

Comprehensive Annual Financial Report For the Year Ended June 30, 2013



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

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CITY OF EAST PALO ALTO, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

Prepared by
FINANCE DEPARTMENT

INTRODUCTORY SECTION

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2013

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CITY OF EAST PALO ALTO

December 10, 2013

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, 2013. 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, 2013.

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, 2013 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 28,675.

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

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

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

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

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

ECONOMIC CONDITION AND FISCAL OUTLOOK

Over the past 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 from -1.3 percent to 4.9 percent and registering 3.6% as of the 3rd calendar quarter of 2013. National unemployment contracted from a high of 10.0 percent in 2009 to 7.0 percent as of November 2013. While this is an improvement, unemployment is still significantly higher than the average rate of 5.83% from 1948 to 2013. Although the Federal Reserve has indicated a desire to reduce its quantitative easing program with the gains in economic activity and interest rates have increased slightly over the course of the year, rates still remain at very low levels with the 10 year Treasury still well below 3% as of November 2013.

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

In December 2012, the City declared a local emergency in response to the San Francisquito Creek flooding caused by winter rainstorms. Thanks to City Council leadership, city staff, mutual aid assistance, and the community, protective measures were implemented promptly and necessary repairs were made accordingly. Staff will continue to explore other long-term remedies. While the City was unsuccessful in getting financial assistance from the State, some funding is expected from the Federal Highway Administration.

The City did project some improvement in its major revenue sources; however, it was still insufficient to cover its base level of expenditures, particularly in the City's General Fund. As a result, city staff continued with wage concessions to help moderate the General Fund's operating deficit. With the dissolution of its Redevelopment Agency, the City undertook 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, 2013, the City Council maintained 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 full year post dissolution of its redevelopment agency. Notwithstanding these challenges, the City continues to make progress in accomplishing the City Council priorities articulated in the Strategic Plan, as follows:

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

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

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

Improve Public Facilities and Infrastructure: These goals and objectives pertain to completion of the safe routes to school street improvement project, completing Bay Road and the related

infrastructure, enhancing pedestrian and bicycle connectivity, exploring options to consolidate city facilities, developing additional water supply and enhancing the water system, and enhancing flood protection for the City's residents.

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

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

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. 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

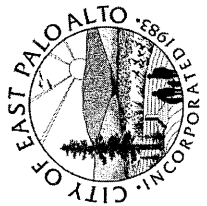
DIRECTORY OF OFFICIALS

City Council

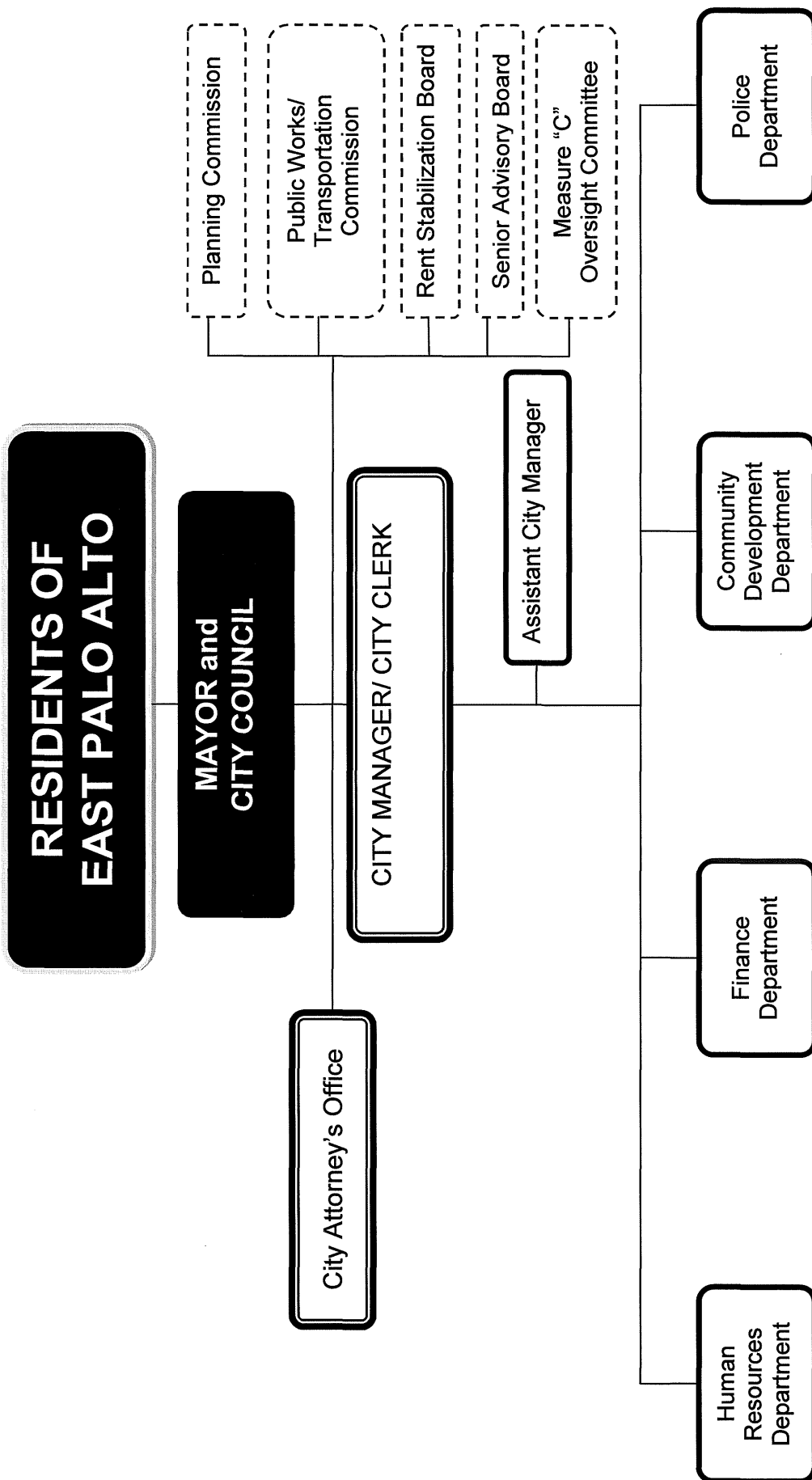
Ruben Abrica Mayor
David Woods... Vice Mayor
Lisa Yarbrough-Gauthier..... Councilmember
Laura Martinez..... Councilmember
Larry Moody..... Councilmember

Administration

Magda A. Gonzalez.....City Manager
Barbara Powell.....Assistant City Manager
Valerie Armento.....Interim City Attorney
Edmund Suen Finance Director
Ronald Davis.....Police Chief
John Doughty Community Development Director



**CITY OF EAST PALO ALTO
MASTER ORGANIZATIONAL CHART 2012-2013**



Regional Map





Government Finance Officers Association

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

Presented to

**City of East Palo Alto
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial positions and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, during the year ended June 30, 2013 and required a format change in certain financial statements and certain nomenclature revisions in the footnotes accompanying the financial statements:

- GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* as disclosed in Note 13A.
- GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as disclosed in Note 1M.
- GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The City elected to early implement this pronouncement as discuss in Note 1N.

The emphasis of these matters does not constitute modifications to our opinion.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic 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 basic 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 auditing standards generally accepted 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 10, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis is designed to provide, for the fiscal year ending June 30, 2013, (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

- On January 31, 2012, legislation under ABx1 26, which was further amended by AB 1484, dissolved all California redevelopment agencies. Tax increment revenues of former redevelopment agencies have since been diverted to the State for distribution to Successor Agencies for enforceable obligations with the balance going to affected taxing entities. 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 the Successor Agency Private-Purpose Trust Fund under the control of an Oversight Board (see additional information on Note 14 of the Financial Statements).
- At June 30, 2013, government-wide net position totaled \$80.5 million, an increase of \$6.6 million during the fiscal year. Of this net position, \$33.8 million is invested in capital assets and \$7.8 million are restricted for specific uses, leaving an unrestricted balance in the amount of \$38.9 million. This \$38.9 million represents a \$4.8 improvement from the unrestricted balance of \$34.1 million a year ago and can be attributable primarily to one-time distribution of Housing Successor and Successor Agency cash balances to affected taxing entities and the elimination of debt service payments of redevelopment agency bonds assumed by the Successor Agency.
- Total government-wide revenues, including program and general revenues were \$30.6 million and total expenses were \$24.0 million in fiscal year 2012-13. This compares to total revenues of \$31.3 million and expenses of \$27.1 million in fiscal year 2011-12. The reduction in both revenues and expenses are also largely attributable to full year effect from the dissolution of the Former RDA. In fiscal year 2011-12, tax increment revenues were still available up until the dissolution of the Former RDA on January 31, 2012. Similarly, a reduction of community development expenditures and interest on debt from the Former RDA that was paid by the Successor Agency Private Purpose Trust Fund had a full year effect in fiscal 2012-13.
- Governmental program revenues were \$7.8 million in fiscal year 2012-13 compared to \$6.4 million in fiscal year 2011-12 as the City received an increase in grant contributions, including a public benefit payment of \$800,000 from Facebook for traffic impacts as a result of their corporate campus expansion in neighboring Menlo Park. Business-type program revenues were essentially unchanged at \$2.7 compared to the prior year.

- Governmental general revenues were \$20.0 million in fiscal year 2012-13 compared to \$22.3 million in fiscal year 2011-12 as the City loss a full year of property tax increment as a result of the RDA dissolution. Business-type general revenues were \$14 thousand compared to \$20 thousand in fiscal year 2011-12 as interest rate yields continued its decline.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate financial compliance with legal requirements. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City's Major Funds

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

- *Governmental funds* - Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation located after each of the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Financial Statements

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

Government-wide Financial Analysis

The City provides comparative information in its Management Discussion & Analysis by presenting two years of financial information in the GASB Statement No. 34 format and a comparative analysis of government-wide data. Net position serves as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by approximately \$80.5 million. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$86.8 million total assets; only \$52.9 million has short or long term liquidity. The remaining assets are capital assets such as roadways, storm drains, lighting, water system and other infrastructures owned by the City.

Analysis of Net Position

Government-wide assets exceeded liabilities by \$80.5 million at the end of the current fiscal year. The following table is a summary of the government-wide net position for the governmental and business-type activities:

STATEMENT OF NET POSITION						
(Dollars in thousands)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	49,020	44,342	3,875	4,157	52,895	48,499
Capital Assets	29,930	28,413	3,939	4,134	33,869	32,547
Total assets	<u>78,950</u>	<u>72,755</u>	<u>7,814</u>	<u>8,291</u>	<u>86,764</u>	<u>81,047</u>
Liabilities:						
Current and other liabilities	4,062	4,444	1,531	2,285	5,593	6,729
Noncurrent liabilities	655	466	54	-	709	466
Total liabilities	<u>4,717</u>	<u>4,910</u>	<u>1,585</u>	<u>2,285</u>	<u>6,302</u>	<u>7,195</u>
Net Position:						
Net Investment in capital assets	29,816	28,412	3,939	4,135	33,755	32,547
Restricted	6,970	6,353	837	834	7,807	7,187
Unrestricted	37,447	33,079	1,453	1,037	38,900	34,116
Total Net Position	<u>74,233</u>	<u>67,844</u>	<u>6,229</u>	<u>6,006</u>	<u>80,462</u>	<u>73,850</u>

Numbers may not add due to rounding

Governmental Activity

Total assets of \$78.9 million consist of current and other assets of \$49.0 million and capital assets of \$29.9 million. The \$6.2 million increase from the prior year is primarily due to the \$6.4 million positive change in net position for the fiscal year.

Total liabilities of \$4.7 million consist of \$4.0 million of current liabilities and \$700 thousand of long-term debt. Total liabilities decreased by \$200 thousand with Accounts Payable and Accrued Liabilities declining by \$159 thousand.

Net position is comprised of 1) \$29.8 million net investment in capital assets (e.g. land building, improvements, infrastructure, etc.) less any outstanding debt used to acquire those assets. The City utilizes capital assets to provide services to citizens. These assets, however, are not available for future spending. Although the net investment in capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities; 2) \$7.0 million represents resources that are subject to external restrictions on how they may be expended; and, 3) a remaining unrestricted balance of \$37.4 million.

Business-type Activity

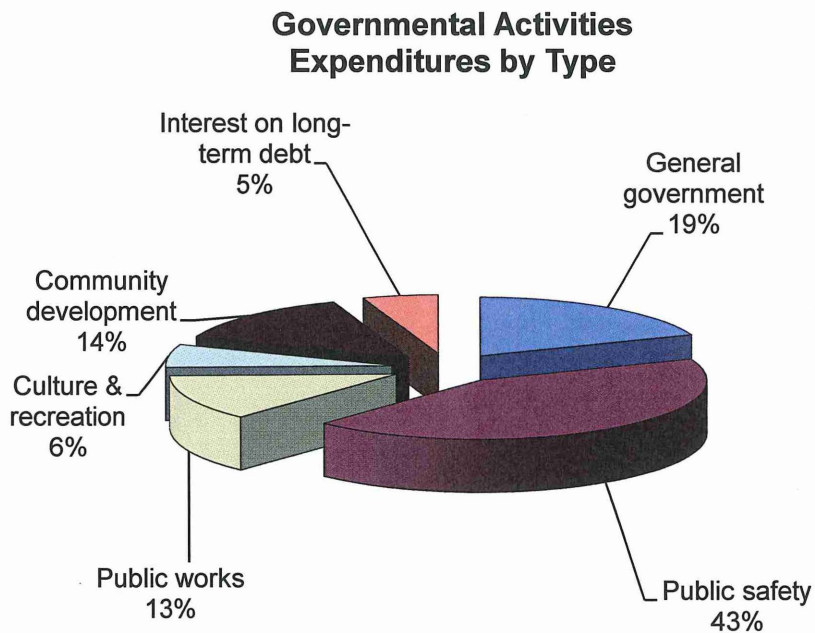
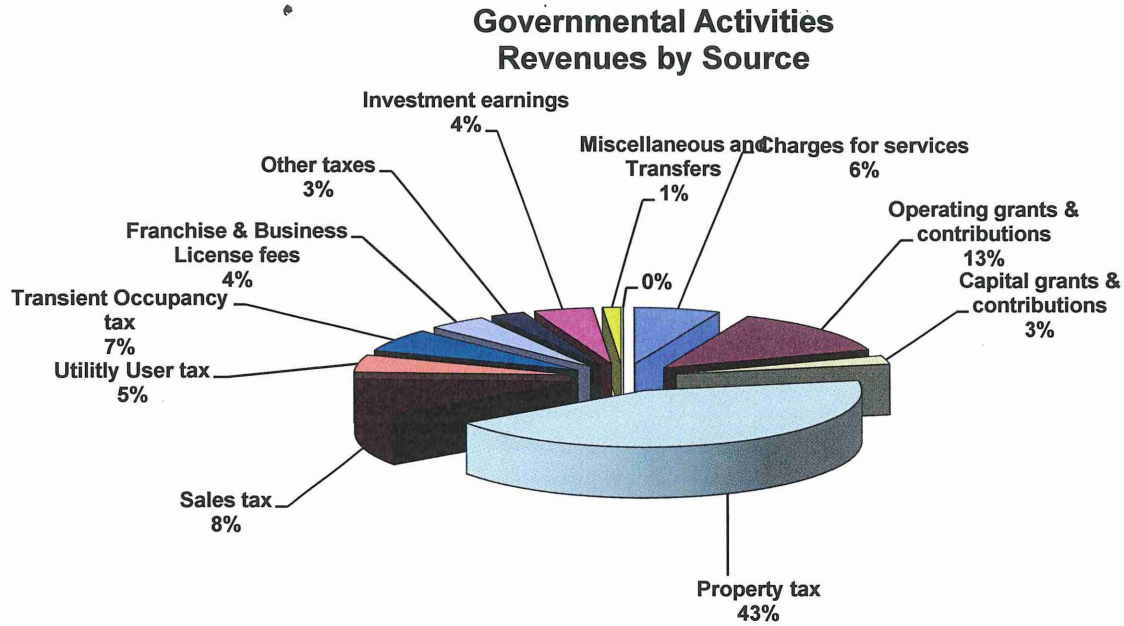
The City's business-type activities include \$3.9 million in capital assets, consisting primarily of municipal water-service assets and infrastructure. Approximately, \$1.5 million of unrestricted Net position are available at year-end to pay current and future obligations.

Analysis of Statement of Activities

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

STATEMENT OF ACTIVITIES						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	1,801	1,847	2,725	2,686	4,526	4,533
Operating grants & contributions	4,617	3,800	-	-	4,617	3,800
Capital grants & contributions	1,414	704	-	-	1,414	704
General revenues:						
Property taxes	10,752	12,338	-	-	10,752	12,338
Sales taxes	3,022	3,004	-	-	3,022	3,004
Utility user tax	1,434	1,418	-	-	1,434	1,418
Transient Occupancy taxes	2,128	1,870	-	-	2,128	1,870
Franchise & Business taxes	1,407	1,265	-	-	1,407	1,265
Other taxes	719	734	-	-	719	734
Investment Earnings	240	1,260	14	20	254	1,280
Miscellaneous and Transfers	303	396	-	-	303	396
Total revenues	<u>27,837</u>	<u>28,636</u>	<u>2,739</u>	<u>2,706</u>	<u>30,576</u>	<u>31,342</u>
Expenses						
Program expenses:						
General government	4,397	4,634	-	-	4,397	4,634
Public safety	10,409	10,374	-	-	10,409	10,374
Public works	3,521	3,029	-	-	3,521	3,029
Culture and recreation	514	1,526	-	-	514	1,526
Community development	2,608	3,340	-	-	2,608	3,340
Water services	-	-	341	327	341	327
Garbage collection	-	-	2,174	2,583	2,174	2,583
Interest on long-term debt	1	1,296	-	-	1	1,296
Total expenses	<u>21,450</u>	<u>24,199</u>	<u>2,515</u>	<u>2,910</u>	<u>23,965</u>	<u>27,109</u>
Extraordinary item	-	25,057	-	-	-	25,057
Changes in Net Position	6,388	29,494	224	(204)	6,612	4,233
Net Position-Beginning	67,845	38,350	6,005	6,210	73,850	44,560
Net Position-Ending	<u>74,233</u>	<u>67,844</u>	<u>6,229</u>	<u>6,006</u>	<u>80,462</u>	<u>73,850</u>

Government-wide Net position (before the extraordinary item) increased by approximately \$6.6 million as noted in the table above as governmental activities revenues exceeded expenses by \$6.4 million while business-type activities revenues exceeded expenses by \$224 thousand. A further depiction of governmental type revenues and expenditures are illustrated in the charts below:



Governmental activities

- Overall, total revenues were \$27.8 million; a decrease of \$799 thousand or 2.7% from the prior year. The decrease was due to the full year impact of the dissolution of the City's Redevelopment Agency which contributed to a \$1.5 million reduction of property tax revenues. Investment earnings declined by \$1 million as former annual loan payments from the Redevelopment Agency to the City were eliminated by AB x1 26. The decline of these revenues was partially offset by a \$1.5 million increase in grant revenues.
- Overall, total expenses were \$21.5 million, a decrease of \$2.7 million or 11.2% from the prior year. This is primarily due the full year elimination of redevelopment debt interest expense that is now being paid by the Successor Agency fiduciary fund and a reduction of Culture and Recreation expenditures due to staff vacancies and the resulting postponement of programming during the year as well as a reduction in Community Development expenses.

Business-type activities

- Net position increased by \$224 thousand as a result of a \$298 thousand gain in Garbage net position offset by a decline in Water net position of \$74 thousand.
- Water revenues increased by \$36 thousand to \$259 thousand from the previous year due to an increase in water rates. Water expenses decreased by \$14 thousand to \$340 thousand due primarily to a \$10 thousand increase in depreciation expense.
- Garbage operating revenues improved slightly by \$3 thousand to \$2.47 million. Operating expenses declined by \$409 thousand to \$2.17 million as the final settlement payment with the previous service provider ended in fiscal year 2011-12.

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, 2013, the City's governmental funds reported a combined ending fund balance of \$43.4 million.

- Governmental revenues were \$26.4 million and expenditures totaled \$22.9 million compared to the prior year's amounts of \$28.6 million and \$27.5 million respectively. The \$2.2 million decline in revenues was largely due to the full year loss of property tax increment as a result of the dissolution of the City's Redevelopment Agency. The \$4.6 million reduction in expenditures is attributable to a \$1.2 million reduction in capital outlay and a \$580 thousand reduction of Community Development expenditures. In addition, the decrease in debt service of redevelopment bonds assumed by the Successor Agency fiduciary fund from the former RDA added approximately \$2.7 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 \$18.9 million; an increase of \$2.4 million or 14.5% from the prior year. The increase is primarily due to one-time distribution of Housing Successor and Successor Agency cash balances distributed to affected taxing entities including \$1.8 million to the City's General Fund. Transient occupancy tax increased by \$178,000 as strong economic activity in Silicon Valley helped spur hotel occupancy and pushed room rates higher. License, Fees, and Permit revenues climbed by \$163 thousand as gains were made in business license tax, building permit fees, and franchise fees. Charges for services rose by \$73,000 as planning fee revenues were aided by adjustments in the Master Fee schedule that took effect on January 1, 2013.

Expenditures (before Transfers Out) were \$15.7 million, an increase of \$300 thousand or 2.0% from the prior year due primarily to general increases in employee benefit costs including health care and retirement. This was partially muted by staff vacancies in several City departments.

On June 30, 2013, Fund Balance was \$23.1 million, an increase of \$2.5 million (\$1.8 million of which came from the one-time distribution of redevelopment funds) or 12.1% from the prior year. Of the total fund balance approximately \$9.1 million is unassigned, which is \$2.3 million higher than the prior year, and is available for spending at the City Council's discretion. The City also has \$2.2 million in assigned funds of which \$2 million is for unanticipated emergencies based on its adopted financial plan policy, which recommends a minimum reserve set aside of 15% percent of operating costs. The remaining \$200 thousand are for encumbrances outstanding at year end.

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 Housing Fund were not distributed Successor, but was retained by the Successor Agency and ultimately distributed to the taxing entities in the Former RDA project area during fiscal year 2012-13.

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

Fund Balance increased by \$140 thousand from \$1.31 million on June 30, 2012 to \$1.45 million on June 30, 2013. Revenues consisted of grants and transfers-In to fund capital projects.

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

At the end of the fiscal year, the unrestricted net position for the Water and Garbage Funds were \$822 thousand and \$632 thousand respectively. The combined increase in net position for both funds was \$224 thousand compared to prior year. Discussions of these funds have been previously made in the City's government-wide business-type activities section.

General Fund Budgetary Highlights

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

- The fiscal year 2012-13 adopted revenues were \$18.02 million (including transfers in) and the final amended revenues were \$19.42 million (including transfers in); an increase of approximately \$1.4 million from the original budget. The increase is primarily from estimated revenues of \$1.67 million from the distribution of available cash balances of the Housing Successor and Successor Agency and a \$350 thousand reduction in property tax revenues as assessed values in East Palo Alto continued declining in FY 2012-13. The adopted 2012-13 appropriations (including transfers out) totaled \$18.4 million while the final appropriations were \$18.9 million. The \$500 thousand increase was made primarily in anticipation to an increase in transfers out for capital projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2013 amounted to \$33.9 million (net of accumulated depreciation), an increase of \$1.3 million or 4.1% 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, 2013						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	605	605	\$ 207	\$ 207	\$ 812	\$ 812
Buildings and Improvements	5,127	5,127	44	44	5,171	5,171
Improvements Other than Bldgs.	4,942	3,831	7,058	7,058	12,000	10,889
Construction in Progress	2,937	1,768			2,937	1,768
Furnishings & Equipment	2,019	1,889	64	64	2,083	1,953
Vehicles	1,902	1,749	89	89	1,991	1,838
Street and Roadways	43,239	42,992			43,239	42,992
Storm Drain System	4,089	4,089			4,089	4,089
Less: Accumulated Depreciation	(34,930)	(33,638)	\$ (3,523)	\$ (3,328)	(38,453)	(36,966)
Total	\$ 29,930	\$ 28,412	\$ 3,939	\$ 4,134	\$ 33,869	\$ 32,546

Governmental Activities:

- Capital assets increased by \$1.52 million, net of current year depreciation of \$1.29 million. New assets acquired and in progress of \$ 2.81 million included street resurfacing, sidewalk repairs, storm drain improvements, Cooley Landing Park improvements, Gloria Well rehabilitation, safe routes to school improvements, police vehicles, and maintenance equipment. .

Business-Type Activities:

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

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

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

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

Debt Administration

With the dissolution of the Former RDA, the Successor Agency fiduciary fund assumed the long-term term debt of the Former RDA as of February 1, 2012. Total debt balance outstanding at June 30, 2013 was \$39,122,520. 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 16.8% in June 2012 to 13.2% in June 2013. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2013, the State and County unemployment rates were 8.7% and 5.5%, respectively. Compared to June 2012, the State and County unemployment rates were 10.6% and 7.1% respectively. Overall, California, San Mateo County, and most local economies are experiencing gradual recovery. Some localities are doing well, but as has been the case historically, recovery in East Palo Alto has lagged behind most other communities in the San Francisco Bay Area.

The City has had to extend employee concessions to address its structural imbalance. Although staff vacancies and one-time revenues have helped to bridge the fiscal year 2012-13 budget shortfall, permanent solutions are needed to address the ongoing disparity between revenue and expenditure growth and the lack of a reliable and continuous funding stream for capital project replacements and ongoing maintenance.

The above mentioned conditions were considered in preparing the City's operating budget for fiscal year 2013-14. Changes in conditions and circumstances after the adoption of the City's fiscal year 2013-14 budget will be taken under consideration as budget amendments by the City Council.

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 POSITION
AND STATEMENT OF ACTIVITIES**

The Statement of Net Position 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, deferred outflows of resources, all its liabilities and deferred inflows of resources, 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 Position reports the excess of the City's total assets and deferred outflows of resources over the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position 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 position. 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.

CITY OF EAST PALO ALTO
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations (Note 3)	\$20,839,676	\$2,980,000	\$23,819,676
Restricted cash and investments (Note 3)	2,407,680	836,720	3,244,400
Receivables:			
Accounts	325,932	58,454	384,386
Accrued interest	155,576		155,576
Taxes	440,128		440,128
Intergovernmental	2,757,895		2,757,895
Loans and notes (Note 5)	7,670,989		7,670,989
Deposits and prepayments	139,259		139,259
Loans to Successor Agency (Note 5F)	11,677,833		11,677,833
Property held for resale (Note 11)	2,603,736		2,603,736
Capital assets (Note 6):			
Non-depreciable	3,542,371	206,750	3,749,121
Depreciable, net of accumulated depreciation	26,388,468	3,732,134	30,120,602
Total Assets	\$78,949,543	\$7,814,058	\$86,763,601
LIABILITIES			
Accounts payable	\$1,184,367	\$1,530,958	\$2,715,325
Accrued liabilities	407,443		407,443
Retentions payable	146,114		146,114
Deposits payable	557,485	53,622	611,107
Advance from developers	1,175		1,175
Unearned revenue	1,417,152		1,417,152
Compensated absences (Note 1F):			
Due within one year	287,883		287,883
Due in more than one year	402,303		402,303
Claims payable (Note 11)			
Due within one year	29,700		29,700
Due in more than one year	168,300		168,300
Long-term debt (Note 7)			
Due within one year	29,914		29,914
Due in more than one year	84,721		84,721
Total Liabilities	4,716,557	1,584,580	6,301,137
NET POSITION (Note 9)			
Net investment in capital assets	29,816,204	3,938,884	33,755,088
Restricted for:			
Highway and streets projects	3,017,783		3,017,783
Parks and recreation	358,473		358,473
Measure C programs	1,505,044		1,505,044
Housing programs	2,088,380		2,088,380
Capital projects		836,720	836,720
Unrestricted	37,447,102	1,453,874	38,900,976
Total Net Position	\$74,232,986	\$6,229,478	\$80,462,464

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$4,396,506	\$5,153	\$433,094		(\$3,958,259)		(\$3,958,259)
Public safety	10,408,814	242,704	697,568		(9,468,542)		(9,468,542)
Public works	3,521,107	114,107	3,486,309	\$800,000	879,309		879,309
Culture and recreation	513,923	11,429			(502,494)		(502,494)
Community development	2,608,543	1,427,453		614,317	(566,773)		(566,773)
Interest on long-term debt	1,306				(1,306)		(1,306)
Total Governmental Activities	21,450,199	1,800,846	4,616,971	1,414,317	(13,618,065)		(13,618,065)
Business-type Activities:							
Garbage collection	2,174,074	2,465,513				\$291,439	291,439
Water service	340,916	259,353				(81,563)	(81,563)
Total Business-type Activities	2,514,990	2,724,866				209,876	209,876
Total	\$23,965,189	\$4,525,712	\$4,616,971	\$1,414,317	(\$13,618,065)	\$209,876	(\$13,408,189)
General revenues:							
Taxes:							
Property taxes					\$10,752,244		\$10,752,244
Sales taxes					3,022,310		3,022,310
Utility users tax					1,434,208		1,434,208
Transient occupancy tax					2,127,859		2,127,859
Other taxes					719,269		719,269
Franchise and business tax					1,407,440		1,407,440
Investment earnings					240,412	\$13,652	254,064
Miscellaneous					303,188		303,188
Total general revenues					20,006,930	13,652	20,020,582
Change in Net Position					6,388,865	223,528	6,612,393
Net Position-Beginning					67,844,121	6,005,950	73,850,071
Net Position-Ending					\$74,232,986	\$6,229,478	\$80,462,464

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 2013. 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. The main source of revenue is the repayment of loans restricted for housing activities.

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.

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Capital Project Fund Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments (Note 3)	\$11,727,243	\$168,556	\$467,282	\$8,476,595	\$20,839,676
Restricted cash and investments (Note 3)			990,528	1,417,152	2,407,680
Receivables:					
Accrued interest		155,576			155,576
Taxes	396,138			43,990	440,128
Intergovernmental	10,300		1,854,420	893,175	2,757,895
Accounts receivable	274,633			51,299	325,932
Deposits and prepayments	82,208	15,000		42,051	139,259
Due from other funds (Note 4A)	326,895				326,895
Loans to Successor Agency (Note 5F)	11,677,833				11,677,833
Property held for resale (Note 1I)		2,603,736			2,603,736
Loans and notes receivable (Note 5)		7,405,706		265,283	7,670,989
Total Assets	\$24,495,250	\$10,348,574	\$3,312,230	\$11,189,545	\$49,345,599
LIABILITIES					
Accounts payable	\$472,776		\$380,690	\$330,901	\$1,184,367
Retentions payable			83,660	62,454	146,114
Deposits payable	557,485				557,485
Other accrued liabilities	402,175			5,268	407,443
Unearned revenue				1,417,152	1,417,152
Due to other funds (Note 4A)				326,895	326,895
Advances from developers	1,175				1,175
Total Liabilities	1,433,611		464,350	2,142,670	4,040,631
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - grants			1,398,759	487,433	1,886,192
Total Deferred Inflows of Resources			1,398,759	487,433	1,886,192
FUND BALANCES (NOTE 9)					
Nonspendable	11,760,041	15,000		42,051	11,817,092
Restricted		10,333,574		8,760,213	19,093,787
Assigned	2,187,004		1,449,121		3,636,125
Unassigned	9,114,594			(242,822)	8,871,772
Total Fund Balances	23,061,639	10,348,574	1,449,121	8,559,442	43,418,776
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$24,495,250	\$10,348,574	\$3,312,230	\$11,189,545	\$49,345,599

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances reported on the Governmental Funds Balance Sheet \$43,418,776

Amounts reported for Governmental Activities in the Statement of Net Position
 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 29,930,839

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. 1,886,192

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:

Capital leases	(114,635)
Compensated absences	(690,186)
Claims payable	<u>(198,000)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$74,232,986

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, 2013

	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Capital Projects Fund Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property tax	\$10,164,743			\$290,107	\$10,454,850
Sales tax	3,022,310				3,022,310
Transient occupancy tax	1,702,291			425,568	2,127,859
Utility users tax	1,434,208				1,434,208
Other taxes	17,185			1,489,110	1,506,295
Licenses, fees and permits	1,637,444				1,637,444
Charges for services	358,314			986,710	1,345,024
Fines and forfeitures	225,680				225,680
Use of money and property	50,849	\$86,195	\$14	52,737	189,795
Grants and Intergovernmental	78,529		1,414,317	2,598,968	4,091,814
Miscellaneous	224,108	76,437		72,141	372,686
Total Revenues	18,915,661	162,632	1,414,331	5,915,341	26,407,965
EXPENDITURES					
Current:					
General government	3,249,446			1,111,900	4,361,346
Public safety	8,981,644			1,107,594	10,089,238
Public works	1,545,518			1,792,986	3,338,504
Culture and recreation	197,551			312,010	509,561
Community development	1,707,419			779,148	2,486,567
Capital outlay	22,550		2,053,214	48,663	2,124,427
Debt service:					
Principal	9,718				9,718
Interest and fiscal charges	1,306				1,306
Total Expenditures	15,715,152		2,053,214	5,152,301	22,920,667
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,200,509	162,632	(638,883)	763,040	3,487,298
OTHER FINANCING SOURCES (USES)					
Proceeds from lease (Note 7)			124,353		124,353
Contributed capital	15,632				15,632
Transfers in (Note 4B)	4,799		654,176	136,378	795,353
Transfers (out) (Note 4B)	(761,378)			(33,975)	(795,353)
Total Other Financing Sources (Uses)	(740,947)		778,529	102,403	139,985
NET CHANGE IN FUND BALANCES	2,459,562	162,632	139,646	865,443	3,627,283
BEGINNING FUND BALANCES	20,602,077	10,185,942	1,309,475	7,693,999	39,791,493
ENDING FUND BALANCES	\$23,061,639	\$10,348,574	\$1,449,121	\$8,559,442	\$43,418,776

See accompanying notes to financial statements

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, 2013

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 Position 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 \$3,627,283

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	2,810,604
Depreciation expense is deducted from the fund balance	(1,291,958)

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 Position the repayment reduces long-term liabilities.

Proceeds from capital lease is deducted from the fund balance	(124,353)
Repayment of debt principal are added back to fund balance	9,718

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):

Unavailable revenue	1,415,467
Compensated absences	(54,521)
Claims	(3,375)
	(3,375)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$6,388,865</u></u>
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See accompanying notes to financial statements

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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 2013.

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 POSITION
 JUNE 30, 2013

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and investments (Note 3)	\$2,124,111	\$855,889	\$2,980,000
Cash with fiscal agents (Note 3)		836,720	836,720
Accounts receivables, net	<u>36,045</u>	<u>22,409</u>	<u>58,454</u>
Total Current Assets	<u>2,160,156</u>	<u>1,715,018</u>	<u>3,875,174</u>
Noncurrent Assets:			
Capital assets (Note 6)			
Non-depreciable		206,750	206,750
Depreciable capital assets, net		<u>3,732,134</u>	<u>3,732,134</u>
Total Non-current Assets		<u>3,938,884</u>	<u>3,938,884</u>
Total Assets	<u><u>\$2,160,156</u></u>	<u><u>\$5,653,902</u></u>	<u><u>\$7,814,058</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	<u>\$1,528,086</u>	<u>\$2,872</u>	<u>\$1,530,958</u>
Total current liabilities	<u>1,528,086</u>	<u>2,872</u>	<u>1,530,958</u>
Noncurrent Liabilities:			
Deposits		<u>53,622</u>	<u>53,622</u>
Total Liabilities	<u>1,528,086</u>	<u>56,494</u>	<u>1,584,580</u>
NET POSITION (Note 9)			
Net investment in capital assets		3,938,884	3,938,884
Assigned for capital projects		836,720	836,720
Unrestricted	<u>632,070</u>	<u>821,804</u>	<u>1,453,874</u>
Total Net Position	<u><u>\$632,070</u></u>	<u><u>\$5,597,408</u></u>	<u><u>\$6,229,478</u></u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	<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	\$2,251,252	\$256,163	\$2,507,415
Other	214,261	3,190	217,451
Total Operating Revenues	2,465,513	259,353	2,724,866
OPERATING EXPENSES			
Outside services (Note 12A)	2,083,791	145,625	2,229,416
Administration	90,283		90,283
Depreciation		195,291	195,291
Total Operating Expenses	2,174,074	340,916	2,514,990
Operating (Loss)	291,439	(81,563)	209,876
NON-OPERATING REVENUES			
Interest revenue	6,788	6,864	13,652
Total Non-operating Revenues	6,788	6,864	13,652
Change in net position	298,227	(74,699)	223,528
BEGINNING NET POSITION	333,843	5,672,107	6,005,950
ENDING NET POSITION	\$632,070	\$5,597,408	\$6,229,478

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2013

	<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	\$2,863,232	\$290,302	\$3,153,534
Disbursements to suppliers for goods and services	(2,844,872)	(175,129)	(3,020,001)
Cash Flows from Operating Activities	<u>18,360</u>	<u>115,173</u>	<u>133,533</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>6,788</u>	<u>6,864</u>	<u>13,652</u>
Cash Flows from Investing Activities	<u>6,788</u>	<u>6,864</u>	<u>13,652</u>
Net Cash Flows	25,148	122,037	147,185
Cash and investments at beginning of period	<u>2,098,963</u>	<u>1,570,572</u>	<u>3,669,535</u>
Cash and investments at end of period	<u><u>\$2,124,111</u></u>	<u><u>\$1,692,609</u></u>	<u><u>\$3,816,720</u></u>
Reconciliation of Operating Income (loss) to Cash Flows from Operating Activities:			
Operating loss	\$291,439	(\$81,563)	\$209,876
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation		195,291	195,291
Change in assets and liabilities:			
Receivables, net	397,719	30,949	428,668
Accounts payable	(253,136)	(29,504)	(282,640)
Other accrued liabilities	<u>(417,662)</u>		<u>(417,662)</u>
Cash Flows from Operating Activities	<u><u>\$18,360</u></u>	<u><u>\$115,173</u></u>	<u><u>\$133,533</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 were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. This fund continues payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

CITY OF EAST PALO ALTO
 FIDUCIARY FUND
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2013

	Successor Agency Private-purpose Trust Fund
ASSETS	
Cash and investments (Note 3)	\$2,201,347
Restricted cash and investments (Note 3)	16,467,147
Receivables:	
Intergovernmental	559,424
Property held for resale (Note 14B)	537,429
Capital assets (Note 14B):	
Non-depreciable	858,436
Depreciable, net of accumulated depreciation	1,890,889
 Total Assets	 \$22,514,672
 LIABILITIES	
Accounts payable	\$23,295
Refundable deposits	5,000
Other accrued liabilities	346,484
Advances from developers	101,940
Loans payable to City of East Palo Alto (Note 14D)	11,677,833
Long-term obligations (Note 14C):	
Due in one year	1,268,514
Due in more than one year	37,854,006
 Total Liabilities	 51,277,072
 NET POSITION	
Held in trust for private purpose	(\$28,762,400)

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 FIDUCIARY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013

	Successor Agency Private-purpose Trust Fund
Additions:	
Taxes	\$7,376,779
Use of money and property	164,365
Miscellaneous	22,431
Total additions	7,563,575
Deductions:	
Community development	5,834,938
Debt Service:	
Interest and fees	1,248,000
Total deductions	7,082,938
Income before Extraordinary Items	480,637
EXTRAORDINARY ITEMS (NOTE 14A)	
Redevelopment dissolution payment	(5,434,823)
Change in net position	(4,954,186)
Beginning net position, as restated (Note 1N)	(23,808,214)
Ending net position	(\$28,762,400)

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, 2013

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

B. *Basis of 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position 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. 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, 2013**

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. The main source of revenue is the repayment of loans restricted for housing activities.

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.

The City reported all its enterprise funds as major funds:

GARBAGE COLLECTION ENTERPRISE FUND

To account for activities associated with garbage collection services.

WATER SERVICE ENTERPRISE FUND

To account for activities associated with providing water services.

The City also reported the following fiduciary fund type:

The **Successor Agency Private-Purpose Trust Fund** accounts for assets and liabilities held by the City acting as a fiduciary. It accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 14, all California redevelopment agencies were dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. 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
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 sixty days after year-end except for gas tax revenue which is considered to be available if it is collected within ninety 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 position 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.

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

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.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

	<u>Governmental Activities</u>
Beginning Balance	\$635,665
Additions	548,409
Payments	<u>(493,888)</u>
Ending Balance	<u>\$690,186</u>
Current Portion	<u>\$287,883</u>

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

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 nonspendable 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 portion of nonspendable fund balance 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.

The Low and Moderate Income Housing Asset Special Revenue Fund recorded \$2,603,736 of property held for resale, which represents land acquired by the former Redevelopment Agency for the purpose of resale to developers in regard to the development of affordable housing.

J. *Cash and Cash equivalents*

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

K. *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.

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. *Implementation of Governmental Accounting Standards Board Statements*

GASB Statement No. 60 – In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnerships. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented this statement in fiscal year 2013. See Note 13A.

GASB Statement No. 61 – In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. There was no impact on the City's financial statements.

GASB Statement No. 62 – In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented this statement in fiscal year 2013.

GASB Statement No. 63 – In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented this statement in fiscal year 2013.

M. *Deferred Outflows/Inflows of Resources*

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

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

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. *Early Implementation of New GASB Pronouncement*

GASB issued Statement No. 65 *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. This Statement is effective for fiscal periods beginning after December 15, 2012. The City has elected to early implement this Statement to be effective this fiscal year ending June 30, 2013. Costs of bond issuance that were previously amortized were deducted from the net position balances as part of the implementation. As a result, beginning net position was reduced by \$1,146,937 for fiduciary fund, Successor Agency Private-purpose Trust Fund.

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 Housing Assistance and Public Improvements in Lieu Special Revenue Funds; and Capital Improvements Capital Projects Fund which are adopted on a project length basis.

B. *Encumbrances*

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

As of June 30, 2013 the City reported the following amount of encumbrances: General Fund \$187,044 and Non-Major Funds \$53,722.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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.

The City's cash and investments consist of the following at June 30, 2013:

Cash and investments available for operations	\$23,819,676
Restricted cash and investments	<u>3,244,400</u>
Cash and investments of the City	27,064,076
Fiduciary cash and investments (separate statement):	
Cash and investments available for operations in the Successor Agency Private Purpose Trust Fund	2,201,347
Restricted cash and investments in Successor Agency Private Purpose Trust Fund	<u>16,467,147</u>
Total cash and investments	<u><u>\$45,732,570</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.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

B. Authorized Investments by Debt Agreements

The City and the Successor Agency to the former 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

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

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	1 - 5 years	More than 5 years	Total
Pooled cash and investments:				
Local Agency Investment Fund	\$3,475,491			\$3,475,491
San Mateo County Pooled Investments	22,161,505			22,161,505
Cash in bank and petty cash	386,043			386,043
Subtotal pooled cash and investments	26,023,039			26,023,039
Direct fund investment:				
Municipal bonds:				
Former Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	490,000	\$2,275,000	\$11,580,000	14,345,000
Held with fiscal agent:				
Guaranteed investment agreements:				
JP Morgan Chase			1,966,397	1,966,397
Money market funds	3,398,134			3,398,134
Total Cash and Investments	\$29,911,173	\$2,275,000	\$13,546,397	\$45,732,570

Money Market Funds are available for withdrawal on demand. State Local Agency Investment Fund and San Mateo County Pool Investments are also available for withdrawal on demand with certain limits and conditions.

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, 2013, for each investment type:

Investment Type	Not Rated	Moody's Rating		Total
		Aa1/P-1	Aaa	
Local Agency Investment Fund	\$3,475,491			\$3,475,491
San Mateo County Investment Fund		\$22,161,505		22,161,505
Direct fund investment:				
Municipal bonds:				
Former Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	14,345,000			14,345,000
Guaranteed investment agreements:				
JP Morgan Chase	1,966,397			1,966,397
Money Market Funds			\$3,398,134	3,398,134
Cash in banks and petty cash	386,043			386,043
Total Cash and Investments				\$45,732,570

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

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, 2013, 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.

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, 2013, these investments matured in an average of 278 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, 2013, these investments matured in an average of 2.0 years.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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, 2013, interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Funds:	
	NPDES	\$34,291
	Federal and State Law Enforcement	55,791
	Federal and State Grants	137,406
	US EPA	99,407
		\$326,895

The purpose of the balances was to cover negative cash.

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, 2013 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$4,799 A
Capital Improvements Capital Project Fund	General Fund	625,000 B
	Non-Major Governmental Funds	29,176 B
Non-Major Governmental Funds	General Fund	136,378 B
	Total Interfund Transfers	\$795,353

The reasons for these transfers are set forth below:

- A To transfer interest revenues for maintenance of parks costs.
- B To fund capital projects

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 5 - LOANS RECEIVABLE

Loans receivable as of June 30, 2013, composed of the following, were held by the City:

	Balance as of June 30, 2013
Nairobi Housing Associates Loan	\$5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	395,000
First Time Home Buyer Assistance Loans	375,989
Habitat for Humanity	300,000
Total:	\$7,670,989

A. *Nairobi Housing Associates Loan*

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

B. *Nugent Square Partners*

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

C. *Bay Road Housing Loan*

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

D. *First Time Home Buyer Assistance Loans*

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

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 5 - LOANS RECEIVABLE (Continued)

E. *Habitat for Humanity Loan*

On May 24, 2011, the Agency entered into a loan agreement in the amount of \$300,000 with Habitat for Humanity Greater San Francisco, Inc., a California nonprofit public benefit corporation to acquire, rehabilitate and sale of eligible properties to low income households. The loan bears a 3% per annum, commencing on initial disbursement. As of June 30, 2013, the outstanding loan balance was \$300,000 for principal and \$12,041 for interest.

F. *Loans to Successor Agency*

Prior to former Redevelopment Agency dissolution on January 31, 2012, the following General Fund loans receivable from the Successor Agency were recorded as long-term interfund advances. At June 30, 2013, the outstanding balance of \$11,677,833 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.

The second loan is for the funding of the Ravenswood High School Site. This property was developed into a retail shopping center in the Gateway 101 Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement and the Purchase and Sale Agreement to specify the repayment terms for the purchase price of the property. The repayment terms are that the advance will be repaid in 35 years, there is no interest provision and the repayment of the advance is limited to property tax increment revenues. As of June 30, 2013, the advance balance was \$5,264,105. Per AB 1484 this loan has been recalculated using the LAIF rate discussed below. Due to the former Redevelopment Agency's dissolution as of January 31, 2012, the advance was assumed by the Successor Agency.

Under the Dissolution Act, certain agreements between the cities and the former redevelopment agencies no longer qualify as enforceable obligations. However, with the passage of AB 1484 on June 28, 2012, upon meeting certain requirements including the issuance of a finding of completion by the State Department of Finance and approval from the Oversight Board, these two advances may be restored at LAIF rates from inception. Using the LAIF rate, the recomputed balance as of June 30, 2013 was \$6,413,728 for the Ravenswood advance. There was no LAIF rate adjustment for the Gateway 101 advance since it is a zero interest loan.

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

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

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

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets during the year ended June 30, 2013, are comprised of the following:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance at June 30, 2013</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$605,144			\$605,144
Construction in progress	1,767,522	\$2,237,866	(\$1,068,161)	2,937,227
Total capital assets not being depreciated	<u>2,372,666</u>	<u>2,237,866</u>	<u>(1,068,161)</u>	<u>3,542,371</u>
Capital assets being depreciated:				
Infrastructure:				
Streets and roadways	42,992,103	247,231		43,239,334
Storm drain system	4,089,492			4,089,492
Building and Improvements	5,126,781			5,126,781
Improvements other than buildings	3,830,953	42,549	1,068,161	4,941,663
Furniture, Fixtures and Equipment	1,889,328	129,705		2,019,033
Vehicles	1,748,959	153,253		1,902,212
Total capital assets being depreciated	<u>59,677,616</u>	<u>572,738</u>	<u>1,068,161</u>	<u>61,318,515</u>
Less accumulated depreciation for:				
Infrastructure:				
Streets and roadways	(26,685,826)	(650,129)		(27,335,955)
Storm drain system	(2,195,391)	(37,075)		(2,232,466)
Building and Improvements	(1,682,809)	(201,857)		(1,884,666)
Improvements other than buildings	(799,928)	(111,465)		(911,393)
Furniture, Fixtures and Equipment	(1,360,692)	(150,103)		(1,510,795)
Vehicles	(913,443)	(141,329)		(1,054,772)
Total accumulated depreciation	<u>(33,638,089)</u>	<u>(1,291,958)</u>		<u>(34,930,047)</u>
Total capital assets, being depreciated, net	<u>26,039,527</u>	<u>(719,220)</u>	<u>1,068,161</u>	<u>26,388,468</u>
Governmental activities capital assets, net	<u>\$28,412,193</u>	<u>\$1,518,646</u>		<u>\$29,930,839</u>

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 6 - CAPITAL ASSETS (Continued)

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Balance at June 30, 2013</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	(3,130,234)	(\$195,291)	(3,325,525)
Furniture, fixtures and equipment	(63,943)		(63,943)
Vehicles	(89,890)		(89,890)
Total accumulated depreciation	<u>(3,327,857)</u>	<u>(195,291)</u>	<u>(3,523,148)</u>
Total capital assets, being depreciated, net	<u>3,927,425</u>	<u>(195,291)</u>	<u>3,732,134</u>
Business-type activities capital assets, net	<u>\$4,134,175</u>	<u>(\$195,291)</u>	<u>\$3,938,884</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, 2013**

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:

<i>Governmental Activities</i>	
General Government	\$25,180
Public Safety	182,075
Culture and Recreation	4,362
Public Works	861,610
Community Development	<u>218,731</u>
Total Governmental Activities	<u><u>\$1,291,958</u></u>
<i>Business-Type Activities</i>	
Water Service	<u>\$195,291</u>
Total Business-Type Activities	<u><u>\$195,291</u></u>

C. Capital Project Commitments

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

Project	Project Authorization	Expended through June 30, 2013	Committed
Safe Route to School	\$1,112,300	\$996,583	\$115,717
E Bayshore Rd/Pulgas Intersection Imp	435,000	435,000	
Runnymede Storm Drain Phase II	1,262,000	156,273	1,105,727
Gloria Wells	372,000	266,550	105,450
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	137,545	207,455
Bay Road Phase II Improvement	1,254,200	172,765	1,081,435
General Plan Update	1,550,000	160,238	1,389,762
Citywide Storm Drain Master Plan	282,850	170,223	112,627
	<u><u>\$7,030,581</u></u>	<u><u>\$2,912,408</u></u>	<u><u>\$4,118,173</u></u>

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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	Additions	Retirements	Balance June 30, 2013	Current Portion
2013 Capital Lease - 5 Police Vehicles 3.25 %, due 2/1/17	\$124,353	\$124,353	\$9,718	\$114,635	\$29,914

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

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

B. Debt Service Requirements

Future capital lease payments at June 30, 2013, are as follows:

For The Year Ending June 30	Police Vehicle Capital Lease		
	Principal	Interest	Total
2014	\$29,914	\$3,281	\$33,195
2015	30,899	2,296	33,195
2016	31,920	1,276	33,196
2017	21,902	267	22,169
Total Payments Due	\$114,635	\$7,120	\$121,755

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 8 – OPERATING LEASE

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$523,560 for governmental activities and \$56,927 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:	
2014	\$123,696
2015	<u>123,696</u>
	<u>\$247,392</u>

NOTE 9 – NET POSITION AND FUND BALANCES

A. Net Position

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

Net investment in capital assets, describes the portion of Net Position 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 Position 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 funds restricted to low and moderate-income housing purposes.

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

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:

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 9 – NET POSITION AND FUND BALANCES (Continued)

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

Assigned fund balances 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, 2013**

NOTE 9 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the City’s Fund Balances, as of June 30, 2013, 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	\$11,677,833				\$11,677,833
Deposits and prepayments	82,208	\$15,000		\$42,051	139,259
Total Nonspendable Fund Balances	11,760,041	15,000		42,051	11,817,092
Restricted for:					
Low and Moderate Income Housing		10,333,574			10,333,574
Gas Tax				1,296,781	1,296,781
Federal and State Law Enforcement				167,642	167,642
Park in Lieu				131,983	131,983
Rent Stabilization				263,113	263,113
Housing in Lieu				1,674,006	1,674,006
Housing Assistance				374,978	374,978
Public Improvements in Lieu				186,049	186,049
Measure A				1,753,054	1,753,054
CYSFF Child/Family				316,033	316,033
Lighting District				995,665	995,665
Drainage District				95,865	95,865
Measure C				1,505,044	1,505,044
Total Restricted Fund Balances		10,333,574		8,760,213	19,093,787
Assigned to:					
Minimum fund balance reserve	2,000,000				2,000,000
Capital Projects	187,004		\$1,449,121		1,636,125
Total Assigned Fund Balances	2,187,004		1,449,121		3,636,125
Unassigned	9,114,594			(242,822)	8,871,772
Total Fund Balances	\$23,061,639	\$10,348,574	\$1,449,121	\$8,559,442	\$43,418,776

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 2013, General Fund recorded \$2 million in reserve which is below the City Policy’s minimum 15% requirement level of \$2,357,273. The General Fund reserve fund balance is \$357,273 below the minimum requirement.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 9 – NET POSITION AND FUND BALANCES (Continued)

D. Fund Balance Deficit

The NPDES Special Revenue Fund, Federal and State Grants Special Revenue Fund, U.S. EPA Special Revenue Fund, Local Grants Special Revenue Fund had fund balance deficits of \$34,707; \$2,967; \$115,605; \$89,543; respectively at June 30, 2013. The deficit is expected to be eliminated with the receipt of grant awards and future revenues.

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, 2013, are summarized as follows:

	Safety	Miscellaneous
Hire date	Prior to January 1, 2013	Prior to January 1, 2013
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	25.988%	14.887%
	Safety	Miscellaneous
Hire date	On or after January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	57	62
Monthly benefits, as a % of annual salary	2.7%	2.0%
Required employee contribution rates	11.50%	6.25%
Required employer contribution rates	11.50%	6.25%

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

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

As required by new State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new 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. The City satisfied its Miscellaneous Plan's unfunded liability of \$875,764, as of June 30, 2011, by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 13 years. It satisfied its Safety Plan's liability of \$2,792,094, as of June 30, 2011, by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 16 years.

Three-year historical trend information is presented below:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$1,324,956	100%	\$0
June 30, 2012	1,629,914	100%	0
June 30, 2013	1,526,181	100%	0

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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
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%
2011	2,061,923,933	1,759,286,797	302,637,136	85.3%	225,026,216	134.5%

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
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%
2011	2,135,350,204	1,724,200,585	411,149,619	80.7%	350,121,750	117.4%

The City's Safety Plan represents approximately 1.6%, 1.1%, 1.5%, and of the State-wide pool for the years ended June 30, 2011, 2010, and 2009, respectively, based on covered payroll of \$225,026,216, \$224,562,008, and \$221,600,192 for those years.

The City's Miscellaneous Plan represents approximately 1.5%, 1.1%, and 1.3%, of the State-wide pool for the years ended June 30, 2011, 2010, and 2009 respectively, based on covered payroll of \$350,121,750, \$352,637,380, and \$355,150,151 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.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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 million. The City has a deductible or uninsured liability of up to \$100,000 per claim. Once the City's deductible is met, ABAG becomes responsible for payment of all claims up to the limit.

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

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

B. Liability for Uninsured Claims

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

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning balance of claims payable	\$194,625	\$76,660
Increase/Decrease in estimated claims liability	438,682	420,170
Claims paid	<u>(435,307)</u>	<u>(302,205)</u>
Ending balance of claims payable	<u>\$198,000</u>	<u>\$194,625</u>
Current Portion	<u>\$29,700</u>	<u>\$29,625</u>

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

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

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.

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 water system owned by the City to the Company. The Company is responsible to operate, maintain and manage the water system as well as bill and collect water services charges and utility tax from the City's resident. The Company also agreed to pay lease payment and franchise fee to the City. The franchise fee and lease payment represents 5% and 6%, respectively, of the net revenue, defined as gross revenue of the Company received from the City's residents net of utility tax collected and transferred to the City.

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

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

As of June 30, 2013, the City has capitalized \$3,938,884 for the Water system and services related capital asset. For the year ended June 30, 2013, the Company paid lease payment and franchise fee to the City in the amount of \$253,822 and \$211,518, 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.

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. *Redevelopment Dissolution*

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

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

ABx1 26 and AB1484 allowed three regulatory oversight authorities, the Successor Authority's Oversight Board, State Controller and Department of Finance (DOF), to review the former Authority's asset transfer, obligation payments and wind down activities. ABx1 26 specifically directs the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. As of June 30, 2013 the State Controller's Office has yet to complete its asset transfer review.

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

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

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

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

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

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

Cash and investments of the Successor Agency as of June 30, 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, 2013.

B. Property Held for Resale

As of June 30, 2013, the property held for resale was recorded in the amount of \$537,429 for the purpose of resale to developers in regard to the development of the Gateway 101 retail center.

C. Capital assets

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

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

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

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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

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

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

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

Capital assets recorded at June 30 comprise:

	Balance at June 30, 2012	Additions	Transfers	Balance at June 30, 2013
Successor Agency				
Capital assets not being depreciated:				
Land	\$296,466			\$296,466
Construction in progress	2,518,062		(\$1,956,092)	561,970
	2,814,528		(1,956,092)	858,436
Total capital assets not being depreciated				
Capital assets being depreciated:				
Improvements other than buildings			1,956,092	1,956,092
			1,956,092	1,956,092
Total capital assets being depreciated				
Less accumulated depreciation for:				
Building and improvements		(\$65,203)		(65,203)
		(65,203)		(65,203)
Total accumulated depreciation				
Total capital assets, being depreciated, net		(65,203)	1,956,092	1,890,889
Successor Agency capital assets, net	\$2,814,528	(\$65,203)		\$2,749,325

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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

D. Long-Term Debt

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

	Original Issue Amount	Balance June 30, 2012	Retirements	Balance June 30, 2013	Current Portion
Former Redevelopment Agency					
1999 Tax Allocation Bonds					
4.200-6.625%, due 10/1/2032	\$22,785,000	\$14,805,000	\$460,000	\$14,345,000	\$490,000
2003 Tax Allocation Refunding Bonds					
Series A					
4.00-5.00%, due 10/1/2032	5,155,000	5,000,000	15,000	4,985,000	15,000
2003 Tax Allocation Refunding Bonds					
Series B (Taxable)					
4.12-6.45%, due 10/1/2032	3,600,000	3,065,000	75,000	2,990,000	80,000
Public Financing Authority					
2005 Revenue Bonds, Series A					
3.40-5.00%, due 10/1/2029	17,995,000	16,815,000	620,000	16,195,000	645,000
Unamortized Premium, Discounts, and Loss on Refundings	848,836	646,034	38,514	607,520	38,514
Total		\$40,331,034	\$1,208,514	39,122,520	\$1,268,514
			Less amount due within one year:	(1,268,514)	
			Amount due in more than one year:	\$37,854,006	

1. 1999 Tax Allocation Bonds

On October 28, 1999, the former 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, 2013**

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

Future debt service on the 1999 bonds, which are 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
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	620,000	785,613	1,405,613
2019-2023	3,780,000	3,239,544	7,019,544
2024-2028	5,205,000	1,766,059	6,971,059
2029-2030	2,595,000	174,735	2,769,735
Total payments due	\$14,345,000	\$9,472,965	\$23,817,965

2. 2003 Tax Allocation Bonds

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

Future debt service on the 2003A bonds at June 30, 2013, 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
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	20,000	245,337	265,337
2019-2023	105,000	1,212,317	1,317,317
2024-2028	130,000	1,184,126	1,314,126
2029-2033	4,670,000	817,000	5,487,000
Total payments due	\$4,985,000	\$4,447,675	\$9,432,675

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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

Future debt service on the 2003B bonds at June 30, 2013, 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
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	100,000	165,068	265,068
2019-2023	600,000	721,180	1,321,180
2024-2028	825,000	498,889	1,323,889
2029-2033	1,115,000	188,503	1,303,503
Total payments due	\$2,990,000	\$2,290,950	\$5,280,950

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.

**CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013**

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

Future debt service on the 2005 bonds at June 30, 2013, 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
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	770,000	634,490	1,404,490
2019-2023	4,425,000	2,604,334	7,029,334
2024-2028	5,600,000	1,390,500	6,990,500
2029-2030	2,650,000	134,250	2,784,250
Total payments due	\$16,195,000	\$7,653,406	\$23,848,406

D. *Loans Payable to City of East Palo Alto*

On February 1, 2012, the two advances from the City General Fund to the former Redevelopment Agency Capital Projects Fund were transferred to the Successor Agency. The total outstanding balances were \$11,677,833, recalculated using the applicable LAIF rate per AB 1484 as of June 30, 2013.

Under ABx1 26, the repayment of many loans made in good faith by a City to the former Agency, now dissolved 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.

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 \$11,677,833 was reported in the General Fund as “Loans to Successor Agency.”

CITY OF EAST PALO ALTO
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year ended June 30, 2013

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

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 may 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 Successor Agency 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 former 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, 2013

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Property tax	\$8,519,000	\$9,843,830	\$10,164,743	\$320,913
Sales tax	2,965,000	3,017,600	3,022,310	4,710
Transient occupancy tax	1,539,200	1,639,200	1,702,291	63,091
Utility users tax	1,489,000	1,495,000	1,434,208	(60,792)
Other taxes			17,185	17,185
Licenses, fees and permits	1,495,600	1,507,600	1,637,444	129,844
Charges for services	296,500	255,000	358,314	103,314
Fines and forfeitures	211,000	247,400	225,680	(21,720)
Use of money and property	110,000	51,000	50,849	(151)
Grants and intergovernmental	138,000	117,000	78,529	(38,471)
Miscellaneous	80,000	58,300	224,108	165,808
Total Revenues	16,843,300	18,231,930	18,915,661	683,731
EXPENDITURES:				
Current:				
General government	4,276,659	3,948,407	3,249,446	698,961
Public safety - police	9,103,082	9,114,902	8,981,644	133,258
Public works	1,484,420	1,758,771	1,545,518	213,253
Culture and recreation	512,900	421,304	197,551	223,753
Community development	1,695,240	1,682,204	1,707,419	(25,215)
Capital outlay	7,000	2,400	22,550	(20,150)
Debt service:				
Principal			9,718	(9,718)
Interest and fiscal charges			1,306	(1,306)
Total Expenditures	17,079,301	16,927,988	15,715,152	1,212,836
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(236,001)	1,303,942	3,200,509	1,896,567
OTHER FINANCING SOURCES (USES)				
Contributed capital			15,632	15,632
Transfers in	1,177,570	1,191,402	4,799	(1,186,603)
Transfers (out)	(1,313,948)	(1,952,780)	(761,378)	1,191,402
Total other financing sources (uses)	(136,378)	(761,378)	(740,947)	20,431
NET CHANGE IN FUND BALANCES	(\$372,379)	\$542,564	\$2,459,562	\$1,916,998
BEGINNING FUND BALANCE			20,602,077	
ENDING FUND BALANCE			\$23,061,639	

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 YEAR ENDED JUNE 30, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property		\$86,195	\$86,195
Miscellaneous		76,437	76,437
Total Revenues		<u>162,632</u>	<u>162,632</u>
EXPENDITURES			
Community development	<u>\$60,000</u>		<u>60,000</u>
Total Expenditures	<u>60,000</u>		<u>60,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(60,000)</u>	<u>162,632</u>	<u>222,632</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>60,000</u>		<u>(60,000)</u>
Total Other Financing Sources (Uses)	<u>60,000</u>		<u>(60,000)</u>
NET CHANGE IN FUND BALANCES		<u>162,632</u>	<u>\$162,632</u>
BEGINNING FUND BALANCE		<u>10,185,942</u>	
ENDING FUND BALANCE		<u>\$10,348,574</u>	

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 ISTEIA 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

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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, 2013

SPECIAL REVENUE FUNDS					
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
ASSETS					
Cash and investments		\$1,328,242		\$131,983	\$301,859
Cash with fiscal agent				37,191	
Receivables:					
Intergovernmental			\$241,039		
Taxes					
Other receivables					
Deposits and prepayments					
Loans and notes receivables					
Total Assets		\$1,328,242	\$241,039	\$169,174	\$301,859
LIABILITIES					
Accounts payable	\$416	\$31,461	\$12,606		\$38,746
Retentions payable					
Other accrued liabilities					
Due to other funds	34,291		55,791		
Unearned revenues				\$37,191	
Total Liabilities	34,707	31,461	68,397	37,191	38,746
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - grants			5,000		
Total Deferred Inflows of Resources			5,000		
FUND BALANCE					
Nonspendable					
Restricted		1,296,781	167,642	131,983	263,113
Unassigned	(34,707)				
Total Fund Balances	(34,707)	1,296,781	167,642	131,983	263,113
Total Liabilities, Deferred Inflows of Resources and Fund Balances		\$1,328,242	\$241,039	\$169,174	\$301,859

SPECIAL REVENUE FUNDS

Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assistance	Public Improvements in Lieu	Measure A	Local Grants
		\$1,655,311	\$106,516	\$219,941 1,379,961	\$1,768,288	\$54,452
\$260,679	\$115,605	21,995	3,189 39,386 265,283		48,110 2,665	275,852
<u>\$260,679</u>	<u>\$115,605</u>	<u>\$1,677,306</u>	<u>\$414,374</u>	<u>\$1,599,902</u>	<u>\$1,819,063</u>	<u>\$330,304</u>
\$22,376	\$16,198	\$3,300		\$33,892		\$152,515
4,368 137,406	99,407				\$62,454 900	
				1,379,961		
<u>164,150</u>	<u>115,605</u>	<u>3,300</u>		<u>1,413,853</u>	<u>63,354</u>	<u>152,515</u>
<u>99,496</u>	<u>115,605</u>					<u>267,332</u>
<u>99,496</u>	<u>115,605</u>					<u>267,332</u>
		1,674,006	\$39,386 374,988	186,049	2,665 1,753,044	(89,543)
<u>(2,967)</u>	<u>(115,605)</u>	<u>1,674,006</u>	<u>414,374</u>	<u>186,049</u>	<u>1,755,709</u>	<u>(89,543)</u>
<u>\$260,679</u>	<u>\$115,605</u>	<u>\$1,677,306</u>	<u>\$414,374</u>	<u>\$1,599,902</u>	<u>\$1,819,063</u>	<u>\$330,304</u>

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C	
ASSETS					
Cash and investments	\$310,038	\$996,766	\$97,900	\$1,505,299	\$8,476,595
Cash with fiscal agent					1,417,152
Receivables:					
Intergovernmental					893,175
Taxes	21,995				43,990
Other receivables					51,299
Deposits and prepayments					42,051
Loans and notes receivables					265,283
Total Assets	\$332,033	\$996,766	\$97,900	\$1,505,299	\$11,189,545
LIABILITIES					
Accounts payable	\$16,000	\$1,101	\$2,035	\$255	\$330,901
Retentions payable					62,454
Other accrued liabilities					5,268
Due to other funds					326,895
Unearned revenues					1,417,152
Total Liabilities	16,000	1,101	2,035	255	2,142,670
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - grants					487,433
Total Deferred Inflows of Resources					487,433
FUND BALANCE					
Nonspendable					42,051
Restricted	316,033	995,665	95,865	1,505,044	8,760,213
Unassigned					(242,822)
Total Fund Balances	316,033	995,665	95,865	1,505,044	8,559,442
Total Liabilities and Fund Balances	\$332,033	\$996,766	\$97,900	\$1,505,299	\$11,189,545

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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, 2013

	SPECIAL REVENUE FUNDS				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
GOVERNMENTAL REVENUES					
Property tax					
Transient occupancy tax					
Other taxes		\$516,203			
Charges for services					\$553,499
Use of money and property		6,985	\$649	\$821	2,119
Grants and intergovernmental	\$127,517	291,549	662,161		
Miscellaneous		2,691		3,978	
Total Revenues	127,517	817,428	662,810	4,799	555,618
EXPENDITURES					
Current:					
General government	562	172,990			
Public safety			613,713		
Public works	166,205	401,250		29,069	
Culture and recreation					
Community development					615,504
Capital outlay					
Total Expenditures	166,767	574,240	613,713	29,069	615,504
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(39,250)	243,188	49,097	(24,270)	(59,886)
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)				(4,799)	
Total Other Financing Sources (Uses)				(4,799)	
NET CHANGE IN FUND BALANCES					
	(39,250)	243,188	49,097	(29,069)	(59,886)
BEGINNING FUND BALANCES (DEFICITS)					
	4,543	1,053,593	118,545	161,052	322,999
ENDING FUND BALANCES (DEFICITS)					
	(\$34,707)	\$1,296,781	\$167,642	\$131,983	\$263,113

SPECIAL REVENUE FUNDS

Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assistance	Public Improvements In Lieu	Measure A	Local Grants
		\$212,784				
		433,211				
\$532,016	\$382,168	8,489	\$4,814	\$1,836	\$11,607	\$62,304
47,314		1,290	139		541,253	
579,330	382,168	655,774	4,953	1,836	8,607	62,304
369,065	292,605				13,089	4,649
63,500		34,200		106,158	493,294	144,957
51,698						260,312
108,065		55,579				
35,991					12,672	
628,319	292,605	89,779		106,158	519,055	409,918
(48,989)	89,563	565,995	4,953	(104,322)	42,412	(347,614)
				(29,176)		
				(29,176)		
(48,989)	89,563	565,995	4,953	(133,498)	42,412	(347,614)
46,022	(205,168)	1,108,011	\$409,421	319,547	1,713,297	258,071
(\$2,967)	(\$115,605)	\$1,674,006	\$414,374	\$186,049	\$1,755,709	(\$89,543)

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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, 2013

	SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C	
GOVERNMENTAL REVENUES					
Property tax		\$237,748	\$52,359		\$290,107
Transient occupancy tax	\$212,784				425,568
Other taxes		257,884	12,939	\$702,084	1,489,110
Charges for services					986,710
Use of money and property	1,777	4,788	637	8,215	52,737
Grants and intergovernmental					2,598,968
Miscellaneous	1,029	3,968	184	2,941	72,141
Total Revenues	215,590	504,388	66,119	713,240	5,915,341
EXPENDITURES					
Current:					
General government	194,398			64,542	1,111,900
Public safety				493,881	1,107,594
Public works		233,835	120,518		1,792,986
Culture and recreation					312,010
Community development					779,148
Capital outlay					48,663
Total Expenditures	194,398	233,835	120,518	558,423	5,152,301
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,192	270,553	(54,399)	154,817	763,040
OTHER FINANCING SOURCES (USES)					
Transfers in			136,378		136,378
Transfers (out)					(33,975)
Total Other Financing Sources (Uses)			136,378		102,403
NET CHANGE IN FUND BALANCES	21,192	270,553	81,979	154,817	865,443
BEGINNING FUND BALANCES (DEFICITS)	294,841	725,112	13,886	1,350,227	7,693,999
ENDING FUND BALANCES (DEFICITS)	\$316,033	\$995,665	\$95,865	\$1,505,044	\$8,559,442

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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, 2013

SPECIAL REVENUE FUNDS

	NPDES FEES			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax						
Other taxes				\$513,759	\$516,203	\$2,444
Charges for services						
Use of money and property					6,985	6,985
Grants and intergovernmental	\$120,000	\$127,517	\$7,517	363,891	291,549	(72,342)
Miscellaneous					2,691	2,691
Total Revenues	120,000	127,517	7,517	877,650	817,428	(60,222)
EXPENDITURES						
Current:						
General government	600	562	38	173,041	172,990	51
Public safety						
Public works	168,685	166,205	2,480	379,095	401,250	(22,155)
Culture and recreation						
Community development						
Capital outlay						
Total Expenditures	169,285	166,767	2,518	552,136	574,240	(22,104)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(49,285)	(39,250)	10,035	325,514	243,188	(82,326)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	(\$49,285)	(39,250)	\$10,035	\$325,514	243,188	(\$82,326)
BEGINNING FUND BALANCES (DEFICITS)		4,543			1,053,593	
ENDING FUND BALANCES (DEFICITS)		(\$34,707)			\$1,296,781	

SPECIAL REVENUE FUNDS

FEDERAL AND STATE LAW ENFORCEMENT			PARK IN LIEU			RENT STABILIZATION		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	\$649	\$649		821	\$821	\$565,000	\$553,499	(\$11,501)
\$543,595	662,161	118,566		3978	3,978		2,119	2,119
<u>543,595</u>	<u>662,810</u>	<u>119,215</u>		<u>4,799</u>	<u>4,799</u>	<u>565,000</u>	<u>555,618</u>	<u>(9,382)</u>
477,901	613,713	(135,812)		29,069	(29,069)			
						717,293	615,504	101,789
<u>477,901</u>	<u>613,713</u>	<u>(135,812)</u>		<u>29,069</u>	<u>(29,069)</u>	<u>717,293</u>	<u>615,504</u>	<u>101,789</u>
65,694	49,097	(16,597)		(24,270)	(24,270)	(152,293)	(59,886)	92,407
				(4,799)	(4,799)			
				(4,799)	(4,799)			
<u>\$65,694</u>	<u>49,097</u>	<u>(\$16,597)</u>		<u>(29,069)</u>	<u>(\$29,069)</u>	<u>(\$152,293)</u>	<u>(59,886)</u>	<u>\$92,407</u>
	<u>118,545</u>			<u>161,052</u>			<u>322,999</u>	
	<u>\$167,642</u>			<u>\$131,983</u>			<u>\$263,113</u>	

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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, 2013

SPECIAL REVENUE FUNDS

	FEDERAL AND STATE GRANTS			U.S. EPA		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax						
Other taxes						
Charges for services						
Use of money and property						
Grants and intergovernmental	\$497,285	\$532,016	\$34,731	\$424,186	\$382,168	(\$42,018)
Miscellaneous		47,314	47,314			
Total Revenues	497,285	579,330	82,045	424,186	382,168	(42,018)
EXPENDITURES						
Current:						
General government	307,785	369,065	(61,280)	424,186	292,605	131,581
Public safety						
Public works		63,500	(63,500)			
Culture and recreation	31,000	51,698	(20,698)			
Community development	60,000	108,065	(48,065)			
Capital outlay		35,991	(35,991)			
Total Expenditures	398,785	628,319	(229,534)	424,186	292,605	131,581
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	98,500	(48,989)	(147,489)		89,563	89,563
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	\$98,500	(\$48,989)	(\$147,489)		\$89,563	\$89,563
BEGINNING FUND BALANCES (DEFICITS)		46,022			(205,168)	
ENDING FUND BALANCES (DEFICITS)		(\$2,967)			(\$115,605)	

SPECIAL REVENUE FUNDS

HOUSING IN LIEU			MEASURE A			LOCAL GRANTS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$204,900	\$212,784	\$7,884						
	433,211	433,211						
	8,489	8,489		\$11,607	\$11,607			
	1,290	1,290	\$432,000	541,253	109,253	\$261,769	\$62,304	(\$199,465)
				8,607	8,607			
<u>204,900</u>	<u>655,774</u>	<u>450,874</u>	<u>432,000</u>	<u>561,467</u>	<u>129,467</u>	<u>261,769</u>	<u>62,304</u>	<u>(199,465)</u>
			12,517	13,089	(572)		4,649	(4,649)
	34,200	(34,200)	54,988	493,294	(438,306)	13,500	144,957	(131,457)
28,318	55,579	(27,261)	20,000		20,000	658,139	260,312	397,827
				12,672	(12,672)			
<u>28,318</u>	<u>89,779</u>	<u>(61,461)</u>	<u>87,505</u>	<u>519,055</u>	<u>(431,550)</u>	<u>671,639</u>	<u>409,918</u>	<u>261,721</u>
<u>176,582</u>	<u>565,995</u>	<u>389,413</u>	<u>344,495</u>	<u>42,412</u>	<u>(302,083)</u>	<u>(409,870)</u>	<u>(347,614)</u>	<u>62,256</u>
						409,870		(409,870)
			(409,870)		409,870			
			(409,870)		409,870	409,870		(409,870)
<u>\$176,582</u>	<u>\$565,995</u>	<u>\$389,413</u>	<u>(\$65,375)</u>	<u>\$42,412</u>	<u>\$107,787</u>		<u>(\$347,614)</u>	<u>(\$347,614)</u>
	<u>1,108,011</u>			<u>1,713,297</u>			<u>258,071</u>	
	<u>\$1,674,006</u>			<u>\$1,755,709</u>			<u>(\$89,543)</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, 2013

	SPECIAL REVENUE FUNDS					
	CYSFF CHILD/ FAMILY			LIGHTING DISTRICT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax				\$251,500	\$237,748	(\$13,752)
Transient occupancy tax	\$204,900	\$212,784	\$7,884			
Other taxes					257,884	
Charges for services						
Use of money and property		1,777	1,777		4,788	4,788
Grants and intergovernmental						
Miscellaneous		1,029	1,029		3,968	3,968
Total Revenues	204,900	215,590	10,690	251,500	504,388	(4,996)
EXPENDITURES						
Current:						
General government	186,623	194,398	(7,775)			
Public safety						
Public works				361,754	233,835	127,919
Culture and recreation						
Community development						
Capital outlay						
Total Expenditures	186,623	194,398	(7,775)	361,754	233,835	127,919
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>18,277</u>	<u>21,192</u>	<u>2,915</u>	<u>(110,254)</u>	<u>270,553</u>	<u>380,807</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	<u>\$18,277</u>	<u>\$21,192</u>	<u>\$2,915</u>	<u>(\$110,254)</u>	<u>\$270,553</u>	<u>\$380,807</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>294,841</u>			<u>725,112</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$316,033</u>			<u>\$995,665</u>	

SPECIAL REVENUE FUNDS

DRAINAGE DISTRICT			MEASURE C		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$57,000	\$52,359	(\$4,641)			
	12,939		\$700,000	\$702,084	\$2,084
	637	637		8,215	8,215
	184	184		2,941	2,941
<u>57,000</u>	<u>66,119</u>	<u>(3,820)</u>	<u>700,000</u>	<u>713,240</u>	<u>13,240</u>
			108,600	64,542	44,058
136,961	120,518	16,443	489,813	493,881	(4,068)
<u>136,961</u>	<u>120,518</u>	<u>16,443</u>	<u>598,413</u>	<u>558,423</u>	<u>39,990</u>
<u>(79,961)</u>	<u>(54,399)</u>	<u>25,562</u>	<u>101,587</u>	<u>154,817</u>	<u>53,230</u>
136,378	136,378				
<u>136,378</u>	<u>136,378</u>				
<u>\$56,417</u>	<u>\$81,979</u>	<u>\$25,562</u>	<u>\$101,587</u>	<u>\$154,817</u>	<u>\$53,230</u>
	<u>13,886</u>			<u>1,350,227</u>	
	<u>\$95,865</u>			<u>\$1,505,044</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 Position by Component
2. Changes in Net Position
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 Position by Component
June 30, 2013
Last Ten Fiscal Years
(accrual basis of accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Government activities				
Net investment in capital assets	\$20,821,102	\$20,799,470	\$20,574,619	\$21,298,218
Restricted For:				
Debt Service				
Public Safety	54,846	136,650	239,521	97,796
Highways and streets	1,867,256	1,934,130	2,622,482	3,372,600
Parks and recreation	1,096,207	1,231,943	1,431,231	1,304,783
Low and moderate income housing	2,779,093	1,278,216	2,132,049	9,616,232
Housing programs				
Measure C programs				
Total restricted	<u>5,797,402</u>	<u>4,580,939</u>	<u>6,425,283</u>	<u>14,391,411</u>
Unrestricted	<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>\$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				
Net investment in capital assets	\$6,172,324	\$5,887,825	\$5,657,772	\$5,381,783
Restricted For:				
Capital Projects				
Total restricted				
Unrestricted	<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>\$7,047,819</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				
Net investment in capital assets	\$26,993,426	\$26,687,295	\$26,232,391	\$26,680,001
Restricted	5,797,402	4,580,939	6,425,283	14,391,411
Unrestricted	<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>\$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	2013
\$24,175,266	\$24,877,257	\$25,163,127	\$28,011,307	\$28,412,193	\$29,816,204
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	3,017,783
1,379,246	1,147,341	940,572	703,171	713,964	358,473
10,937,302	11,546,134	12,383,908	10,997,923		
	1,334,347	1,219,908	1,342,896	1,517,432	2,088,380
			1,158,492	1,350,227	1,505,044
36,383,949	38,924,340	23,200,043	19,088,514	6,353,056	6,969,680
(29,124,597)	(27,641,786)	(13,680,807)	(8,749,180)	33,078,872	37,447,102
<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>	<u>\$74,232,986</u>
\$5,100,616	\$4,867,912	\$4,503,722	\$4,319,814	\$4,134,175	\$3,938,884
		834,095	834,286	834,470	836,720
		<u>834,095</u>	<u>834,286</u>	<u>834,470</u>	<u>836,720</u>
2,459,697	2,360,001	1,483,820	1,055,762	1,037,305	1,453,874
<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>	<u>\$6,229,478</u>
\$29,275,882	\$29,745,169	\$29,666,849	\$32,331,121	32,546,368	\$33,755,088
36,383,949	38,924,340	24,034,138	19,922,800	7,187,526	7,806,400
(26,664,900)	(25,281,785)	(12,196,987)	(7,693,418)	34,116,177	38,900,976
<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>	<u>\$80,462,464</u>

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental Activities:										
General Government	\$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	\$4,396,506
Public Safety	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	10,408,814
Culture and Recreation	1,158,334	919,419	779,360	798,679	700,497	4,076,009	1,228,036	1,333,904	1,525,961	513,923
Public Works	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	3,521,107
Community Development	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	2,608,543
Interest on Long Term Debt	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	1,306
Total Governmental Activities Expenses	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	21,450,199
Business-Type Activities:										
Water service	539,020	597,795	511,861	440,589	524,709	460,887	619,277	439,826	326,502	340,916
Garbage collection	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	2,174,074
Total Business-Type Activities Expenses	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	2,514,990
Total Primary Government Expenses	\$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	\$23,965,189
Program Revenues										
Governmental Activities:										
Charges for Services:										
General Government	\$13,644	\$16,214	\$16,227	\$41,641	\$3,481	\$19,249	\$2,536	\$18,101	\$4,744	\$5,153
Public Safety	267,768	305,717	222,306	99,012	186,210	173,177	207,305	249,676	248,855	242,704
Culture and Recreation	12,749	13,602	7,235	7,696	11,808	43,638	11,411	91,961	311,158	11,429
Public Works	679,383	333,960	539,740	178,202	121,665	104,772	47,852	169,034	79,138	114,107
Community Development	946,723	1,003,516	1,270,591	966,262	1,211,953	765,015	455,586	1,049,045	1,203,310	1,427,453
Operating Grants and Contributions	3,644,129	2,953,045	2,256,982	4,419,015	3,214,779	4,162,714	4,896,638	3,621,393	3,799,544	4,616,972
Capital Grants and Contributions	1,368,358	728,800	461,214	435,188	3,416,868	1,614,942	178,073	1,266,486	703,817	1,414,317
Total Government Activities Program Revenues	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	7,832,135
Business-Type Activities:										
Charges for Services:										
Water service	198,380	277,442	218,900	329,539	885,986	199,816	174,743	243,750	223,037	259,353
Garbage collection	1,562,954	1,868,865	1,757,508	2,059,546	1,895,698	1,679,492	1,462,054	2,163,837	2,462,700	2,465,513
Total Business-Type Activities Program Revenue	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	2,724,866
Total Primary Government Program Revenues	\$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	\$10,557,001
Net (Expense)/Revenue										
Governmental Activities	(\$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)	(\$13,618,064)
Business-Type Activities	(391,174)	(55,102)	(268,405)	182,626	361,644	(290,472)	(419,447)	(634,322)	(223,863)	209,876
Total Primary Government Net Expense	(\$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)	(\$13,408,188)

(Continued)

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Taxes:										
Property Taxes	\$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	\$10,752,244
Utility Users Tax	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	1,434,208
Parcel tax					702,840	710,500	717,549	704,164	717,528	702,084
Sales Taxes	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	3,022,310
Other Taxes	944,168	988,787	980,973	1,586,173	1,959,798	1,610,286	1,720,233	2,269,128	1,886,852	2,145,044
Motor Vehicle Tax	1,382,813	818,011	230,561	201,344	139,173	94,542	97,979	177,344	1,264,674	1,407,440
Interest Earnings	239,700	634,543	644,602	1,638,500	2,131,569	1,138,926	1,442,654	1,388,987	1,260,104	240,412
Other	386,414	223,034	71,607	89,974		715,478	420,557	692,898	395,396	303,188
Transfers								(7,403)		
Extraordinary Items									25,057,083	
Total Government Activities	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	20,006,930
Business-Type Activities:										
Interest Earnings	51,679	48,945	70,822	93,672	78,292	(41,928)	13,171	15,144	19,951	13,652
Transfers										
Total Business-Type Activities	51,679	48,945	70,822	93,672	78,292	(41,928)	13,171	15,144	19,951	13,652
Total Primary Government	\$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	\$20,020,582
Change in Net Position										
Governmental Activities	(\$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	\$6,388,866
Business-Type Activities	(339,495)	(6,157)	(197,583)	276,298	439,936	(332,400)	(406,276)	(611,775)	(203,912)	223,528
Total Primary Government	(\$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	\$6,612,394

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund					
Reserved	\$13,758,950	\$11,713,911	\$11,916,073	\$11,379,597	\$12,676,253
Unreserved	151,024	1,425,019	729,939	3,154,308	5,406,886
Nonspendable					
Assigned					
Unassigned					
Total General Fund	<u>\$13,909,974</u>	<u>\$13,138,930</u>	<u>\$12,646,012</u>	<u>\$14,533,905</u>	<u>\$18,083,139</u>
All Other Governmental Funds					
Reserved	\$11,426,147	\$15,851,827	\$28,803,392	\$28,930,206	\$29,665,723
Unreserved, reported in:					
Special revenue funds	868,237	1,133,716	1,642,166	3,016,232	10,947,512
Capital project funds	(9,758,868)	(14,683,942)	(10,608,195)	(9,330,371)	(8,279,431)
Permanent funds	3,123,232	3,808,483	4,877,558	6,464,873	
Restricted					
Nonspendable					
Assigned					
Unassigned					
Total all other governmental funds	<u>\$5,658,748</u>	<u>\$6,110,084</u>	<u>\$24,714,921</u>	<u>\$29,080,940</u>	<u>\$32,333,804</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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$13,597,260	\$13,710,502			
6,976,500	6,575,765			
		\$12,760,896	\$11,662,202	\$11,760,041
		248,259	2,117,679	2,187,004
		6,612,069	6,822,196	9,114,594
<u>\$20,573,760</u>	<u>\$20,286,267</u>	<u>\$19,621,224</u>	<u>\$20,602,077</u>	<u>\$23,061,639</u>
\$30,755,524	\$17,220,741			
10,728,072	8,390,162			
(8,556,368)	(12,293,874)			
		\$40,241,982	18,085,109	\$19,093,787
				57,051
		4,213,590	1,309,475	1,449,121
		(12,935,810)	(205,168)	(242,822)
<u>\$32,927,228</u>	<u>\$13,317,029</u>	<u>\$31,519,762</u>	<u>\$19,189,416</u>	<u>\$20,357,137</u>

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

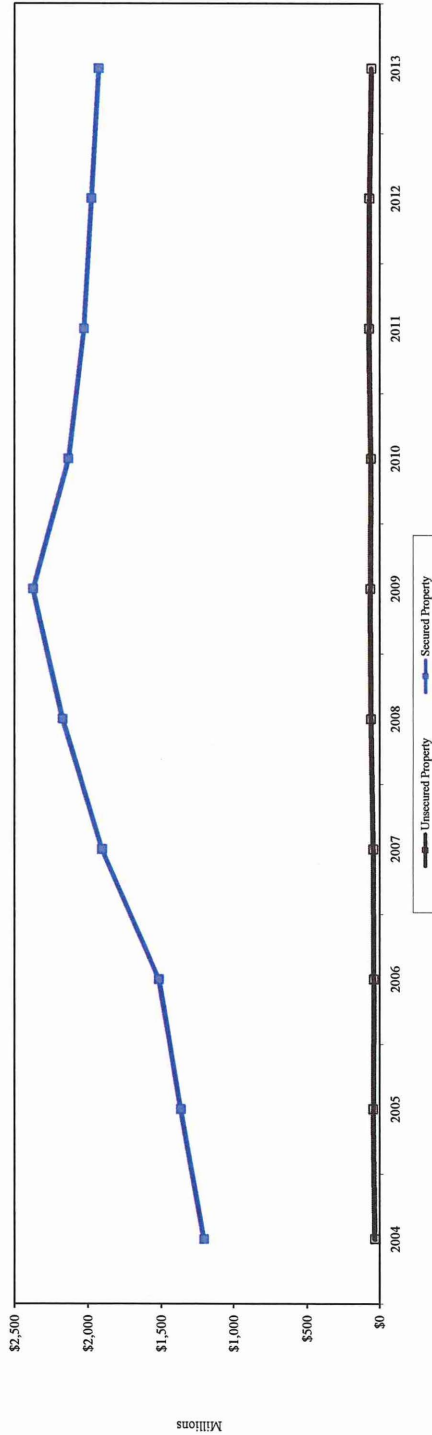
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues					
Taxes	\$10,492,050	\$13,574,214	\$14,729,697	\$20,480,740	\$22,093,509
Licenses and permits	800,705	832,783	854,222	741,979	695,105
Charges for services	1,795,903	1,644,136	1,640,193	1,757,569	1,960,341
Fines and forfeitures	248,723				
Investment earnings	817,780	634,543	1,312,057	2,112,772	2,793,335
Contributions and donations (a)	2,134,937	1,124,554	698,316	2,047,965	1,218,408
Intergovernmental revenues	4,258,018	2,662,270	2,448,174	2,862,795	2,230,043
Miscellaneous	382,018	348,456	90,025	89,974	376,924
Total Revenues	<u>20,930,134</u>	<u>20,820,956</u>	<u>21,772,684</u>	<u>30,093,794</u>	<u>31,367,665</u>
Expenditures					
Current:					
General government	3,910,913	2,802,995	2,994,610	3,218,307	4,168,820
Public safety	8,246,476	8,426,629	8,814,019	9,317,197	8,862,537
Public works	2,206,872	1,818,944	1,661,489	2,447,594	2,583,643
Culture and recreation	927,450	801,800	626,076	605,279	693,526
Community development	2,526,304	1,908,979	2,136,579	1,974,137	3,361,924
Administration (b)		396,222	388,413	332,570	
Outside Services		2,500			
Tax increment pass-through payments (c)	534,477	613,840	648,776	1,030,352	
Capital outlay	2,987,430	957,510	576,123	867,633	1,430,536
Debt service:					
Principal repayment	7,770,265	1,589,118	1,269,510	1,156,063	420,000
Interest and fiscal charges	2,638,058	1,844,965	2,361,859	2,890,750	3,054,581
Bond issuance costs			686,269		
Total Expenditures	<u>31,748,245</u>	<u>21,163,502</u>	<u>22,163,723</u>	<u>23,839,882</u>	<u>24,575,567</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,818,111)</u>	<u>(342,546)</u>	<u>(391,039)</u>	<u>6,253,912</u>	<u>6,792,098</u>
Other Financing Sources (Uses)					
Transfers in	4,463,424	3,114,580	2,088,071	2,826,543	2,866,768
Transfers (out)	(4,463,424)	(3,114,580)	(2,088,071)	(2,826,543)	(2,866,768)
Contributed capital assets					
Bonds issued/Proceeds from bonds	11,659,000	22,838	17,995,000		
Proceeds on Loans			507,958		
Advances on loans	(2,904,000)				
Proceeds on Lease					
Total other financing sources (uses)	<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>(\$2,063,111)</u></u>	<u><u>(\$319,708)</u></u>	<u><u>\$18,111,919</u></u>	<u><u>\$6,253,912</u></u>	<u><u>\$6,792,098</u></u>
Debt service as a percentage of noncapital expenditures	57%	20%	25%	21%	18%

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$23,285,450	\$21,854,984	\$22,046,785	\$19,849,192	\$18,545,522
684,903	758,510	1,451,605	1,474,305	1,637,444
1,565,339	1,188,851	1,334,083	1,637,547	1,570,704
535,836	644,080	4,308,643	1,299,287	189,795
5,169,616	4,319,092	4,286,769	3,882,039	4,091,814
253,140	222,793	1,173,265	407,755	372,686
<u>31,494,284</u>	<u>28,988,310</u>	<u>34,601,150</u>	<u>28,550,125</u>	<u>26,407,965</u>
3,842,178	5,009,536	4,817,557	4,601,057	4,361,346
10,278,800	11,301,946	10,767,107	10,205,449	10,089,238
3,206,456	3,989,167	3,359,333	2,853,818	3,338,504
830,598	1,351,058	714,746	709,236	509,561
4,963,224	6,999,593	5,080,138	3,069,120	2,486,567
1,564,730	872,973	3,568,500	3,300,116	2,124,427
445,000	16,120,000	1,075,000	1,120,000	9,718
3,269,253	3,241,729	3,323,676	1,611,102	1,306
<u>28,400,239</u>	<u>48,886,002</u>	<u>32,706,057</u>	<u>27,469,898</u>	<u>22,920,667</u>
<u>3,094,045</u>	<u>(19,897,692)</u>	<u>1,895,093</u>	<u>1,080,227</u>	<u>3,487,298</u>
3,794,238	3,739,006	10,827,081	9,710,054	795,353
(3,794,238)	(3,739,006)	(10,834,484)	(9,710,054)	(795,353)
			224,805	
				<u>124,353</u>
		(7,403)	224,805	<u>124,353</u>
		15,650,000	(12,654,525)	
<u>\$3,094,045</u>	<u>(\$19,897,692)</u>	<u>\$17,537,690</u>	<u>(\$11,349,493)</u>	<u>\$3,611,651</u>
14%	41%	15%	10%	0%

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



Fiscal Year	Secured				Unsecured				Total Assessed (a)	Total Property	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Gateway 101 Corridor	University Circle	Ravenswood	City	Gateway 101 Corridor	University Circle	Ravenswood	Unsecured Property				
2004	770,934,412	233,714,655	109,112,054	64,396,546	\$1,178,157,667	5,456,508	5,221,932	\$31,496,907	1,209,654,574	1,209,654,574	1.00%	
2005	872,975,114	281,087,465	105,172,961	65,880,186	\$1,323,115,726	5,134,547	10,541,193	\$43,724,302	1,368,840,028	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	\$39,767,538	1,518,412,155	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	\$43,208,357	1,906,606,095	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	\$39,392,514	2,175,501,028	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	\$64,047,690	2,374,758,605	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	\$60,060,104	2,136,075,564	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	\$72,622,229	2,030,719,472	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	\$71,498,351	1,978,176,923	1,978,176,923	1.00%	
2013	1,104,501,164	317,394,502	369,327,260	79,254,165	\$1,870,477,091	6,898,342	19,933,559	\$58,192,658	1,928,669,749	1,928,669,749	1.00%	

2012-13 Total Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
1,207,408,954	557,612,127	50,822,476	54,633,534	1,870,477,091

Source: San Mateo County Assessors 2003/04 - 2012/13 Combined Tax Rolls & California Municipal Statistics, Inc. (CalMuni)
 (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. The assessed valuation data shown above represents the only data currently available with respect to the actual market value property and is subject to the limitations described in the note below.

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

Note:

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

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

Fiscal Year	Basic County-wide Rate	Ravenswood School District	Sequoia Union High School District	San Mateo Community College District	Total
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
2013	1.000	0.0417	0.0356	0.0194	1.0967

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

Note:

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

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

Fiscal Year 2012-13				Fiscal Year 2008-09			
Property Tax Payer	Rank	Total Assessed Value	% of Total Assessed Value	Property Tax Payer	Rank	Total Assessed Value	% of Total Assessed Value
Wells REIT II-University Circle LP	1	\$318,783,454	17.04%	Wells REIT II-University Circle LP	1	\$304,837,200	9.43%
EQR-Woodland Park LP	2	156,861,000	8.39%	Ikea Property Inc.	2	\$73,667,021	2.28%
Ikea Property Inc.	3	77,037,273	4.12%	LD Riviera LLC	3	\$73,163,767	2.26%
SHR Palo Alto LLC	4	49,821,900	2.66%	HD Development of Maryland Inc.	4	\$36,267,239	1.12%
Gateway 101 LLC	5	25,323,547	1.35%	One Newell LLC	5	\$34,884,000	1.08%
HD Development of Maryland Inc.	6	19,178,597	1.03%	Romic Environmental Tech Corp.	6	\$16,852,229	0.52%
Nairobi Housing Inc. (2)	7	13,053,100	0.70%	Deutsche Bank National Trust Co.	7	\$15,781,249	0.49%
Avery H. Smith & Co.	8	12,076,800	0.65%	TMG/MFP Ravenswood Palms LLC	8	\$14,083,451	0.44%
East Palo Alto at 101 LLC	9	11,322,000	0.61%	45/55 Newell LLC	9	\$12,662,790	0.39%
DKB Homes LLC	10	9,472,933	0.51%	Nairobi Housing Inc.	10	\$12,062,152	0.37%
D&C Lee Second LP	11	7,213,410	0.39%	1751 East Bayshore Investors LLC	11	\$9,928,907	0.31%
Cummings Park Associates	12	7,153,580	0.38%	402/430 O'Keefe LLC	12	\$9,794,399	0.30%
Green Valley Corp.	13	7,071,987	0.38%	DKB Homes LLC	13	\$9,058,593	0.28%
Romic Environmental Tech Corp	14	6,750,000	0.36%	Cummings Park Associates	14	\$8,720,389	0.27%
Storage Portfolio I LLC	15	6,543,506	0.35%	US Bank NA Trustee	15	\$7,935,826	0.25%
Commercial Net Lease Realty	16	6,268,139	0.34%	Storage Portfolio I LLC	16	\$7,802,019	0.24%
SEI PSP II Joint Ventures	17	4,667,425	0.25%	1820 Bayshore LLC	17	\$7,537,800	0.23%
Sobrato Interests 2	18	4,534,779	0.24%	1920/1928 Cooley LLC	18	\$7,497,000	0.23%
University Plaza EPA LLC	19	4,530,000	0.24%	2555 Pulgas EPA LLC	19	\$7,012,869	0.22%
Bella Vista	20	4,500,000	0.24%	D&C Lee Second LLP	20	\$6,897,849	0.21%
Total Top 20 Taxpayers' Total		\$752,163,430	40.21%	Total Top 20 Taxpayers' Total		\$676,446,749	20.92%
City's Total Assessed Valuation		\$1,870,477,091	100%	City's Total Assessed Valuation		\$3,233,620,707	100%

Source: California Municipal Statistics, Inc. (CalMuni)

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

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

Fiscal Year Ended June 30	Collected Within the Fiscal Year of the Levy				Total Collections To Date		
	Total Tax Levied for Fiscal Year (1)	Current Tax Collections (2)	Percentage of Levy	Delinquent Tax Collections (3)	Total Tax Collections	Percentage of Levy	
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	12,551,184	97.7%		12,551,184	98%	
2013	12,108,270	11,916,231	98.4%		11,916,231	98%	

Source: San Mateo County Assessor 2003/04 - 2012/13 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
Successor Agency Private - Trust Fund
Ratios of Outstanding Debt by Type
June 30, 2013
Last Ten Fiscal Years

Fiscal Year	Former Successor Agency Redevelopment Tax Allocation Bonds	1	Revenue Bond	1	Less: Restricted Bonds/ Bond Proceeds	2	Former Redevelopment Agency Bonds	Percentage of Personal Income per Capita	3	Outstanding Debt Per Capita	4
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	1.0%		903	
2012	22,870,000		16,815,000		14,805,000		24,880,000	n/a		874	
2013	22,320,000		16,195,000		14,345,000		24,170,000	n/a		843	

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, 2013**

2011-12 Assessed Valuation: \$1,928,669,749

<u>OVERLAPPING TAX INCREMENT DEBT</u>	Total Debt 6/30/2013	(1) Percentage Applicable	City's Share of Debt 6/30/2013
2003 A Refunding Tax Allocation Bonds	\$5,000,000	100%	\$4,985,000
2003 B Refunding Tax Allocation Bonds (Taxable)	3,065,000	100	2,990,000
2005 Series A Revenue Bonds	16,815,000	100	<u>16,195,000</u>
SUBTOTAL OVERLAPPING TAX INCREMENT DEBT			\$24,170,000

Ratios to Increment Valuation (\$731,714,541):
Overlapping Tax Increment Debt..... 3.30%

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 6/30/2013	(1) Percentage Applicable	City's Share of Debt 6/30/2013
San Mateo Community College District	\$580,659,994	1.302%	\$7,560,193
Sequoia Union High School District	336,340,000	3.161	10,631,707
Ravenswood School District	10,131,707	58.362	5,913,067
City of East Palo Alto	0	100	0
California Statewide Communities Development Authority 1915 Act Bonds	3,164,716	100	<u>3,164,716</u>
SUBTOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			27,269,683

GRAND TOTAL DIRECT AND OVERLAPPING TAX, ASSESSMENT AND TAX INCREMENT DEBT **\$51,439,683**

<u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$311,729,816	1.302%	\$4,058,722
San Mateo County Board of Education Certificates of Participation	11,455,000	1.302	149,144
Menlo Park Fire Protection District Certificates of Participation	11,755,000	8.456	994,003
Midpeninsula Regional Open Space District General Fund Obligations	135,649,717	1.078	<u>1,462,304</u>
TOTAL OVERLAPPING GENERAL FUND DEBT			\$6,664,173

TOTAL DIRECT DEBT **\$0**

COMBINED TOTAL DEBT **\$58,103,856 (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	1.41%
Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.67%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt	0.00%
Combined Total Debt	3.01%

State School Building Aid Repayable as of 6/30/2013: \$0

AB:(\$475)

Source: California Municipal Statistics, Inc.

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

	2,004	2005	2006	2007	2008
Gross Assessed Valuation	776,390,920	878,109,661	1,012,349,893	1,149,222,765	1,353,890,862
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	194,097,730	219,527,415	253,087,473	287,305,691	338,472,716
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	29,114,660	32,929,112	37,963,121	43,095,854	50,770,907
Debt Applicable to Limit:					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	29,114,660	32,929,112	37,963,121	43,095,854	50,770,907

	2009	2010	2011	2012	2013
Gross Assessed Valuation	1,515,896,503	1,288,518,941	1,195,776,212	1,143,398,348	1,111,399,506
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	378,974,126	322,129,735	298,944,053	285,849,587	277,849,877
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	56,846,119	48,319,460	44,841,608	42,877,438	41,677,481
Debt Applicable to Limit:					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	56,846,119	48,319,460	44,841,608	42,877,438	41,677,481

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, 2013
Last Ten Fiscal Years

	RDA Tax Allocation Bonds				Public Financing Authority Revenue Bonds							
Fiscal Year	Tax Increment	Debt Service (1)		Total	Coverage	Principal and Interest From 1999 TABS	Capitalized Interest Acct		Debt Service (2)		Coverage	
		Principal	Interest				Principal	Interest	Principal	Interest		Total
2004	4,074,133	290,000	1,356,648	1,646,648	2.5	-	-	-	-	-	-	-
2005	4,557,353	470,000	1,812,260	2,282,260	2.0	-	-	-	-	-	-	-
2006	4,409,635	385,000	1,792,133	2,177,133	2.0	-	507,986	-	507,986	-	507,986	100%
2007	7,996,776	400,000	1,772,923	2,172,923	3.7	-	846,644	-	846,644	-	846,644	100%
2008	7,857,564	420,000	1,752,425	2,172,425	3.6	-	846,644	-	846,644	-	846,644	100%
2009	7,996,776	445,000	1,730,325	2,175,325	3.7	-	846,644	-	846,644	-	846,644	100%
2010	7,891,237	470,000	1,706,055	2,176,055	3.6	-	846,644	-	846,644	-	846,644	100%
2011	7,625,928	495,000	1,455,833	1,950,833	3.9	1,416,784	-	-	836,784	580,000	1,416,784	100%
2012	7,376,396	520,000	1,425,525	1,945,525	3.8	1,418,570	-	-	818,570	600,000	1,418,570	100%
2013	7,376,779	550,000	1,394,064	1,944,064	3.8	1,416,938	-	-	796,938	620,000	1,416,938	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, 2013
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)
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%	18,368	8.3%	69,577	4,290
2012	28,467	16.8%	n/a	7.1%	n/a	4,296
2013	28,675	13.2%	n/a	5.5%	n/a	4,077

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, 2013
Last Nine Fiscal Years

Function	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government (City Council, CM, CC, Finance, HR, CA Rent Stabilization, Youth and Family Svcs)	20	19	17.8	21	22	22.5	23	23	23
Public Safety									
Police									
Officers	48	48	42	43	43	44	40	40	40
Civilians	16	12	9.75	9.75	7	7	11	13.5	12.5
Community Development									
Administration					2	2	2	5.5	5.5
Economic Development/Redevelopment Agency	6	6	6	6	6	6	6	5	5
Planning Division	6	6	4	5	5	5	5	3	3
Building Services	6	4	4	5	5	5	5	3	3
Engineering Services								5	5
Maintenance Division								11	11
Senior Services								1.63	1.63
Public Works (Eliminated 2011)									
Administration	3	3	2	2	2	2	2	0	0
Engineering	6	6	5	6	6	6	6	0	0
Maintenance	12	13	12	12	12	12	13	0	0
Culture & Recreation (Eliminated 2011)									
Administration	2	2	2	2	2	2	2	0	0
Recreation	6.28	1	1	1	1	2	2	0	0
Senior Services	3.13	1.38	1.38	1.38	1.38	1.63	1.63	0	0
Housing Services & Rent Stabilization Eliminated 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>	<u>0</u>
Total	139.41	125.38	110.93	118.13	118.38	122.13	123.1	110.6	109.6

Source: City of East Palo Alto Government Budget.

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

**City of East Palo Alto
Operating Indicators by Function
June 30, 2013
Last Five Fiscal Years**

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

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, 2013
Last Ten Fiscal Years

FUNCTION	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Government owned buildings										
Public Works & Comm Development Building		1	1	1	1	1	1	1	1	1
Housing (Water Enterprise Fund)	1	1	1	1	1	1	1	1	1	1
Highways & Streets										
Streets (miles)	38	38	38	38	38	38	38	38	38	38
Streetlights	805	809	827	827	827	827	827	827	827	827
Traffic Signals	14	14	14	14	14	14	14	14	14	14
Culture & recreation										
Parks (number of parks)	5	6	6	6	6	6	6	6	6	6
Parks acreage (acres)	13.4	16	16	16	16	16	16	16	25.38	25.38
Senior Centers	1	1	1	1	1	1	1	1	1	1
Water *										
Water pipelines (miles)	39.2	39.2	39.2	39.2	39.2	39.2	38.6	38.6	38.6	38.6
Fire hydrants	230	230	230	230	230	230	230	282	283	283
Maximum daily capacity (millions of gallons per day)	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.07

Source: Various city departments

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

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