,475,660
Other	207,900	2,177	210,077
Total Operating Revenues	<u>2,462,700</u>	<u>223,037</u>	<u>2,685,737</u>
OPERATING EXPENSES			
Outside services	2,495,177	140,863	2,636,040
Administration	87,921		87,921
Depreciation		185,639	185,639
Total Operating Expenses	<u>2,583,098</u>	<u>326,502</u>	<u>2,909,600</u>
Operating (Loss)	<u>(120,398)</u>	<u>(103,465)</u>	<u>(223,863)</u>
NON-OPERATING REVENUES			
Interest revenue	13,475	6,476	19,951
Total Non-operating Revenues	<u>13,475</u>	<u>6,476</u>	<u>19,951</u>
Change in net assets	(106,923)	(96,989)	(203,912)
BEGINNING NET ASSETS	<u>440,766</u>	<u>5,769,096</u>	<u>6,209,862</u>
ENDING NET ASSETS	<u>\$333,843</u>	<u>\$5,672,107</u>	<u>\$6,005,950</u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$2,064,981	\$197,550	\$2,262,531
Disbursements to suppliers for goods and services	<u>(1,468,734)</u>	<u>(108,542)</u>	<u>(1,577,276)</u>
Cash Flows from Operating Activities	<u>596,247</u>	<u>89,008</u>	<u>685,255</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>13,475</u>	<u>6,476</u>	<u>19,951</u>
Cash Flows from Investing Activities	<u>13,475</u>	<u>6,476</u>	<u>19,951</u>
Net Cash Flows	609,722	95,484	705,206
Cash and investments at beginning of period	<u>1,489,241</u>	<u>1,475,088</u>	<u>2,964,329</u>
Cash and investments at end of period	<u><u>\$2,098,963</u></u>	<u><u>\$1,570,572</u></u>	<u><u>\$3,669,535</u></u>
 Reconciliation of Operating Loss to Cash Flows from Operating Activities:			
Operating loss	(\$120,398)	(\$103,465)	(\$223,863)
Adjustments to reconcile operating loss to cash flows from operating activities:			
Depreciation		185,639	185,639
Change in assets and liabilities:			
Receivables, net	(397,719)	(25,487)	(423,206)
Accounts payable	1,254,702	32,321	1,287,023
Other accrued liabilities	<u>(140,338)</u>		<u>(140,338)</u>
Cash Flows from Operating Activities	<u><u>\$596,247</u></u>	<u><u>\$89,008</u></u>	<u><u>\$685,255</u></u>

See accompanying notes to financial statements

FIDUCIARY FUND

Trust Fund. This fund accounted for assets held by the City as an agent. The **Successor Agency 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 California redevelopment agencies are 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
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	Successor Agency Private-purpose Trust Fund
ASSETS	
Cash and investments (Note 3)	\$6,522,982
Restricted cash and investments (Note 3)	16,927,294
Receivables:	
Intergovernmental	1,043,855
Taxes	925,457
Deferred charges	1,146,937
Property held for resale	537,429
Capital assets (Note 14B):	
Land and construction in progress	2,814,528
 Total Assets	 \$29,918,482
 LIABILITIES	
Accounts payable	\$23,867
Retentions payable	102,473
Refundable deposits	5,000
Other accrued liabilities	352,548
Advances from developers	102,635
Loans payable to City of East Palo Alto (Note 14D)	11,662,202
Long-term obligations (Note 14C):	
Due in one year	1,131,486
Due in more than one year	39,199,548
 Total Liabilities	 52,579,759
 NET ASSETS	
Held in trust for private purpose	(\$22,661,277)

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE PERIOD FEBRUARY 1, 2012 TO JUNE 30, 2012

	Successor Agency Private-purpose Trust Fund
Additions:	
Taxes	\$3,217,652
Use of money and property	69,804
Grants and intergovernmental	2,023,650
Miscellaneous	15,307
Total additions	5,326,413
Deductions:	
Community development	1,953,867
Debt Service:	
Interest and fees	976,740
Total deductions	2,930,607
Income before Extraordinary Items	2,395,806
EXTRAORDINARY ITEMS (NOTE 14)	
Assets transferred to/liabilities assumed	(25,057,083)
Change in net assets	(22,661,277)
Beginning net assets	
Ending net assets	(\$22,661,277)

See accompanying notes to financial statements.

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CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, redevelopment, and public works.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The financial reporting entity consists of (a) the primary government, City of East Palo Alto and its component units, which are either (b) organizations for which the primary government is financially accountable, or (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability. As a result of this close relationship, those organizations are considered component units of the City and are included within the financial statements of the City using the blended method.

Blended Component Units

East Palo Alto Redevelopment Agency - The East Palo Alto Redevelopment Agency (Agency) was established pursuant to the State of California Health and Safety Code, Section 33000. The Agency is responsible for rehabilitation and economic revitalization of certain areas within the City. As discussed in Note 14, due to the State of California ABx1 26 dissolution of redevelopment agencies, the Agency was dissolved effective January 31, 2012. Separate financial statements of the Agency are not prepared.

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 East Palo Alto Redevelopment Agency. Separate financial statements of the Authority are not prepared.

B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reported the following major governmental funds in the accompanying financial statements:

GENERAL FUND

The General Fund is established to account 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

To account 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.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

To account for the revenues and expenditures related to implementing redevelopment projects in accordance with California Redevelopment Law, including property acquisition, site improvements, and other expenditures that benefit the projects.

CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND

To account 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.

REDEVELOPMENT AGENCY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on East Palo Alto Redevelopment Agency debt. The Agency receives revenues from property tax increments.

PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on East Palo Alto Public Financing Authority Revenue Bond, 2005 Series A. The Public Financing Authority received revenue from the Agency's debt service payments on the 1999 Tax Allocation Bonds.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

GARBAGE COLLECTION FUND

To account for activities associated with garbage collection services.

WATER SERVICE FUND

To account for activities associated with providing water services.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also reported the following fiduciary fund type:

Trust Fund. This fund accounted for assets held by the City as an agent. The **Successor 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 California redevelopment agencies are 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.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end except for gas tax revenue which is considered to be available if it is collected within 90 days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property tax, sales tax, transient occupancy tax, franchise taxes, grant revenue and interest revenue. Fines, permits, and licenses are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

Revenue Recognition for Garbage Collection and Water Enterprise Funds

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are accrued.

E. Property Tax

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:

	<u>Secured</u>	<u>Unsecured</u>
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)

The term “unsecured” refers to taxes on personal property other than land and buildings. These “unsecured” taxes are secured by liens on the personal property being taxed. The County of San Mateo distributes to the City the entire amounts of each year’s levy and in return receives all penalties and interest on delinquent payments.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *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.

	Governmental Activities
Beginning Balance	\$744,839
Additions	(706,223)
Payments	597,049
Ending Balance	\$635,665
Current Portion	\$334,544

The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

G. *Deposits*

Condemnation payments made by the City relating to the acquisition of property are carried as a fund asset until the close of escrow or the release of the deposits to the landowners and the transfer of possession of the property to the City. Such deposits are generally held by the State of California or by the applicable Superior Court. Fund balance accounts are reserved to indicate that such assets are not available for appropriation.

H. *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 reservation of fund balance equal to the amount of prepaid items since these are not available for appropriation.

I. *Property held for resale*

Land acquired by the Agency for resale to developers and other third parties is carried as an asset of the respective fund. Such land is recorded at the lower of cost or estimated net realizable value.

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33432 and approved the conveyance of all of the property held for resale from the former Redevelopment Agency Capital Project Fund and the former Low and Moderate Income Housing Fund to the Capital Improvement Capital Projects Fund. During current fiscal year 2012, as a result of AB 1484, the property held for resale was transferred back to the Successor Agency Private Purpose Trust Fund in the amount of \$537,429 for the purpose of resale to developers in regard to the development of the Gateway 101 retail center and the Housing Successor, Low and Moderate Income Housing Asset Special Revenue Fund in the amount of \$2,603,736, which represents land acquired by the Redevelopment Agency for the purpose of resale to developers in regard to the development of affordable housing.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Bond Discounts, Premiums and Issuance Costs

For governmental funds, bond premiums and discounts, and any related issuance costs, are recognized during the period of issuance. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. Debt is reported net of unamortized discounts/premiums in the government-wide financial statements.

K. Cash and Cash equivalents

The City considers pooled cash and investment amounts, with maturities of three months or less, to be cash equivalents.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. New Funds and Closed Fund

The Low and Moderate Income Housing Successor Special Revenue Fund was established to account for the activities related to the assets assumed by the City as Housing Successor to the housing activities of the former Redevelopment Agency of the City.

The Successor Agency to the Redevelopment Agency Private Purpose Trust Fund was established to account for the activities of the Successor Agency to the former Redevelopment Agency of the City.

The following funds were closed as of January 31, 2012 as the result of the dissolution of the Redevelopment Agency discussed in Note 14:

Redevelopment Agency Low and Moderate Income Housing Special Revenue Fund
Redevelopment Agency Capital Projects Fund
Public Financing Authority Capital Projects Fund
Redevelopment Agency Debt Service Fund
Redevelopment Agency Public Financing Authority Debt Service Fund

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 2 – 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 ISTEPA Grant, 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 reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

As of June 30, 2012 the City reported the following amount of encumbrances: General Fund \$117,679, Capital Improvements Project Fund \$336,428, and Non-Major Funds \$65,209.

NOTE 3 - CASH AND INVESTMENTS

The City invests all funds, except cash with fiscal agents, in investment pools. The goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect the fair value at each fiscal year end and includes the effects of these adjustments in income for that fiscal year.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City's cash and investments consist of the following at June 30, 2012:

Cash and investments available for operations	\$20,923,289
Restricted cash and investments	<u>2,551,222</u>
Cash and investments of the City	23,474,511
Fiduciary cash and investments (separate statement):	
Cash and investments available for operations in the Successor Agency to the Redevelopment Agency Private Purpose Trust Fund	6,522,982
Restricted cash and investments in Successor Agency to the Redevelopment Agency Private Purpose Trust Fund	<u>16,927,294</u>
Total cash and investments	<u><u>\$46,924,787</u></u>

A. 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.

Authorized Investment Type	Maximum Maturity	Maximum Allowed in 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 Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Authorized Investments by Debt Agreements

The City and the Successor Agency to the Redevelopment Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

There are no restrictions on the maximum amount invested in each security type or a maximum that can be invested in any one issuer.

Authorized Investment Type	Maximum Maturity	Maximum Allowed in Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	None	None	None
Negotiable Certificates of Deposit	None	None	None
Commercial Paper	92 days	None	None
Municipal Bonds	None	None	None
State Local Agency Investment Fund (LAIF)	None	None	None
Guaranteed Investment Contracts	None	None	None

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the City's investments by maturity:

	12 Months or less	More than 5 years	Total
Pooled cash and investments:			
Local Agency Investment Fund	\$2,065,890		\$2,065,890
San Mateo County Pooled Investments	24,401,457		24,401,457
Cash in bank and petty cash (overdraw)	(11,587)		(11,587)
Subtotal pooled cash and investments	<u>\$26,455,760</u>		<u>\$26,455,760</u>
Direct fund investment:			
Municipal bonds:			
Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	460,000	\$14,345,000	14,805,000
Held with fiscal agent:			
Guaranteed investment agreements:			
JP Morgan Chase		1,966,397	1,966,397
Money market funds	3,697,630		3,697,630
Total Cash and Investments	<u>\$30,613,390</u>	<u>\$16,311,397</u>	<u>\$46,924,787</u>

Money Market Funds are available for withdrawal on demand.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. 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 credit rating as of June 30, 2012, for each investment type:

Investment Type	Not Rated	Moody's Rating		Total
		Aa2	Aaa	
Local Agency Investment Fund	\$2,065,890			\$2,065,890
San Mateo County Investment Fund		\$24,401,457		24,401,457
Direct fund investment:				
Municipal bonds:				
Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	14,805,000			14,805,000
Guaranteed investment agreements:				
JP Morgan Chase	1,966,397			1,966,397
Money Market Funds			\$3,697,630	3,697,630
Cash in banks and petty cash (overdraw)	(11,587)			(11,587)
Total Cash and Investments				<u>\$46,924,787</u>

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

F. Concentration Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2012, the City did not have investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total City's investments.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Local Agency Investment Fund

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 reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2012, these investments matured in an average of 268 days.

H. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. 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. At June 30, 2012, these investments matured in an average of 1.6 years.

NOTE 4 - INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2012, interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Funds:	
	Park in Lieu	\$138,947
	Federal and State Grants	27,213
	US EPA	269,114
		\$435,274

The purpose of the balances was to cover negative cash.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Capital Improvements Capital Project Fund	\$3,602,713 A
	Nonmajor Governmental Funds	5,924 A
Redevelopment Agency Capital Project Fund	Capital improvement fund	537,429 B
Capital Improvements Capital Project Fund	General Fund	19,000 E
	Nonmajor Governmental Funds	1,540,849 F,H
Redevelopment Agency Debt Service Fund	Nonmajor Governmental Funds	363,970 C
	Redevelopment Agency Capital Projects Funds	813,552 C
Public Financing Authority Debt Service Fund	Nonmajor Governmental Funds	2,099 C
	Redevelopment Agency Capital Projects Fund	397 D
Nonmajor Governmental Funds	General Fund	34,200 G
	Capital improvement fund	2,604,095 I
	Nonmajor Governmental Funds	185,826 F,H
Total Interfund Transfers		<u>\$9,710,054</u>

The reasons for these transfers are set forth below:

- A To return prior year's transfer of capital projects funding back to the General Fund
- B To transfer land held for resale
- C To fund debt service payments
- D To transfer net trustee fees
- E To transfer CIP for Coastal Levee Improvement
- F To cover matching requirements
- G To cover operating deficit
- H To fund capital projects
- I To transfer excess Measure A funds

NOTE 5 - LOANS RECEIVABLE

The City and the former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing. With the dissolution of the Redevelopment Agency as discussed in Note 14, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of East Palo Alto assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

Loan receivables as of January 31, 2012, composed of the following, were assumed by the City:

	Balance as of January 31, 2012
Nairobi Housing Associates Loan	\$5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	275,000
First Time Home Buyer Assistance Loans	381,087
Total:	\$7,256,087

Loans receivable as of June 30, 2012, composed of the following, were held by the City:

	Balance as of June 30, 2012
Nairobi Housing Associates Loan	\$5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	335,000
First Time Home Buyer Assistance Loans	381,087
Habitat for Humanity	300,000
Total:	\$7,616,087

A. *Nairobi Housing Associates Loan*

On June 1, 1999, the Agency entered into a loan agreement with Nairobi Housing Associates (Nairobi), a California Limited Partnership. The \$5,500,000 loan made by the 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.

B. *Nugent Square Partners*

On August 1, 2003, the 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, commencing on issuance of a Certificate of Occupancy for the Improvements. The entire principal amount is due to the Agency, now the Housing Successor, in 2043.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

C. *Bay Road Housing Loan*

In December 2004, the Agency entered into a loan agreement with a housing developer. The Agency agreed to loan the developer a total maximum loan in the amount 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 Eligible Properties to Low Income Households. The loan bears a 3% per annum, commencing on initial disbursement. The loan amount was not disbursed until March 2012. Due to the dissolution of the Redevelopment Agency as of January 31, 2012, this loan is now payable to the Housing Successor.

F. *Loans to Successor Agency*

Prior to 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, 2012, the outstanding balance of \$11,662,202 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.

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 are that the advance will be repaid in 35 years, the rate of interest on the advance is 12% and the repayment of the advance is limited to property tax increment revenues. As of January 31, 2012 before the transfer, the advance balance was \$9,157,558. Per AB 1484, this loan has been recalculated using the LAIF rate as discussed below. Due to the Redevelopment Agency's dissolution as of January 31, 2012, the advance was assumed by the Successor Agency.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 5 - LOANS RECEIVABLE (Continued)

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 January 31, 2012, before the transfer, the advance balance was \$6,413,730. Due to the Redevelopment Agency's dissolution as of January 31, 2012, the advance was assumed by the Successor Agency.

Under the Dissolution Act, certain agreements between the cities and the 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, 2012 was \$5,248,472 for the Ravenswood advance. There was no LAIF rate adjustment for the Gateway 101 advance since it is a zero interest loan.

NOTE 6 - 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, Fixtures and Equipment	5-10 years
Automobiles and Trucks	10 years

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 6 - CAPITAL ASSETS (Continued)

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. Changes in capital assets during the year ended June 30, 2012, are comprised of the following:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Transfer To Successor Agency</u>	<u>Balance at June 30, 2012</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$901,610		(\$296,466)	\$605,144
Construction in progress	1,585,169	\$1,358,376	(1,176,023)	1,767,522
Total capital assets not being depreciated	2,486,779	1,358,376	(1,472,489)	2,372,666
Capital assets being depreciated:				
Infrastructure:				
Streets and roadways	41,583,437	1,408,666		42,992,103
Storm drain system	4,089,492			4,089,492
Building and Improvements	5,126,781			5,126,781
Improvements other than buildings	3,712,098	118,855		3,830,953
Furniture, Fixtures and Equipment	1,828,713	60,615		1,889,328
Vehicles	1,576,885	172,074		1,748,959
Total capital assets being depreciated	57,917,406	1,760,210		59,677,616
Less accumulated depreciation for:				
Infrastructure:				
Streets and roadways	(26,076,139)	(609,687)		(26,685,826)
Storm drain system	(2,158,317)	(37,074)		(2,195,391)
Building and Improvements	(1,480,951)	(201,858)		(1,682,809)
Improvements other than buildings	(692,425)	(107,503)		(799,928)
Furniture, Fixtures and Equipment	(1,227,887)	(132,805)		(1,360,692)
Vehicles	(757,159)	(156,284)		(913,443)
Total accumulated depreciation	(32,392,878)	(1,245,211)		(33,638,089)
Total capital assets, being depreciated, net	25,524,528	514,999		26,039,527
Governmental activities capital assets, net	\$28,011,307	\$1,873,375	(\$1,472,489)	\$28,412,193

With the dissolution of redevelopment agencies as discussed in Note 14, the Success Agency assumed certain capital assets as of February 1, 2012, shown as a transfer above, and as an extraordinary transfer in the Statement of Activities.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 6 - CAPITAL ASSETS (Continued)

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Balance at June 30, 2012</u>
Business-type activities			
Capital assets not being depreciated:			
Land	\$206,750		\$206,750
Total capital assets not being depreciated	<u>206,750</u>		<u>206,750</u>
Capital assets, being depreciated:			
Building 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	<u>7,255,282</u>		<u>7,255,282</u>
Less accumulated depreciation for:			
Building and improvements	(43,790)		(43,790)
Improvements other than buildings	(2,944,595)	(\$185,639)	(3,130,234)
Furniture, fixtures and equipment	(63,943)		(63,943)
Vehicles	(89,890)		(89,890)
Total accumulated depreciation	<u>(3,142,218)</u>	<u>(185,639)</u>	<u>(3,327,857)</u>
Total capital assets, being depreciated, net	<u>4,113,064</u>	<u>(185,639)</u>	<u>3,927,425</u>
Business-type activities capital assets, net	<u>\$4,319,814</u>	<u>(\$185,639)</u>	<u>\$4,134,175</u>

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 Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 6 - 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 program are as follows:

Governmental Activities

General Government	\$24,977
Public Safety	179,800
Culture and Recreation	4,362
Public Works	816,725
Community Development	219,347
Total Governmental Activities	<u><u>\$1,245,211</u></u>

Business-Type Activities

Water Service	\$185,639
Total Business-Type Activities	<u><u>\$185,639</u></u>

C. Capital Project Commitments

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

Project	Project Authorization	Extended through June 30, 2012	Committed
City-wide Annual Street Resurfacing	\$1,159,000	\$1,036,758	\$122,242
Street Light LED Replacement	180,000	179,868	132
Citywide Sidewalk Repair	225,000	192,040	32,960
E Bayshore Rd/Pulgas Intersection Imp.	260,000	54,998	205,002
Safe Route to School	1,112,300	88,125	1,024,175
Runnymede Storm Drain Phase II	188,000	37,121	150,879
O'Connor Pump Station Outfall Repair	219,316	54,717	164,599
Gloria Wells	372,000	93,097	278,903
Street Light LED replacement Phase II	247,231		247,231
University Avenue Traffic Signal Imp.	170,000		170,000
Highway 101 Pedestrian/Bicycle Overcrossing	345,000		345,000
Citywide Sidewalk Repair Tier I	290,000		290,000
Bell Street Skate Park Equipment	28,127		28,127
	<u><u>\$4,795,974</u></u>	<u><u>\$1,736,724</u></u>	<u><u>\$3,059,250</u></u>

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 7 – LONG-TERM DEBT

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2011	Retirements	Transfer to Successor Agency January 31, 2012	Balance June 30, 2012
Redevelopment Agency					
1999 Tax Allocation Bonds 4.200-6.625%, due 10/1/2032	\$22,785,000	\$15,240,000	(\$435,000)	(\$14,805,000)	
2003 Tax Allocation Refunding Bonds Series A 4.00-5.00%, due 10/1/2032	5,155,000	5,015,000	(15,000)	(5,000,000)	
2003 Tax Allocation Refunding Bonds Series B (Taxable) 4.12-6.45%, due 10/1/2032	3,600,000	3,135,000	(70,000)	(3,065,000)	
Public Financing Authority					
2005 Revenue Bonds, Series A 3.40-5.00%, due 10/1/2029	17,995,000	17,415,000	(600,000)	(16,815,000)	
Unamortized Premium, Discounts, and Loss on Refundings	848,836	684,548	(38,514)	(646,034)	
Total debt	\$50,383,836	\$41,489,548	(\$1,158,514)	(\$40,331,034)	

Debt service payments are made from various sources. Debt service payments for Redevelopment Agency Bonds are made from tax increment revenue recorded in the Low and Moderate Income Housing Special Revenue Fund and the Redevelopment Agency Capital Project Fund.

With the dissolution of the Redevelopment Agency as discussed in Note 14, the Successor Agency assumed the long-term debt of the Redevelopment Agency as of February 1, 2012 which has been reported as a transfer above and as an Extraordinary Item in the Statement of Activities. For a detailed discussion of each of the Bonds and loan above, see Note 14 E below.

B. Debt without City Commitment

The Agency sponsored \$11 million of the Redevelopment Agency of the City of East Palo Alto Multifamily Housing Mortgage Revenue Bonds, 1999 Series A and Series B, and taxable 1999 Series C to assist a developer in financing the construction of a multifamily rental housing project known as Gateway 101 Apartments. The former Agency has no legal or moral liability with respect to repayment of the debt, and does not include these obligations in the City's financial statements. The bonds are secured by the developer's project and related rental operations, and are not an obligation of the Agency. The total principal outstanding as of June 30, 2012, is \$7,285,000.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 8 – OPERATING LEASE

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$478,318 for governmental activities and \$54,387 for business-type activities for the fiscal year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2013	\$123,696
2014	123,696
2015	123,696
	\$371,088
	\$371,088

NOTE 9 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the City’s assets over all its liabilities, regardless of fund. Net Assets are divided into three captions which apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, describes the portion of Net Assets which is represented by the current net book value of the City’s capital assets, less the outstanding balance of any debt issued to finance these assets if any.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate-income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balance

Governmental fund balances represent the net current assets of each fund.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

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

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

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 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.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2012, are below:

Fund Balance Classifications	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	Total
Nonspendables:					
Loans to Successor Agency	\$11,662,202				\$11,662,202
Total Nonspendable Fund Balances	11,662,202				11,662,202
Restricted for:					
Low and Moderate Income Housing		\$10,185,942			10,185,942
NPDES Fees				\$4,543	4,543
Gas Tax				1,053,593	1,053,593
Federal and State Law Enforcement				118,545	118,545
Federal and state grants				46,022	46,022
Park in Lieu				161,052	161,052
Rent Stabilization				322,999	322,999
Housing in Lieu				1,108,011	1,108,011
Housing Assistance				409,421	409,421
Public Improvements in Lieu				319,547	319,547
Measure A				1,713,297	1,713,297
Local Grants				258,071	258,071
CYSFF Child/Family				294,841	294,841
Lighting District				725,112	725,112
Drainage District				13,886	13,886
Measure C				1,350,227	1,350,227
Total Restricted Fund Balances		10,185,942		7,899,167	18,085,109
Assigned to:					
Minimum fund balance reserve	2,000,000				2,000,000
Capital Projects	117,679		\$1,309,475		1,427,154
Total Assigned Fund Balances	2,117,679		1,309,475		3,427,154
Unassigned:	6,822,196			(205,168)	6,617,028
Total Fund Balances	\$20,602,077	\$10,185,942	\$1,309,475	\$7,693,999	\$39,791,493

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

C. 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.

In Fiscal year 2012, General Fund recorded \$2 million in reserve which is below the City Policy's minimum 15% requirement level of \$2.3 million. The General Fund reserve fund balance is \$300,000 below the minimum requirement.

D. Fund Balance Deficit

The U.S. EPA Special Revenue Fund has a fund balance deficit of \$205,168 at June 30, 2012. The deficit is expected to be eliminated with the receipt of grant award.

NOTE 10 - 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, 2012, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	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	9.0%	8.0%
Required employer contribution rates	28.350%	17.183%

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.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 10 - RETIREMENT BENEFITS (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. 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 State-wide pool. One of the conditions of entry to these pools was that the City true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS.

Three-year historical trend information is presented below:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$1,231,814	100%	\$0
June 30, 2011	1,324,956	100%	0
June 30, 2012	1,629,914	100%	0

State-wide Pool Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$1,755,559,311	\$1,517,609,609	\$237,949,702	86.4%	\$210,590,567	113.0%
2009	1,802,882,330	1,520,081,328	282,801,002	84.3%	221,600,192	127.6%
2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,008	127.4%

State-wide Pool Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	\$1,537,909,933	\$1,337,707,835	\$200,202,098	87.0%	\$333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 10 - RETIREMENT BENEFITS (Continued)

The City's Safety Plan represents approximately 1.1%, 1.5%, 1.5%, and of the State-wide pool for the years ended June 30, 2010, 2009, and 2008, respectively, based on covered payroll of \$224,562,008, \$221,600,192, and \$3,223,247 for those years.

The City's Miscellaneous Plan represents approximately 1.1%, 1.3%, and 1.4%, of the State-wide pool for the years ended June 30, 2010, 2009, and 2008 respectively, based on covered payroll of \$352,637,380, \$355,150,151, and \$4,605,218 for those years.

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

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.

NOTE 11 – 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 \$5,000,000. 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.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 11 – RISK MANAGEMENT (Continued)

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, 2012 and 2011:

	2012	2011
Beginning balance of claims payable	\$76,660	\$31,250
Increase/Decrease in estimated claims liability	420,170	453,571
Claims paid	(302,205)	(408,161)
Ending balance of claims payable	\$194,625	\$76,660
Current Portion	\$29,625	\$5,200

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.

NOTE 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.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 12 – JOINT VENTURES (Continued)

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 joint ownership, financing, and administration of the San Carlos Transfer Station and the San Mateo Recyclery; 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.

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.

NOTE 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 waster 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 6% and 5%, respectively, of the net revenue, defined as gross revenue of the Company received from the City's resident net of utility tax collected and transferred to the City. For the year ended June 30, 2012, the Company paid lease payment and franchise fee to the City in the amount of \$214,597 and \$186,302 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 Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

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 on 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.

In addition, ABx1 26 and AB1484 direct the State Controller to review the activities of all redevelopment agencies and successor 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. The State Controller's Office completed its asset transfer review in August 2012 and adjustments resulting from that review have been reflected in the Redevelopment Agency's balances as of January 31, 2012.

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency.

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

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 29, 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of eight members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

The activities of the Housing Successor are reported in the Low and Moderate Income Housing Successor Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

A summary of the Redevelopment Agency’s assets distributed to and liabilities assumed by the Successor Agency and Housing Successor, reported as an Extraordinary Item, as of February 1, 2012, is presented below:

	Assets and Liabilities (Prior to transfer)	Transfer to Successor Agency	Transfer to Housing Successor	LAIF Rate Adjustments	Ending Balance June 30, 2012
ASSETS					
Cash and investments	\$8,509,822	\$4,950,012	\$3,559,810		
Interest receivable	172,842		172,842		
Account Receivable	614,053	614,053			
Notes receivable	6,990,612		6,990,612		
Advance to other fund					
Property held for resale	3,141,165	537,429	2,603,736		
Restricted cash and investments	16,849,512	16,849,512			
Deferred charges	1,146,937	1,146,937			
Misc Assets -(grant forgivable closing cost)	15,000		15,000		
Capital assets:					
Land and constructions in progress	1,472,489	1,472,489			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$38,912,432</u>	<u>\$25,570,432</u>	<u>\$13,342,000</u>	<u> </u>	<u> </u>
LIABILITIES					
Accounts payable and accrued liabilities	\$1,112,028	\$1,111,526	\$502		
Deferred revenue	614,053	614,053			
Advance from Developer	120,538	120,538			
Loans payable to City of East Palo Alto	15,571,288	11,662,202		\$3,909,086	
Long-term debt:					
Due in one year	1,131,486	1,131,486			
Due in more than one year	39,199,548	39,199,548			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>57,748,941</u>	<u>53,839,353</u>	<u>502</u>	<u>3,909,086</u>	<u> </u>
NET ASSETS (DEFICIT)	<u><u>(\$18,836,509)</u></u>	<u><u>(\$28,268,921)</u></u>	<u><u>\$13,341,498</u></u>	<u><u>(\$3,909,086)</u></u>	<u> </u>

Cash and investments of the Successor Agency as of June 30, 2012 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2012.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

B. 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.

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:

	Transfer From Redevelopment Agency February 1, 2012	Additions	Balance at June 30, 2012
Capital assets not being depreciated:			
Land	\$296,466		296,466
Construction in progress	1,176,023	\$1,342,039	2,518,062
Total capital assets not being depreciated	\$1,472,489	\$1,342,039	\$2,814,528

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

C. Long-Term Debt

The Successor Agency assumed the long-term debt of the Redevelopment Agency as of February 1, 2012.

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

	Transfer from Redevelopment Agency as of February 1, 2012	Balance June 30, 2012	Current Portion
Redevelopment Agency			
1999 Tax Allocation Bonds			
4.200-6.625%, due 10/1/2032	\$14,805,000	\$14,805,000	\$460,000
2003 Tax Allocation Refunding Bonds			
Series A			
4.00-5.00%, due 10/1/2032	5,000,000	5,000,000	15,000
2003 Tax Allocation Refunding Bonds			
Series B (Taxable)			
4.12-6.45%, due 10/1/2032	3,065,000	3,065,000	75,000
Public Financing Authority			
2005 Revenue Bonds, Series A			
3.40-5.00%, due 10/1/2029	16,815,000	16,815,000	620,000
Unamortized Premium, Discounts, and Loss on Refundings	646,034	646,034	(38,514)
Total	\$40,331,034	40,331,034	\$1,131,486
	Less amount due within one year:	(1,131,486)	
	Amount due in more than one year:	\$39,199,548	

1. 1999 Tax Allocation Bonds

On October 28, 1999, the Agency issued \$22,785,000 of University Circle-Gateway 101 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 Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The bonds bear interest at rates of 4.2% to 6.625% and the interest is payable each April 1 and October 1, commenced April 1, 2000. Principal on the bonds is payable each October 1, commenced October 1, 2000. The Bonds consisted of \$4,945,000 in serial bonds and \$17,840,000 in term bonds with a last maturity date of October 1, 2032. The serial bonds of \$4,795,000 were refunded by the 2003 issue.

The bonds are secured by a pledge of the Agency’s tax increment revenues including the Successor Agency’s housing set-aside tax increment revenues. The annual tax increment revenues expected to be received by the Successor Agency and pledged to secure repayment of the 1999 bonds are sufficient to pay annual debt service. To provide additional security, pursuant to the 1999 bond agreement, \$1,715,113 is held in a bond reserve fund with a trustee at June 30, 2012.

On October 1, 2009, the East Palo Alto Public Financing Authority used the proceeds from the 2005 Authority Bonds and executed the purchase in lieu of redemption of the 1999 Bonds. The 1999 Bonds purchased by the Public Financing Authority are reported as an investment by the Public Financing Authority Debt Service Fund in the Agency’s financial statements.

The 1999 bonds maturing on or after October 1, 2010 are subject to optional redemption by the Agency on or after October 1, 2009, with premiums up to 2 percent.

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

For The Year Ending June 30	1999 Tax Allocation Bonds		
	Principal	Interest	Total
2013	\$460,000	\$953,938	\$1,413,938
2014	490,000	925,438	1,415,438
2015	520,000	895,138	1,415,138
2016	550,000	861,663	1,411,663
2017	585,000	824,775	1,409,775
2018-2022	3,545,000	3,480,085	7,025,085
2023-2027	4,880,000	2,100,125	6,980,125
2028-2032	3,775,000	385,741	4,160,741
Total payments due	\$14,805,000	\$10,426,903	\$25,231,903

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The pledge of future tax increment revenues ends upon repayment of the \$25,231,903 in remaining debt service on the 1999 Tax Allocation Bonds which is scheduled to occur in 2030. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. Using both property taxes received by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution, net of the AB1484 True-up payment, total collections were \$7,376,397 which represented coverage of 5.2 times over the \$1,415,570 of debt service. The Redevelopment Agency and Successor Agency used cash on hand to fund the excess of debt service over available property taxes.

2. *2003 Tax Allocation Bonds*

On December 11, 2003, the 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.

The bonds are secured by a pledge of the tax revenues from the Project Areas.

The bonds bear interest at rates of 4% to 6.45% interest is payable each April 1 and October 1, commenced on April 1, 2004. Principal on the bonds is payable each October 1, commenced October 1, 2004.

The 2003A bonds and the 2003B bonds maturing on or after October 1, 2014 are subject to optional redemption by the Successor Agency on or after October 1, 2013, at a redemption price of par, together with accrued interest to the date fixed for redemption.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

Future debt service on the 2003A bonds at June 30, 2012, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series A		
	Principal	Interest	Total
2013	\$15,000	\$248,850	\$263,850
2014	15,000	248,250	263,250
2015	15,000	247,594	262,594
2016	15,000	246,882	261,882
2017	15,000	246,169	261,169
2018-2022	100,000	1,217,185	1,317,185
2023-2027	125,000	1,190,345	1,315,345
2028-2032	3,090,000	1,011,000	4,101,000
2033	1,610,000	40,250	1,650,250
Total payments due	\$5,000,000	\$4,696,525	\$9,696,525

The pledge of future tax increment revenues ends upon repayment of the \$9,696,525 in remaining debt service on the 2003A Tax Allocation Bonds which is scheduled to occur in 2033. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. Using both property taxes received by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution, net of the AB1484 True-up payment, total collections were \$7,376,397 which represented coverage of 27.9 times over the \$264,450 of debt service. The Redevelopment Agency and Successor Agency used cash on hand to fund the excess of debt service over available property taxes.

Future debt service on the 2003B bonds at June 30, 2012, assuming no redemptions of the 2003B bonds other than scheduled mandatory sinking account redemption are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series B		
	Principal	Interest	Total
2013	\$75,000	\$191,276	\$266,276
2014	80,000	187,076	267,076
2015	85,000	182,273	267,273
2016	90,000	176,848	266,848
2017	95,000	171,113	266,113
2018-2022	565,000	757,295	1,322,295
2023-2027	775,000	549,958	1,324,958
2028-2032	1,050,000	258,324	1,308,324
2033	250,000	8,063	258,063
Total payments due	\$3,065,000	\$2,482,226	\$5,547,226

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The pledge of future tax increment revenues ends upon repayment of the \$5,547,226 in remaining debt service on the 2003B Tax Allocation Bonds which is scheduled to occur in 2032. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. Using both property taxes received by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution, net of the AB1484 True-up payment, total collections were \$7,376,397 which represented coverage of 27.8 times of the \$265,205 of debt service. The Redevelopment Agency and Successor Agency used cash on hand to fund the excess of debt service over available property taxes.

3. 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.

The source of repayment for the 2005 Authority Bonds after the October 1, 2009 purchase date is the principal and interest paid on the 1999 Bonds, which is paid from tax increment revenue generated from the Project Areas.

The bonds bear interest at rates of 3.4% to 5% and the interest payable each April 1 and October 1 commencing October 1, 2005. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal on the bonds is payable each October 1, of each fiscal year.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

Future debt service on the 2005 bonds at June 30, 2012, assuming no redemptions of the 2005 bonds other than scheduled mandatory sinking account redemption was:

For The Year Ending June 30	2005 Revenue Bonds Series A		
	Principal	Interest	Total
2013	\$620,000	\$794,454	\$1,414,454
2014	645,000	770,487	1,415,487
2015	670,000	741,240	1,411,240
2016	700,000	706,990	1,406,990
2017	735,000	671,115	1,406,115
2018-2022	4,230,000	2,802,199	7,032,199
2023-2027	5,330,000	1,663,750	6,993,750
2028-2032	3,885,000	297,625	4,182,625
Total payments due	\$16,815,000	\$8,447,860	\$25,262,860

The pledge of future tax increment revenues ends upon repayment of the \$25,262,860 in remaining debt service on the 2005 Tax Allocation Bonds which is scheduled to occur in 2030. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County’s Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. Using both property taxed received by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution, net of the AB1484 True-up payment, total collections were \$7,376,397 which represented coverage of 2.3 times over the \$1,416,424 of debt service. The Redevelopment Agency and Successor Agency used cash on hand to fund the excess of debt service over available property taxes.

D. LOANS PAYABLE TO CITY OF EAST PALO ALTO

The advances from City of East Palo Alto are not expected to be repaid in the following fiscal year. As of February 1, 2012, the two advances from the General Fund to the former Redevelopment Agency Capital Projects Fund were transferred to the Successor Agency. The total outstanding balances were \$11,662,202, recalculated using the applicable LAIF rate per AB 1484 as of June 30, 2012.

Under ABx1 26, the repayment of many loans made in good faith by a City to its now dissolved RDA became unenforceable as of February 1, 2012. Under AB 1484, upon application by the Successor Agency and approval by the Oversight Board, loan agreements between the Sponsoring Community and the Dissolved RDA that were previously deemed not to constitute enforceable obligations as of February 1, 2012, can once again be deemed to be enforceable obligations if the Oversight Board finds that the loan was for legitimate redevelopment purposes. However, the approval would be subject to the State Department of Finance’s further review and potential disapproval. AB 1484 specified that the accumulated interest on the loan must be recalculated from loan inception date at the Local Agency Investment Fund (“LAIF”) interest rate; The loan repayments cannot begin until fiscal year 2014 with the annual maximum being strictly limited by statutory formula.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The following schedule shows the calculation of the two Advances balances of the City loans at year end:

	Ravenswood Project Advances	Gateway 101 Project Advances	Total
Advances balance, 1/31/2012	\$9,157,558	\$6,413,730	\$15,571,288
Written down based on LAIF rates:	(3,909,086)		(3,909,086)
Advances balance, 6/30/12	\$5,248,472	\$6,413,730	\$11,662,202

The City recalculated the Ravenswood Project Advances balances using the LAIF rates. There was no adjustment for the Gateway 101 Project Advances as it is a zero-interest loan.

Since no repayment of the Advances can be expected until the aforementioned due process is complete, the advances balance of \$11,662,202 was reported in the General Fund as “Loans to Successor Agency.”

At the time of issuing this financial report, City has not yet received determination from the State Department of Finance regarding the eligibility of the enforceable obligations. Final determination of this matter is expected in calendar year 2013.

E. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

2. State Asset Transfer Review

The activities of the former Redevelopment Agency and the Successor Agency are subject to further examination by the State of California and the amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time. In addition, the State Controller’s Office will be conducting a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The amount, if any, of assets that may be required to be returned to the Successor Agency, as a result of the review, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

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**MAJOR GOVERNMENTAL FUNDS, BUDGET VERSUS ACTUAL-GENERAL FUND AND
SPECIAL REVENUE FUNDS**

General Fund - The General Fund is established to account 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 - To account for property tax increments and other sources received by the East Palo Alto Redevelopment Agency and required to be set-aside for low and moderate-income housing and other related expenditures.

CITY OF EAST PALO ALTO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property tax	\$7,285,000	\$7,165,000	\$7,787,826	\$622,826
Sales tax	2,670,000	2,922,000	3,003,836	81,836
Transient occupancy tax	1,280,000	1,480,000	1,523,772	43,772
Utility users tax	1,550,000	1,489,000	1,418,457	(70,543)
Other taxes	100,000	16,600	16,585	(15)
Licenses, fees and permits	1,295,000	1,415,000	1,474,305	59,305
Charges for services	192,500	349,500	285,247	(64,253)
Fines and forfeitures	207,000	207,000	239,475	32,475
Use of money and property	871,400	581,400	538,853	(42,547)
Grants and intergovernmental	115,000	115,000	100,812	(14,188)
Miscellaneous	100,000	110,000	128,152	18,152
Total Revenues	15,665,900	15,850,500	16,517,320	666,820
EXPENDITURES:				
Current:				
General government	4,084,300	3,716,474	3,078,152	638,322
Public safety - police	9,358,400	9,306,700	9,021,568	285,132
Public works	1,655,200	1,697,746	1,658,771	38,975
Culture and recreation	244,250	301,550	211,096	90,454
Community development	1,620,250	1,523,251	1,245,996	277,255
Capital outlay	7,000	283,000	192,040	90,960
Total Expenditures	16,969,400	16,828,721	15,407,623	1,421,098
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,303,500)	(978,221)	1,109,697	2,087,918
OTHER FINANCING SOURCES (USES)				
Contributed capital		225,000	224,805	(195)
Transfers in	1,195,800	1,022,400	3,608,637	2,586,237
Transfers (out)	(1,230,000)	(1,056,600)	(53,200)	1,003,400
Total other financing sources (uses)	(34,200)	190,800	3,780,242	3,589,442
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	(\$1,337,700)	(\$787,421)	4,889,939	\$5,677,360
EXTRAORDINARY ITEMS (NOTE 14)				
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor			(3,909,086)	
NET CHANGE IN FUND BALANCES	(\$1,337,700)	(\$787,421)	980,853	\$5,677,360
BEGINNING FUND BALANCE			19,621,224	
ENDING FUND BALANCE			\$20,602,077	

CITY OF EAST PALO ALTO
LOW AND MODERATE INCOME HOUSING SUCCESSOR SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE PERIOD FEBRUARY 1, 2012 TO JUNE 30, 2012

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
GOVERNMENTAL REVENUES			
Use of money and property		\$46,737	\$46,737
Miscellaneous		11,217	11,217
Total Revenues		<u>57,954</u>	<u>57,954</u>
EXPENDITURES			
Community development	\$60,000	1,672	58,328
Total Expenditures	<u>60,000</u>	<u>1,672</u>	<u>58,328</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(60,000)</u>	<u>56,282</u>	<u>116,282</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	253,428		(253,428)
Transfers (out)	<u>(193,428)</u>		<u>193,428</u>
Total Other Financing Sources (Uses)	<u>60,000</u>		<u>(60,000)</u>
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS		56,282	56,282
EXTRAORDINARY ITEMS (NOTE 14)			
Assets transferred to Housing Successor		13,341,498	
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor		<u>(3,211,838)</u>	
NET CHANGE IN FUND BALANCES		<u><u>10,185,942</u></u>	<u><u>\$56,282</u></u>
BEGINNING FUND BALANCE			
ENDING FUND BALANCE		<u><u>\$10,185,942</u></u>	

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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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 department 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. 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 ISTE Grant, Housing Assistance, Public Improvements in Lieu Special Revenue Funds; and Capital Improvements Capital Projects Fund which are adopted on a project length basis.

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OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST PALO ALTO
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property	<u>\$142,600</u>	<u>\$67,405</u>	<u>(\$75,195)</u>
Total Revenues	<u>142,600</u>	<u>67,405</u>	<u>(75,195)</u>
EXPENDITURES			
Debt service:			
Principal - purchase in lieu of redemption	520,000	520,000	
Interest and fiscal charges	<u>724,200</u>	<u>724,177</u>	<u>23</u>
Total Expenditures	<u>1,244,200</u>	<u>1,244,177</u>	<u>23</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,101,600)</u>	<u>(1,176,772)</u>	<u>(75,172)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,177,450</u>	<u>1,177,522</u>	72
Total Other Financing Sources (Uses)	<u>1,177,450</u>	<u>1,177,522</u>	<u>72</u>
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	75,850	750	(75,100)
EXTRAORDINARY ITEMS (NOTE 14)			
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor		(2,035,310)	(2,035,310)
NET CHANGE IN FUND BALANCES	<u>\$75,850</u>	<u>(2,034,560)</u>	<u>(\$75,100)</u>
BEGINNING FUND BALANCE		<u>2,034,560</u>	
ENDING FUND BALANCE		<u><u> </u></u>	

CITY OF EAST PALO ALTO
PUBLIC FINANCING AUTHORITY FUND DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property	\$931,700	\$496,705	(\$434,995)
Total Revenues	<u>931,700</u>	<u>496,705</u>	<u>(434,995)</u>
EXPENDITURES			
Debt service:			
Principal - purchase in lieu of redemption	600,000	600,000	
Interest and fiscal charges	<u>415,500</u>	<u>415,462</u>	<u>38</u>
Total Expenditures	<u>1,015,500</u>	<u>1,015,462</u>	<u>38</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(83,800)</u>	<u>(518,757)</u>	<u>(434,957)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,180</u>	<u>2,496</u>	<u>1,316</u>
Total Other Financing Sources (Uses)	<u>1,180</u>	<u>2,496</u>	<u>1,316</u>
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	(82,620)	(516,261)	(433,641)
EXTRAORDINARY ITEMS			
Assets transferred to/liabilities assumed by Successor Agency		<u>(14,814,124)</u>	<u>(14,814,124)</u>
NET CHANGE IN FUND BALANCES	<u>(\$82,620)</u>	<u>(15,330,385)</u>	<u>(\$15,247,765)</u>
BEGINNING FUND BALANCE		<u>15,330,385</u>	
ENDING FUND BALANCE		<u><u> </u></u>	

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

NPDES Fees – 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 - Accounts for funds received from the State of California to use for street and highway related projects.

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

Park in Lieu – 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 – Accounts for grant money received and expended from various Federal and State government grants.

US EPA – Accounts for U.S. Environmental Protection Agency grant money received and expended.

Housing in Lieu – 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 – Accounts for first time home buyer assistance program activities.

Public Improvements in Lieu – Accounts for revenues and expenditures for public improvement assets including in lieu of fees from developers.

Measure A – 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.

Local Grants – Accounts for revenues and expenditures from local public and private grants including the First Source Hiring grant, C/CAG Shuttle grant, and C/CAG AB1546 grant.

CYSFF Child/Family – Accounts for 10% of TOT taxes collected as approved by voters and the City Council approved funding for various non-profit organizations related to Child/Family programs.

Lighting District – Account for revenues (property taxes) and expenditures for the Ravenswood Highway Lighting District.

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

Measure C – 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.

Capital Projects Fund

Public Financing Authority Capital Projects Fund – Accounts for proceeds from 2005 Revenue Bonds.

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

SPECIAL REVENUE FUNDS

	Low and Moderate Income Housing Special Revenue Fund	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
ASSETS						
Cash and investments		\$12,182	\$1,159,357	\$45,925		\$266,287
Cash with fiscal agent					\$337,178	
Receivables:						
Intergovernmental				99,699		
Taxes						
Other receivables					300,000	191,308
Deposits and prepayments						
Loans and notes receivables						
Total Assets		<u>\$12,182</u>	<u>\$1,159,357</u>	<u>\$145,624</u>	<u>\$637,178</u>	<u>\$457,595</u>
LIABILITIES						
Accounts payable		\$7,639	\$105,764	\$4,738		\$134,596
Retentions payable						
Other accrued liabilities						
Due to other funds					\$138,947	
Deferred revenue				22,341	337,179	
Total Liabilities		<u>7,639</u>	<u>105,764</u>	<u>27,079</u>	<u>476,126</u>	<u>134,596</u>
FUND BALANCE						
Restricted		4,543	1,053,593	118,545	161,052	322,999
Unassigned						
Total Fund Balances		<u>4,543</u>	<u>1,053,593</u>	<u>118,545</u>	<u>161,052</u>	<u>322,999</u>
Total Liabilities and Fund Balances		<u>\$12,182</u>	<u>\$1,159,357</u>	<u>\$145,624</u>	<u>\$637,178</u>	<u>\$457,595</u>

SPECIAL REVENUE FUNDS

Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assistance	Public Improvements in Lieu	Measure A	Local Grants
		\$1,089,197	\$100,542	\$319,547 1,379,574	\$1,738,048	\$214,440
\$166,664	\$305,064	18,814	1,019 39,385 268,475		35,537 2,666	224,803
<u>\$166,664</u>	<u>\$305,064</u>	<u>\$1,108,011</u>	<u>\$409,421</u>	<u>\$1,699,121</u>	<u>\$1,776,251</u>	<u>\$439,243</u>
\$44,086 434 36,141 27,213 12,768	\$15,900 20,050 269,114 205,168			\$1,379,574	\$500 62,454	\$85,035
<u>120,642</u>	<u>510,232</u>			<u>1,379,574</u>	<u>62,954</u>	<u>181,172</u>
46,022	(205,168)	\$1,108,011	\$409,421	319,547	1,713,297	258,071
<u>46,022</u>	<u>(205,168)</u>	<u>1,108,011</u>	<u>409,421</u>	<u>319,547</u>	<u>1,713,297</u>	<u>258,071</u>
<u>\$166,664</u>	<u>\$305,064</u>	<u>\$1,108,011</u>	<u>\$409,421</u>	<u>\$1,699,121</u>	<u>\$1,776,251</u>	<u>\$439,243</u>

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	SPECIAL REVENUE FUNDS				Public Financing Authority Capital Projects Fund	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C		
ASSETS						
Cash and investments	\$276,028	\$741,471	\$21,767	\$1,351,433		\$7,336,224
Cash with fiscal agent						1,716,752
Receivables:						
Intergovernmental						831,767
Taxes	18,813					37,627
Other receivables						492,327
Deposits and prepayments						42,051
Loans and notes receivables						268,475
Total Assets	<u>\$294,841</u>	<u>\$741,471</u>	<u>\$21,767</u>	<u>\$1,351,433</u>		<u>\$10,725,223</u>
LIABILITIES						
Accounts payable		\$6,234	\$7,881	\$1,206		\$413,579
Retentions payable						62,888
Other accrued liabilities		10,125				66,316
Due to other funds						435,274
Deferred revenue						2,053,167
Total Liabilities		<u>16,359</u>	<u>7,881</u>	<u>1,206</u>		<u>3,031,224</u>
FUND BALANCE						
Restricted	\$294,841	725,112	13,886	1,350,227		7,899,167
Unassigned						(205,168)
Total Fund Balances	<u>294,841</u>	<u>725,112</u>	<u>13,886</u>	<u>1,350,227</u>		<u>7,693,999</u>
Total Liabilities and Fund Balances	<u>\$294,841</u>	<u>\$741,471</u>	<u>\$21,767</u>	<u>\$1,351,433</u>		<u>\$10,725,223</u>

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CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

SPECIAL REVENUE FUNDS

	Low and Moderate Income Housing Special Revenue Fund	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
GOVERNMENTAL REVENUES						
Property tax	\$120,986					
Transient occupancy tax						
Other taxes			\$527,469			
Charges for services					\$300,000	\$802,128
Use of money and property	61,023	\$362	8,552	\$10,009	2,278	1,890
Grants and intergovernmental		119,633	430,367	858,192	1,159	
Miscellaneous			1,836		2,714	
Total Revenues	182,009	119,995	968,224	868,201	306,151	804,018
EXPENDITURES						
Current:						
General government		548	170,153			
Public safety				754,836		
Public works		201,220	416,590		1,381	
Culture and recreation						
Community development	76,101					638,037
Capital outlay			2,811		527,662	
Total Expenditures	76,101	201,768	589,554	754,836	529,043	638,037
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	105,908	(81,773)	378,670	113,365	(222,892)	165,981
OTHER FINANCING SOURCES (USES)						
Transfers in	2,603,736				25,220	
Transfers (out)	(366,069)				(4,993)	
Total Other Financing Sources (Uses)	2,237,667				20,227	
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	2,343,575	(81,773)	378,670	113,365	(202,665)	165,981
EXTRAORDINARY ITEMS						
Assets transferred to Housing Successor	(13,341,498)					
NET CHANGE IN FUND BALANCES	(10,997,923)	(81,773)	378,670	113,365	(202,665)	165,981
BEGINNING FUND BALANCES (DEFICITS)	10,997,923	86,316	674,923	5,180	363,717	157,018
ENDING FUND BALANCES (DEFICITS)		\$4,543	\$1,053,593	\$118,545	\$161,052	\$322,999

SPECIAL REVENUE FUNDS

Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assist	Public Improvements In Lieu	Measure A	Local Grants
		\$173,247				
		2,500		\$8,197		
\$442,551	\$142,646	9,502	\$4,279	2,948	\$22,007	\$598,095
51,510		880	28		485,926	
494,061	142,646	186,129	4,307	11,145	5,874	598,095
235,703	147,814				13,282	11,195
					200,000	48,647
54,157		15,900				443,983
92,014	200,000					
381,874	347,814	15,900			213,282	503,825
112,187	(205,168)	170,229	4,307	11,145	300,525	94,270
				(932)	360	160,605
					(677,821)	(58,342)
				(932)	(677,461)	102,263
112,187	(205,168)	170,229	4,307	10,213	(376,936)	196,533
112,187	(205,168)	170,229	4,307	10,213	(376,936)	196,533
(66,165)		937,782	\$405,114	309,334	2,090,233	61,538
\$46,022	(\$205,168)	\$1,108,011	\$409,421	\$319,547	\$1,713,297	\$258,071

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS				Public Financing Authority Capital Projects Fund	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C		
GOVERNMENTAL REVENUES						
Property tax		\$290,128	\$58,346			\$469,460
Transient occupancy tax	\$173,247					346,494
Other taxes				\$717,529		1,244,998
Charges for services						1,112,825
Use of money and property	3,276	6,451	73	11,586	\$119	144,355
Grants and intergovernmental						3,078,569
Miscellaneous	702	2,708	126	2,008		68,386
Total Revenues	177,225	299,287	58,545	731,123	119	6,465,087
EXPENDITURES						
Current:						
General government	160,300			110,343		849,338
Public safety				429,045		1,183,881
Public works		246,772	79,554			1,194,164
Culture and recreation						498,140
Community development						822,052
Capital outlay						730,473
Total Expenditures	160,300	246,772	79,554	539,388		5,278,048
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,925	52,515	(21,009)	191,735	119	1,187,039
OTHER FINANCING SOURCES (USES)						
Transfers in			34,200			2,824,121
Transfers (out)					(990,511)	(2,098,668)
Total Other Financing Sources (Uses)			34,200		(990,511)	725,453
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	16,925	52,515	13,191	191,735	(990,392)	1,912,492
EXTRAORDINARY ITEMS						
Assets transferred to Housing Successor						(13,341,498)
NET CHANGE IN FUND BALANCES	16,925	52,515	13,191	191,735	(990,392)	(11,429,006)
BEGINNING FUND BALANCES (DEFICITS)	277,916	672,597	695	1,158,492	990,392	19,123,005
ENDING FUND BALANCES (DEFICITS)	\$294,841	\$725,112	\$13,886	\$1,350,227		\$7,693,999

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CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SPECIAL REVENUE FUNDS

	<u>LOW AND MODERATE INCOME HOUSING</u>			<u>NPDES FEES</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GOVERNMENTAL REVENUES						
Property tax	\$498,715	\$120,986	(\$377,729)			
Transient occupancy tax						
Other taxes						
Charges for services						
Use of money and property		61,023	61,023		\$362	\$362
Grants and intergovernmental				\$125,000	119,633	(5,367)
Miscellaneous						
Total Revenues	498,715	182,009	(316,706)	125,000	119,995	(5,005)
EXPENDITURES						
Current:						
General government				600	548	52
Public safety						
Public works				209,586	201,220	8,366
Culture and recreation						
Community development	31,458	76,101	(44,643)			
Capital outlay						
Total Expenditures	31,458	76,101	(44,643)	210,186	201,768	8,418
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	467,257	105,908	(361,349)	(85,186)	(81,773)	3,413
OTHER FINANCING SOURCES (USES)						
Transfers in	53,433	2,603,736	2,550,303			
Transfers (out)	(244,874)	(366,069)	(121,195)			
Total Other Financing Sources (Uses)	(191,441)	2,237,667	2,429,108			
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	275,816	2,343,575	2,067,759	(85,186)	(81,773)	3,413
EXTRAORDINARY ITEMS						
Assets transferred to Housing Successor		(13,341,498)	(13,341,498)			
NET CHANGE IN FUND BALANCES	\$275,816	(10,997,923)	(\$11,273,739)	(\$85,186)	(81,773)	\$3,413
BEGINNING FUND BALANCES (DEFICITS)		10,997,923			86,316	
ENDING FUND BALANCES (DEFICITS)					\$4,543	

SPECIAL REVENUE FUNDS

GAS TAX			FEDERAL AND STATE LAW ENFORCEMENT			PARK IN LIEU		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$555,000	\$527,469	(\$27,531)					\$300,000	
	8,552	8,552		\$10,009	\$10,009		2,278	\$2,278
265,000	430,367	165,367	\$733,300	858,192	124,892		1,159	1,159
	1,836	1,836					2714	2,714
820,000	968,224	148,224	733,300	868,201	134,901		306,151	6,151
170,200	170,153	47						
538,819	416,590	122,229	733,300	754,836	(21,536)		1,381	(1,381)
30,000	2,811	27,189				\$75,000	527,662	(452,662)
739,019	589,554	149,465	733,300	754,836	(21,536)	75,000	529,043	(454,043)
80,981	378,670	297,689		113,365	113,365	(75,000)	(222,892)	(147,892)
(219,000)		219,000					25,220 (4,993)	25,220 (4,993)
(219,000)		219,000					20,227	20,227
(138,019)	378,670	516,689		113,365	113,365	(75,000)	(202,665)	(127,665)
<u>(\$138,019)</u>	378,670	<u>\$516,689</u>		113,365	<u>\$113,365</u>	<u>(\$75,000)</u>	(202,665)	<u>(\$127,665)</u>
	674,923			5,180			363,717	
	<u>\$1,053,593</u>			<u>\$118,545</u>			<u>\$161,052</u>	

(Continued)

CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SPECIAL REVENUE FUNDS

	RENT STABILIZATION			FEDERAL AND STATE GRANTS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax						
Other taxes				\$9		(\$9)
Charges for services	\$580,300	\$802,128	\$221,828			
Use of money and property		1,890	1,890			
Grants and intergovernmental				144,500	\$442,551	298,051
Miscellaneous					51,510	51,510
Total Revenues	580,300	804,018	223,718	144,509	494,061	349,552
EXPENDITURES						
Current:						
General government					235,703	(235,703)
Public safety						
Public works						
Culture and recreation				31,100	54,157	(23,057)
Community development	722,512	638,037	84,475	82,400	92,014	(9,614)
Capital outlay				31,000		31,000
Total Expenditures	722,512	638,037	84,475	144,500	381,874	(237,374)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(142,212)	165,981	308,193	9	112,187	112,178
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	(142,212)	165,981	308,193	9	112,187	112,178
EXTRAORDINARY ITEMS						
Assets transferred to Housing Successor						
NET CHANGE IN FUND BALANCES	<u>(\$142,212)</u>	165,981	<u>\$308,193</u>	<u>\$9</u>	112,187	<u>\$112,178</u>
BEGINNING FUND BALANCES (DEFICITS)		157,018			(66,165)	
ENDING FUND BALANCES (DEFICITS)		<u>\$322,999</u>			<u>\$46,022</u>	

SPECIAL REVENUE FUNDS

U.S. EPA			HOUSING IN LIEU			MEASURE A		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
			\$185,000	\$173,247	(\$11,753)			
				2,500	2,500			
				9,502	9,502		\$22,007	\$22,007
	\$142,646	\$142,646				\$420,000	485,926	65,926
				880	880		5,874	5,874
	<u>142,646</u>	<u>142,646</u>	<u>185,000</u>	<u>186,129</u>	<u>1,129</u>	<u>420,000</u>	<u>513,807</u>	<u>93,807</u>
\$372,000	147,814	224,186				12,200	13,282	(1,082)
							200,000	(200,000)
			57,900	15,900	42,000	20,000		20,000
	<u>200,000</u>	<u>(200,000)</u>						
<u>372,000</u>	<u>347,814</u>	<u>24,186</u>	<u>57,900</u>	<u>15,900</u>	<u>42,000</u>	<u>32,200</u>	<u>213,282</u>	<u>(181,082)</u>
<u>(372,000)</u>	<u>(205,168)</u>	<u>166,832</u>	<u>127,100</u>	<u>170,229</u>	<u>43,129</u>	<u>387,800</u>	<u>300,525</u>	<u>(87,275)</u>
							360	360
						<u>(980,890)</u>	<u>(677,821)</u>	<u>303,069</u>
						<u>(980,890)</u>	<u>(677,461)</u>	<u>303,429</u>
(372,000)	(205,168)	166,832	127,100	170,229	43,129	(593,090)	(376,936)	216,154
<u>(\$372,000)</u>	<u>(205,168)</u>	<u>\$166,832</u>	<u>\$127,100</u>	<u>170,229</u>	<u>\$43,129</u>	<u>(\$593,090)</u>	<u>(376,936)</u>	<u>\$216,154</u>
				<u>937,782</u>			<u>2,090,233</u>	
	<u>(\$205,168)</u>			<u>\$1,108,011</u>			<u>\$1,713,297</u>	

(Continued)

CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS					
	LOCAL GRANTS			CYSFF CHILD/ FAMILY		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax				\$185,000	\$173,247	(\$11,753)
Other taxes						
Charges for services						
Use of money and property					3,276	3,276
Grants and intergovernmental	\$274,765	\$598,095	\$323,330			
Miscellaneous					702	702
Total Revenues	<u>274,765</u>	<u>598,095</u>	<u>323,330</u>	<u>185,000</u>	<u>177,225</u>	<u>(7,775)</u>
EXPENDITURES						
Current:						
General government		11,195	(11,195)	115,300	160,300	(45,000)
Public safety						
Public works		48,647	(48,647)			
Culture and recreation	423,385	443,983	(20,598)			
Community development						
Capital outlay						
Total Expenditures	<u>423,385</u>	<u>503,825</u>	<u>(80,440)</u>	<u>115,300</u>	<u>160,300</u>	<u>(45,000)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(148,620)</u>	<u>94,270</u>	<u>242,890</u>	<u>69,700</u>	<u>16,925</u>	<u>(52,775)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	148,620	160,605	11,985			
Transfers (out)		(58,342)	(58,342)			
Total Other Financing Sources (Uses)	<u>148,620</u>	<u>102,263</u>	<u>(46,357)</u>			
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS		196,533	196,533	69,700	16,925	(52,775)
EXTRAORDINARY ITEMS						
Assets transferred to Housing Successor						
NET CHANGE IN FUND BALANCES		<u>196,533</u>	<u>\$196,533</u>	<u>\$69,700</u>	16,925	<u>(\$52,775)</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>61,538</u>			<u>277,916</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$258,071</u>			<u>\$294,841</u>	

SPECIAL REVENUE FUNDS

LIGHTING DISTRICT			DRAINAGE DISTRICT			MEASURE C		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$251,500	\$290,128	\$38,628	\$57,100	\$58,346	\$1,246			
						\$700,000	\$717,529	\$17,529
	6,451	6,451		73	73		11,586	11,586
	2,708	2,708		126	126		2,008	2,008
<u>251,500</u>	<u>299,287</u>	<u>47,787</u>	<u>57,100</u>	<u>58,545</u>	<u>1,445</u>	<u>700,000</u>	<u>731,123</u>	<u>31,123</u>
						108,800	110,343	(1,543)
333,270	246,772	86,498	125,552	79,554	45,998	560,500	429,045	131,455
<u>333,270</u>	<u>246,772</u>	<u>86,498</u>	<u>125,552</u>	<u>79,554</u>	<u>45,998</u>	<u>669,300</u>	<u>539,388</u>	<u>129,912</u>
(81,770)	52,515	134,285	(68,452)	(21,009)	47,443	30,700	191,735	161,035
			34,200	34,200				
			34,200	34,200				
(81,770)	52,515	134,285	(34,252)	13,191	47,443	30,700	191,735	161,035
<u>(\$81,770)</u>	<u>52,515</u>	<u>\$134,285</u>	<u>(\$34,252)</u>	<u>13,191</u>	<u>\$47,443</u>	<u>\$30,700</u>	<u>191,735</u>	<u>\$161,035</u>
	672,597			695			1,158,492	
	<u>\$725,112</u>			<u>\$13,886</u>			<u>\$1,350,227</u>	

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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, note 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 Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance 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 Agency 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 – information not available

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

Sources

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.

City of East Palo Alto
Net Assets by Component
June 30, 2012
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Government activities					
Investment in capital assets, net of related debt	\$18,686,406	\$20,821,102	\$20,799,470	\$20,574,619	\$21,298,218
Restricted For:					
Debt Service					
Public Safety	166,095	54,846	136,650	239,521	97,796
Highways and streets	2,010,107	1,867,256	1,934,130	2,622,482	3,372,600
Parks and recreation	778,757	1,096,207	1,231,943	1,431,231	1,304,783
Low and moderate income housing	3,749,313	2,779,093	1,278,216	2,132,049	9,616,232
Housing programs					
Measure C programs					
Total restricted	<u>6,704,272</u>	<u>5,797,402</u>	<u>4,580,939</u>	<u>6,425,283</u>	<u>14,391,411</u>
Unrestricted	<u>(18,966,679)</u>	<u>(21,537,804)</u>	<u>(19,174,140)</u>	<u>(19,556,466)</u>	<u>(20,401,483)</u>
Total governmental activities net assets	<u><u>\$6,423,999</u></u>	<u><u>\$5,080,700</u></u>	<u><u>\$6,206,269</u></u>	<u><u>\$7,443,436</u></u>	<u><u>\$15,288,146</u></u>
Business-type activities					
Investment in capital assets, net of related debt	\$5,701,813	\$6,172,324	\$5,887,825	\$5,657,772	\$5,381,783
Restricted For:					
Capital Projects					
Total restricted					
Unrestricted	<u>1,685,501</u>	<u>875,495</u>	<u>1,153,837</u>	<u>1,186,307</u>	<u>1,738,594</u>
Total business-type activities net assets	<u><u>\$7,387,314</u></u>	<u><u>\$7,047,819</u></u>	<u><u>\$7,041,662</u></u>	<u><u>\$6,844,079</u></u>	<u><u>\$7,120,377</u></u>
Primary Government					
Investment in capital assets, net of related debt	\$24,388,219	\$26,993,426	\$26,687,295	\$26,232,391	\$26,680,001
Restricted	6,704,272	5,797,402	4,580,939	6,425,283	14,391,411
Unrestricted	<u>(17,281,178)</u>	<u>(20,662,309)</u>	<u>(18,020,303)</u>	<u>(18,370,159)</u>	<u>(18,662,889)</u>
Total primary government net assets	<u><u>\$13,811,313</u></u>	<u><u>\$12,128,519</u></u>	<u><u>\$13,247,931</u></u>	<u><u>\$14,287,515</u></u>	<u><u>\$22,408,523</u></u>

2008	2009	2010	2011	2012
\$24,175,266	\$24,877,257	\$25,163,127	\$28,011,307	\$28,412,193
19,881,567	20,744,394	4,421,602	2,034,560	
460,293				
3,725,541	4,152,124	4,234,053	2,851,472	2,771,433
1,379,246	1,147,341	940,572	703,171	713,964
10,937,302	11,546,134	12,383,908	10,997,923	
			1,342,896	1,517,432
	1,334,347	1,219,908	1,158,492	1,350,227
36,383,949	38,924,340	23,200,043	19,088,514	6,353,056
(29,124,597)	(27,641,786)	(13,680,807)	(8,749,180)	33,078,872
<u>\$31,434,618</u>	<u>\$36,159,811</u>	<u>\$34,682,363</u>	<u>\$38,350,641</u>	<u>\$67,844,121</u>
\$5,100,616	\$4,867,912	\$4,503,722	\$4,319,814	\$4,134,175
		834,095	834,286	834,470
		834,095	834,286	834,470
2,459,697	2,360,001	1,483,820	1,055,762	1,037,305
<u>\$7,560,313</u>	<u>\$7,227,913</u>	<u>\$6,821,637</u>	<u>\$6,209,862</u>	<u>\$6,005,950</u>
\$29,275,882	\$29,745,169	\$29,666,849	\$32,331,121	\$32,546,368
36,383,949	38,924,340	24,034,138	19,922,800	7,187,526
(26,664,900)	(25,281,785)	(12,196,987)	(7,693,418)	34,116,177
<u>\$38,994,931</u>	<u>\$43,387,724</u>	<u>\$41,504,000</u>	<u>\$44,560,503</u>	<u>\$73,850,071</u>

City of East Palo Alto
Changes in Net Assets
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
General Government	\$3,119,253	\$3,381,815	\$3,168,537	\$2,991,380	\$3,170,200	\$3,932,553	\$3,859,589	\$5,119,297	\$4,700,459	\$4,634,178
Public Safety	7,196,411	8,452,372	8,627,051	9,010,553	9,220,203	8,935,880	10,309,298	11,005,614	10,972,657	10,374,212
Culture and Recreation	4,065,512	1,158,334	919,419	779,360	798,679	700,497	4,076,009	1,228,036	1,333,904	1,525,961
Public Works	1,277,874	3,388,142	2,995,043	2,190,525	2,964,223	3,063,920	459,853	4,036,926	3,055,334	3,028,589
Community Development	3,358,388	3,176,220	3,081,094	3,303,821	3,131,545	3,603,493	5,920,364	7,230,567	5,333,924	3,340,428
Interest on Long Term Debt	1,451,695	1,693,351	1,771,580	1,959,772	2,744,481	2,618,397	3,067,294	2,882,117	2,291,283	1,295,832
Total Governmental Activities Expenses	20,469,133	21,250,234	20,562,724	20,235,411	22,029,331	22,854,740	27,692,407	31,502,557	27,687,561	24,199,200
Business-Type Activities:										
Water service	421,174	539,020	597,795	511,861	440,589	524,709	460,887	619,277	439,826	326,502
Garbage collection	1,544,235	1,613,488	1,603,614	1,732,952	1,765,870	1,895,331	1,708,893	1,616,967	2,602,083	2,583,098
Total Business-Type Activities Expenses	1,965,409	2,152,508	2,201,409	2,244,813	2,206,459	2,420,040	2,169,780	2,236,244	3,041,909	2,909,600
Total Primary Government Expenses	\$22,434,542	\$23,402,742	\$22,764,133	\$22,480,224	\$24,235,790	\$25,274,780	\$29,862,187	\$33,738,801	\$30,729,470	\$27,108,800
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$18,565	\$13,644	\$16,214	\$16,227	\$41,641	\$3,481	\$19,249	\$2,536	\$18,101	\$4,744
Public Safety	248,227	267,768	305,717	222,306	99,012	186,210	173,177	207,305	249,676	248,855
Culture and Recreation	19,922	12,749	13,602	7,235	7,696	11,808	43,638	11,411	91,961	311,158
Public Works	1,931,471	679,383	333,960	539,740	178,202	121,665	104,772	47,852	169,034	79,138
Community Development	2,988,026	946,723	1,003,516	1,270,591	966,262	1,211,953	765,015	455,586	1,049,045	1,203,310
Operating Grants and Contributions	2,178,113	1,368,358	728,800	461,214	4,419,015	3,214,779	4,162,714	4,896,638	3,621,393	3,799,544
Capital Grants and Contributions	7,384,324	6,932,754	5,354,854	4,774,295	6,147,016	8,166,764	6,883,507	5,799,401	6,465,696	6,350,566
Total Government Activities Program Revenues	270,028	198,380	277,442	218,900	329,539	885,986	199,816	174,743	243,750	223,037
Business-Type Activities:										
Charges for Services:										
Water service	1,541,441	1,562,954	1,868,865	1,757,508	2,059,546	1,895,698	1,679,492	1,642,054	2,163,837	2,462,700
Garbage collection	1,811,469	1,761,334	2,146,307	1,976,408	2,389,085	2,781,684	1,879,308	1,816,797	2,407,587	2,685,737
Total Business-Type Activities Program Revenue	\$9,195,793	\$8,694,088	\$7,501,161	\$6,750,703	\$8,536,101	\$10,948,448	\$8,762,815	\$7,616,198	\$8,873,283	\$9,036,303
Total Primary Government Program Revenues	(\$13,084,809)	(\$14,317,480)	(\$15,207,870)	(\$15,461,116)	(\$15,882,315)	(\$14,687,976)	(\$20,808,900)	(\$25,703,156)	(\$21,221,865)	(\$17,848,634)
Net (Expense)/Revenue										
Governmental Activities	(153,940)	(391,174)	(55,102)	(268,405)	182,626	361,644	(290,472)	(419,447)	(634,322)	(223,863)
Business-Type Activities	(\$13,238,749)	(\$14,708,654)	(\$15,262,972)	(\$15,729,521)	(\$15,699,689)	(\$14,326,332)	(\$21,099,372)	(\$26,122,603)	(\$21,856,187)	(\$18,072,497)
Total Primary Government Net Expense										

(Continued)

City of East Palo Alto
Changes in Net Assets
(continued)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	\$6,559,474	\$7,177,352	\$9,705,355	\$10,604,932	\$16,143,870	\$16,230,210	\$17,193,291	\$15,934,214	\$15,291,232	\$12,338,184
Utility Users Tax	1,189,086	1,110,407	1,254,066	1,417,642	1,585,722	1,582,042	1,647,057	1,591,204	1,502,939	1,418,457
Parcel tax						702,840	710,500	717,549	704,164	717,528
Sales Taxes	1,567,311	2,244,644	2,709,643	2,750,392	2,481,442	2,524,797	2,424,013	2,301,318	2,870,854	3,003,836
Other Taxes	847,877	944,168	988,787	980,973	1,586,173	1,959,798	1,610,286	1,720,233	2,269,128	1,886,852
Motor Vehicle Tax	1,807,086	1,382,813	818,011	230,561	201,344	139,173	94,542	97,979	177,344	1,264,674
Interest Earnings	241,265	239,700	634,543	644,602	1,638,500	2,131,569	1,138,926	1,442,654	1,388,987	1,260,104
Other	3,835,021	386,414	223,034	71,607	89,974		715,478	420,557	692,898	395,396
Transfers									(7,403)	
Extraordinary Items										25,057,083
Total Government Activities	16,047,120	13,485,498	16,333,439	16,700,709	23,727,025	25,270,429	25,534,093	24,225,708	24,890,143	47,342,114
Business-Type Activities:										
Interest Earnings	16,939	51,679	48,945	70,822	93,672	78,292	(41,928)	13,171	15,144	19,951
Transfers									7,403	
Total Business-Type Activities	16,939	51,679	48,945	70,822	93,672	78,292	(41,928)	13,171	22,547	19,951
Total Primary Government	\$16,064,059	\$13,537,177	\$16,382,384	\$16,771,531	\$23,820,697	\$25,348,721	\$25,492,165	\$24,238,879	\$24,912,690	\$47,362,065
Change in Net Assets										
Governmental Activities	\$2,962,311	(\$831,982)	\$1,125,569	\$1,239,593	\$7,844,710	\$10,582,453	\$4,725,193	(\$1,477,448)	\$3,668,278	\$29,493,480
Business-Type Activities	(137,001)	(339,495)	(6,157)	(197,583)	276,298	439,936	(332,400)	(406,276)	(611,775)	(203,912)
Total Primary Government	\$2,825,310	(\$1,171,477)	\$1,119,412	\$1,042,010	\$8,121,008	\$11,022,389	\$4,392,793	(\$1,883,724)	\$3,056,503	\$29,289,568

City of East Palo Alto
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund					
Reserved	\$14,465,596	\$13,758,950	\$11,713,911	\$11,916,073	\$11,379,597
Unreserved	2,892,100	151,024	1,425,019	729,939	3,154,308
Nonspendable					
Assigned					
Unassigned					
Total General Fund	<u>\$17,357,696</u>	<u>\$13,909,974</u>	<u>\$13,138,930</u>	<u>\$12,646,012</u>	<u>\$14,533,905</u>
All Other Governmental Funds					
Reserved	\$10,409,866	\$11,426,147	\$15,851,827	\$28,803,392	\$28,930,206
Unreserved, reported in:					
Special revenue funds	2,532,582	868,237	1,133,716	1,642,166	3,016,232
Capital project funds	(8,668,310)	(9,758,868)	(14,683,942)	(10,608,195)	(9,330,371)
Permanent funds		3,123,232	3,808,483	4,877,558	6,464,873
Restricted					
Assigned					
Unassigned					
Total all other governmental funds	<u>\$4,274,138</u>	<u>\$5,658,748</u>	<u>\$6,110,084</u>	<u>\$24,714,921</u>	<u>\$29,080,940</u>

Notes:

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

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$12,676,253	\$13,597,260	\$13,710,502		
5,406,886	6,976,500	6,575,765		
			\$12,760,896	\$11,662,202
			248,259	2,117,679
			6,612,069	6,822,196
<u>\$18,083,139</u>	<u>\$20,573,760</u>	<u>\$20,286,267</u>	<u>\$19,621,224</u>	<u>\$20,602,077</u>
\$29,665,723	\$30,755,524	\$17,220,741		
10,947,512	10,728,072	8,390,162		
(8,279,431)	(8,556,368)	(12,293,874)		
			\$40,241,982	\$18,085,109
			4,213,590	1,309,475
			(12,935,810)	(205,168)
<u>\$32,333,804</u>	<u>\$32,927,228</u>	<u>\$13,317,029</u>	<u>\$31,519,762</u>	<u>\$19,189,416</u>

City of East Palo Alto
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

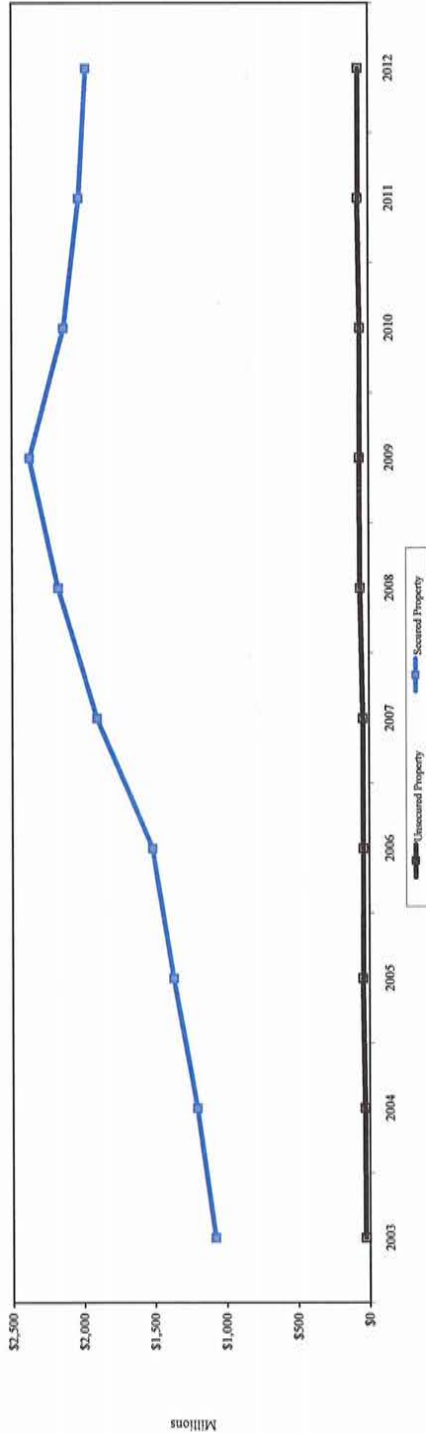
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
Taxes	\$9,279,009	\$10,492,050	\$13,574,214	\$14,729,697	\$20,480,740
Licenses and permits	1,076,574	800,705	832,783	854,222	741,979
Charges for services	1,752,851	1,795,903	1,644,136	1,640,193	1,757,569
Fines and forfeitures	225,428	248,723			
Investment earnings	660,040	817,780	634,543	1,312,057	2,112,772
Contributions and donations (a)	1,317,448	2,134,937	1,124,554	698,316	2,047,965
Intergovernmental revenues	5,974,074	4,258,018	2,662,270	2,448,174	2,862,795
Miscellaneous	699,760	382,018	348,456	90,025	89,974
Total Revenues	<u>20,985,184</u>	<u>20,930,134</u>	<u>20,820,956</u>	<u>21,772,684</u>	<u>30,093,794</u>
Expenditures					
Current:					
General government	3,287,080	3,910,913	2,802,995	2,994,610	3,218,307
Public safety	6,965,778	8,246,476	8,426,629	8,814,019	9,317,197
Public works	2,331,491	2,206,872	1,818,944	1,661,489	2,447,594
Culture and recreation	975,095	927,450	801,800	626,076	605,279
Community development	3,006,264	2,526,304	1,908,979	2,136,579	1,974,137
Administration (b)			396,222	388,413	332,570
Outside Services			2,500		
Tax increment pass-through payments (c)	481,398	534,477	613,840	648,776	1,030,352
Capital outlay	3,084,026	2,987,430	957,510	576,123	867,633
Debt service:					
Principal repayment	1,931,843	7,770,265	1,589,118	1,269,510	1,156,063
Interest and fiscal charges	1,618,788	2,638,058	1,844,965	2,361,859	2,890,750
Bond issuance costs				686,269	
Total Expenditures	<u>23,681,763</u>	<u>31,748,245</u>	<u>21,163,502</u>	<u>22,163,723</u>	<u>23,839,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,696,579)</u>	<u>(10,818,111)</u>	<u>(342,546)</u>	<u>(391,039)</u>	<u>6,253,912</u>
Other Financing Sources (Uses)					
Transfers in	6,824,254	4,463,424	3,114,580	2,088,071	2,826,543
Transfers (out)	(6,824,254)	(4,463,424)	(3,114,580)	(2,088,071)	(2,826,543)
Contributed capital assets					
Bonds issued/Proceeds from bonds		11,659,000	22,838	17,995,000	
Proceeds on Loans	1,107,536			507,958	
Advances on loans	(713,942)	(2,904,000)			
Total other financing sources (uses)	<u>393,594</u>	<u>8,755,000</u>	<u>22,838</u>	<u>18,502,958</u>	
Special item and extraordinary item					
Net Change in fund balances	<u><u>(\$2,302,985)</u></u>	<u><u>(\$2,063,111)</u></u>	<u><u>(\$319,708)</u></u>	<u><u>\$18,111,919</u></u>	<u><u>\$6,253,912</u></u>
Debt service as a percentage of noncapital expenditures	21%	57%	20%	25%	21%

NOTE:

- (a) Contributions and donations for fiscal year 2009 were included in Intergovernmental
- (b) Administrative expenses for fiscal years 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.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$22,093,509	\$23,285,450	\$21,854,984	\$22,046,785	\$19,849,192
695,105	684,903	758,510	1,451,605	1,474,305
1,960,341	1,565,339	1,188,851	1,334,083	1,637,547
2,793,335	535,836	644,080	4,308,643	1,299,287
1,218,408				
2,230,043	5,169,616	4,319,092	4,286,769	3,882,039
376,924	253,140	222,793	1,173,265	407,755
<u>31,367,665</u>	<u>31,494,284</u>	<u>28,988,310</u>	<u>34,601,150</u>	<u>28,550,125</u>
4,168,820	3,842,178	5,009,536	4,817,557	4,601,057
8,862,537	10,278,800	11,301,946	10,767,107	10,205,449
2,583,643	3,206,456	3,989,167	3,359,333	2,853,818
693,526	830,598	1,351,058	714,746	709,236
3,361,924	4,963,224	6,999,593	5,080,138	3,069,120
1,430,536	1,564,730	872,973	3,568,500	3,300,116
420,000	445,000	16,120,000	1,075,000	1,120,000
3,054,581	3,269,253	3,241,729	3,323,676	1,611,102
<u>24,575,567</u>	<u>28,400,239</u>	<u>48,886,002</u>	<u>32,706,057</u>	<u>27,469,898</u>
<u>6,792,098</u>	<u>3,094,045</u>	<u>(19,897,692)</u>	<u>1,895,093</u>	<u>1,080,227</u>
2,866,768	3,794,238	3,739,006	10,827,081	9,710,054
(2,866,768)	(3,794,238)	(3,739,006)	(10,834,484)	(9,710,054)
				224,805
			(7,403)	224,805
			15,650,000	(12,654,525)
<u>\$6,792,098</u>	<u>\$3,094,045</u>	<u>(\$19,897,692)</u>	<u>\$17,537,690</u>	<u>(\$11,349,493)</u>
18%	14%	41%	15%	10%

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



Fiscal Year	Secured				Total Secured Property	Unsecured				Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	City	Gateway 101 Corridor	University Circle	Ravenswood		City	Gateway 101 Corridor	University Circle	Ravenswood			
2003	700,499,649	189,975,178	102,968,852	61,873,984	\$1,055,317,663	7,296,300	5,136,734	10,919,005	3,436,102	\$26,788,141	1,082,105,804	1.00%
2004	770,934,412	233,714,655	109,112,054	64,396,546	\$1,178,157,667	5,456,508	5,221,932	11,472,035	9,346,432	\$31,496,907	1,209,654,574	1.00%
2005	872,975,114	281,087,465	105,172,961	65,880,186	\$1,325,115,726	5,134,547	10,541,193	20,009,124	8,039,438	\$43,724,302	1,368,840,028	1.00%
2006	1,005,033,061	289,348,595	115,592,414	68,670,547	\$1,478,644,617	7,316,832	10,377,700	18,552,585	3,520,421	\$39,767,538	1,518,412,155	1.00%
2007	1,144,127,598	297,541,707	348,165,460	73,562,973	\$1,863,397,738	5,095,167	9,849,847	24,836,342	3,427,001	\$43,208,357	1,906,606,095	1.00%
2008	1,348,476,067	306,561,634	372,177,677	88,893,136	\$2,116,108,514	5,414,795	10,104,010	40,495,044	3,378,665	\$39,392,514	2,175,501,028	1.00%
2009	1,510,291,931	327,844,925	379,621,229	92,952,830	\$2,310,710,915	5,604,572	13,006,019	42,195,488	3,241,611	\$64,047,690	2,374,758,605	1.00%
2010	1,283,832,450	315,872,778	379,888,089	96,422,143	\$2,076,015,460	4,686,491	8,807,463	43,695,337	2,870,813	\$60,060,104	2,136,075,564	1.00%
2011	1,188,412,331	305,966,439	379,147,248	84,571,225	\$1,958,097,243	7,363,881	20,146,922	41,919,469	3,191,957	\$72,622,229	2,030,719,472	1.00%
2012	1,135,889,305	308,388,843	380,672,649	81,727,775	\$1,906,678,572	7,509,043	19,268,455	41,047,879	3,672,974	\$71,498,351	1,978,176,923	1.00%

2011-12 Total Local Secured Assessed Valuation Breakdown

Residential Property	1,230,019,532	Other Property	56,603,228	Total Local Secured Property	1,906,678,572
Commercial Property	568,032,075	Industrial Property	52,023,737		

Source: San Mateo County Assessors 2002/03 - 2011/12 Combined Tax Rolls & California Municipal Statistics, Inc. (CalMun)

(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
2003	1.000	0.0313	0.0130	0.0079	1.0522
2004	1.000	0.0272	0.0238	0.0065	1.0575
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

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 YEAR 2011-12**

(secured taxpayers)

Property Tax Payer (Local Secured)	Primary Land Use	Total Assessed Value	% of Total Assessed Value (1)
1 Wells REIT II-University Circle LP	Office Building	\$312,532,803	16.39%
2 Redus Woodland LLC	Residential Properties	217,628,467	11.41%
3 Ikea Property Inc.	Commercial Store	75,526,740	3.96%
4 SHR Palo Alto LLC	Hotel	67,300,000	3.53%
5 Gateway 101 LLC	Commercial Store	24,827,008	1.30%
6 HD Development of Maryland Inc.	Commercial Store	18,802,547	0.99%
7 Nairobi Housing Inc. (2)	Apartments	12,723,635	0.67%
8 TMG/MFP Ravenswood Palms LLC	Commercial Store	12,507,981	0.66%
9 East Palo Alto at 101 LLC	Commercial Store	11,100,000	0.66%
10 Avery H. Smith & Co.	Commercial Store	11,000,777	0.58%
11 Romic Environmental Tech Corp	Industrial	10,410,686	0.55%
12 DKB Homes LLC	Residential Development	9,287,206	0.49%
13 D&C Lee Second LP	Apartments	7,071,975	0.37%
14 Cummings Park Associates	Commercial Store	6,960,003	0.37%
15 Green Valley Corp.	Undeveloped	6,933,321	0.36%
16 Storage Portfolio I LLC	Industrial	6,500,000	0.34%
17 Commercial Net Lease Realty	Commercial Store	6,145,235	0.32%
18 SEI PSP II Joint Ventures	Industrial	4,575,908	0.24%
19 Bella Vista Capital Inc.	Industrial	4,500,000	0.24%
20 EPA Bayshore Properties LLC	Commercial Store	4,415,584	0.23%
	Total	\$830,749,876	43.64%

(1) 2011-2012 Local Secured Assessed Valuation.

\$1,906,678,572

(2) Net taxable value

Source: California Municipal Statistics, Inc. (CalMuni)

**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	
2003	6,817,632	6,559,474	96.2%		6,559,474	96%	
2004	7,530,376	7,177,352	95.3%		7,177,352	95%	
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	12,852,793	12,811,833	99.7%		12,811,833	100%	

Source: San Mateo County Assessor 2002/03 - 2011/12 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, 2012
Last Ten Fiscal Years

Fiscal Year	Redevelopment Tax Allocation Bonds	Revenue Bond	Less: Restricted Bonds/ Bond Proceeds	Total Primary Government Bonded Debt (including Redevelopment Agency Bonds)	Percentage of Personal Income per Capita	Outstanding Debt Per Capita
	1	1	2		3	4
2003	22,515,000			22,515,000	1.4%	\$724
2004	26,475,000			26,475,000	1.5%	840
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	n/a	903
2012	22,870,000	16,815,000	14,805,000	24,880,000	n/a	874

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, 2012**

2011-12 Assessed Valuation:	\$1,978,176,923
Redevelopment Incremental Valuation:	<u>773,608,409</u>
Adjusted Assessed Valuation:	\$1,204,568,514

<u>OVERLAPPING TAX INCREMENT DEBT</u>	Total Debt <u>6/30/2012</u>	(1) Percentage Applicable	City's Share of Debt <u>6/30/2012</u>
2003 A Refunding Tax Allocation Bonds	\$5,000,000	100%	\$5,000,000
2003 B Refunding Tax Allocation Bonds (Taxable)	3,065,000	100	3,065,000
2005 Series A Revenue Bonds	16,815,000	100	<u>16,815,000</u>
TOTAL OVERLAPPING TAX INCREMENT DEBT			\$24,880,000

Ratios to Increment Valuation:
Overlapping Tax Increment Debt..... 3.22%

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt <u>6/30/2012</u>	(1) Percentage Applicable	City's Share of Debt <u>6/30/2012</u>
San Mateo Community College District	\$595,569,094	0.920%	\$5,479,244
Sequoia Union High School District	343,070,000	2.225	7,633,308
Ravenswood School District	10,927,550	65.835	7,194,153
City of East Palo Alto	0	100	0
California Statewide Communities Development Authority 1915 Act Bonds	3,225,143	100	<u>3,225,143</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$23,531,848

DIRECT AND OVERLAPPING TAX, ASSESSMENT AND TAX INCREMENT DEBT **\$48,411,848**

<u>OVERLAPPING GENERAL FUND DEBT:</u>	Total Debt	Percentage	City's Share of Debt
San Mateo County General Fund Obligations	\$324,979,816	0.920%	\$2,989,814
San Mateo County Board of Education Certificates of Participation	11,945,000	0.920	109,894
Menlo Park Fire Protection District Certificates of Participation	11,990,000	6.037	723,836
Midpeninsula Regional Open Space District General Fund Obligations	138,474,717	0.742	<u>1,027,482</u>
TOTAL OVERLAPPING GENERAL FUND DEBT			\$4,851,026

TOTAL DIRECT DEBT **\$0**

COMBINED TOTAL DEBT **\$28,382,874 (2)**

Notes:

- (1) Percentage of overlapping agency's assessed valuation located within boundaries of the city
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

Ratios to 2011-12 Assessed Valuation:

Direct Debt	0.00%
Direct and Overlapping Tax and Assessment Debt	1.19%
Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.45%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt	0.00%
Combined Total Debt	2.36%

State School Building Aid Repayable as of 6/30/2012: \$0

AB:(\$450)

Source: California Municipal Statistics, Inc.

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

	2003	2004	2005	2006	2007
Gross Assessed Valuation	707,795,949	776,390,920	878,109,661	1,012,349,893	1,149,222,765
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	194,097,730	219,527,415	219,527,415	253,087,473	287,305,691
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	29,114,660	32,929,112	32,929,112	37,963,121	43,095,854

Debt Applicable to Limit:

Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	29,114,660	32,929,112	32,929,112	37,963,121	43,095,854

	2008	2009	2010	2011	2012
Gross Assessed Valuation	1,353,890,862	1,515,896,503	1,288,518,941	1,195,776,212	1,143,398,348
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	338,472,716	378,974,126	322,129,735	298,944,053	285,849,587
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	50,770,907	56,846,119	48,319,460	44,841,608	42,877,438

Debt Applicable to Limit:

Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	50,770,907	56,846,119	48,319,460	44,841,608	42,877,438

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, 2012
Last Ten Fiscal Years

	RDA Tax Allocation Bonds				Public Financing Authority Revenue Bonds					
Fiscal Year	Tax Increment	Debt Service (1)		Coverage	Principal and Interest From 1999 TABS	Capitalized Interest Acct		Debt Service (2)		Coverage
		Principal	Interest			Principal	Interest	Principal	Interest	
2003	3,744,619	140,000	1,366,898	2.5	-	-	-	-	-	-
2004	4,074,133	290,000	1,356,648	2.5	-	-	-	-	-	-
2005	4,557,353	470,000	1,812,260	2.2	-	-	-	-	-	-
2006	4,409,635	385,000	1,792,133	2.3	-	507,986	507,986	507,986	507,986	100%
2007	7,996,776	400,000	1,772,923	3.7	-	846,644	846,644	846,644	846,644	100%
2008	7,857,564	420,000	1,752,425	3.6	-	846,644	846,644	846,644	846,644	100%
2009	7,996,776	445,000	1,730,325	3.7	-	846,644	846,644	846,644	846,644	100%
2010	7,891,237	470,000	1,706,055	3.6	-	846,644	846,644	846,644	846,644	100%
2011	7,625,928	495,000	1,455,833	3.9	1,416,784	-	-	580,000	836,784	100%
2012	7,376,396	520,000	1,425,525	3.8	1,418,570	-	-	600,000	818,570	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, 2012
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)
2003	31,117	14.4%	13,804	5.8%	52,289	6,168
2004	31,517	12.6%	14,968	4.9%	56,697	5,019
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%	n/a	8.3%	n/a	4,290
2012	28,467	16.8%	n/a	7.1%	n/a	4,296

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 2012 rate is an average of six months (January 2012 to June 2012).
 - 3 Fy 2003 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 2012 Unemployment rate is a an average of six months (January 2012 to June 2012).
 - 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
Number of Positions - City Government by Function
June 30, 2012
Last Eight 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>
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
Public Safety								
Police								
Officers	48	48	42	43	43	44	40	40
Civilians	16	12	9.75	9.75	7	7	11	13.5
Community Development								
Administration					2	2	2	5.5
Economic Development/Redevelopment Agency	6	6	6	6	6	6	6	5
Planning Division	6	6	4	5	5	5	5	3
Building Services	6	4	4	5	5	5	5	3
Engineering Services								5
Maintenance Dision								11
Senior Services								1.63
Public Works (Eliminated 2011)								
Administration	3	3	2	2	2	2	2	0
Engineering	6	6	5	6	6	6	6	0
Maintenance	12	13	12	12	12	12	13	0
Culture & Recreation (Eliminated 2011)								
Administration	2	2	2	2	2	2	2	0
Recreation	6.28	1	1	1	1	2	2	0
Senior Services	3.13	1.38	1.38	1.38	1.38	1.63	1.63	0
Housing Services & Rent Stabilization Elinated 2011	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>0</u>
Total	139.41	125.38	110.93	118.13	118.38	122.13	123.1	110.6

Source: City of East Palo Alto Government Budget.

Note: The City began publishing budgeted positions by function in Fiscal Year 2004-05; therefore, only eight 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, 2012
Last Four 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>
Police				
Calls for Service	37,385	35,736	35,337	31,277
Number of serious crimes *	630	551	440	475
Number of burglaries	347	424	399	425
Number of assaults	482	385	316	350
Number of auto thefts reported	256	213	194	123
Number of homicides	8	9	2	10
Number of robberies	121	137	104	102
Number of physical arrests	713	1,172	1,385	612
Community Development				
<u>Transportation</u>				
Shuttle Passengers				
Caltrain/Commuter Shuttle	21,433	32,872	46,894	65,770
Shopper Shuttle	7,055	5,186	7,666	8,734
Youth Shuttle	12,835	18,471	13,233	14,557
Weekend Shuttle	14,321	17,783	13,509	15,382
<u>Streets</u>				
Street Resurfacing (lane miles)	1.30	1.30	4.40	1.6
Potholes repaired	12	67	20	42
<u>Engineering</u>				
Encroachment permits	76	44	42	55
Culture & recreation				
Facility Rentals	25	27	21	25
Lunches Served to Seniors	8,188	9,225	8,437	7,331
Transportation trips provided to Seniors	3,457	3,375	3,234	3,580
Special Event participants	1,899	2,600	1,800	2,450
Program Registration participants	115	206	150	122
<u>Building Permits Issued:</u>				
Residential - Count	650	425	373	577
Commercial Count	27	22	22	52
Water **				
Hydrant Breaks	13	7	7	8
Water main breaks	18	6	12	16
Average daily consumption per family (in gallons)	227	332	224	229

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, 2012
Last Ten Fiscal Years

FUNCTION	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Government owned buildings										
Public Works & Comm Development Building			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	805	805	809	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)	5	5	6	6	6	6	6	6	6	6
Parks acreage (acres)	13.4	13.4	16	16	16	16	16	16	16	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	39.2	39.2	38.6	38.6	38.6
Fire hydrants	230	230	230	230	230	230	230	282	282	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	1.9	1.9

Source: Various city departments

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

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