

CITY OF EAST PALO ALTO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010

Prepared by
FINANCE DEPARTMENT

CITY OF EAST PALO ALTO

Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

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City of East Palo Alto

October 28, 2010

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of East Palo Alto for the fiscal year ended June 30, 2010. State law requires that every general purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. The CAFR report is published to fulfill that requirement for the fiscal year ended June 30th, 2010. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Maze & Associates, a firm of Certified Public Accountants, expressed an opinion that the City's financial statements for the year ended June 30, 2010 are fairly stated and in compliance with accounting principles generally accepted in the United States. This is commonly known as an "unqualified" or "clean" opinion. 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 Department of Finance.

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.

Profile of the City

The City of East Palo Alto was incorporated in 1983. It is located in San Mateo County on the Peninsula in the Greater 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 33,500.

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 Council appoints the government's administrative head (known as City Manager), who in turn appoints the heads of the various City departments; except for the City Attorney who is also appointed by the Council. Council members are elected by voters to serve overlapping four-year terms. The Mayor is appointed by majority vote of the Council on an annual basis to serve a one-year term. There are currently four Advisory Boards and Commissions that are appointed by the Council: Rent Stabilization Board, Planning Commission, Public Works and Transportation Commission, and Senior Advisory Commission. In addition, the Council appoints other advisory bodies such as the Measure C Oversight Committee, and the Ravenswood Transit Area Station Specific Plan Citizens Advisory Committee.

The Council is required, pursuant to state law, 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 need special approval from the City Council.

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

Rich Culture and History

For much of the community's history, East Palo Alto was part of unincorporated San Mateo County. Diversity has remained a constant during the city's municipal existence. Prior to incorporation the area was inhabited by diverse groups including Ohlone/Costanoan Native Americans, Spanish ranchers, Chinese laborers, Asian and Italian flower growers, and others. As recently as the late 1990's more than half of East Palo Alto's residents were of African American descent. Today, the majority of the population is of Latin American descent; however, the City remains a multi-ethnic population including large representations of African American and Pacific Island descent.

The City also has an extensive base of community volunteers, religious organizations, philanthropists, and social and environmental activists who bring needed social and economic support to the community. These organizations provide a wide range of services and enrichment activities to our citizens, and provide a sense of community that is uniquely “East Palo Alto”.

Local Economy

Today

Major industries located within the government’s boundaries include general retail, construction, food products, and transportation. IKEA, Home Depot, Four Seasons Hotel & Restaurant, Best Buy, Nordstrom Rack, Office Depot, Sports Authority, Mi Pueblo supermarket, California Bank & Trust, Wells Fargo Advisors, Piper Jaffray, and other professional services companies are part of the retail center and office space development located in the redevelopment project areas. Also, there are residential complexes such as University Square community and the Peninsula Park apartments within the City boundaries.

The City continues to face fiscal challenges as the country and the City of East Palo Alto struggle to rebound from what some economists have referred to as the Great Recession. The recession continues to have a pervasive impact on the community as new development has stalled and economic activity is sluggish. Additionally, unprecedented budget and economic challenges for the State of California continue to drive uncertainty at the local level as the State pushes the limits of its ability to utilize local funding to balance the State budget. Local challenges include stubbornly high unemployment rates, a continued recession, tight credit within the development community, and declining housing market values. A continuation of such conditions may ultimately lead to further declines in local revenues, but at the present time the City is experiencing some stabilization of revenue sources.

Generally speaking, during the past year, some businesses failed and homes were foreclosed. Similar to the rest of the nation, property values have declined and unemployment has increased. According to the latest unemployment rate figures, the City’s unemployment rate rose from approximately 19.5% * in June 2009 to 20.7%* in June 2010. In the State of California, the unemployment rate rose from 11.6%** to 12.2%** during the same period.

Recent History

Over the past ten years, the City has successfully redeveloped various areas of the city and added retail space, Class A office space, housing units (including affordable), and a five- star luxury hotel. This effort has largely contributed to the increased tax base and employment for hundreds of residents. The City has also added 2 acres of parkland. However, during fiscal year secured property values declined for the first time in over a decade.

* State of CA Employment Development Department, Not Seasonally Adjusted.

** State of CA Employment Development Department, Seasonally Adjusted.

Recent History, continued

Since incorporation, the City has established three redevelopment project areas: Gateway 101, University Circle, and the Ravenswood industrial area.

The Gateway 101 project area was formed in 1993 and consists of 146 acres north of Highway 101. Land uses consist of regional-serving retail, local-serving retail, and residential uses. More than 800 workers are employed in the area, with approximately 40% representing local residents.

University Circle, which was formed in 1998 and formerly known as “Whisky Gulch,” today consists primarily of three Office Towers totaling 400,000 square feet of Class A office space, a 200-room luxury hotel and restaurant, and 15,000 square feet of commercial space. This Class A Office space is home to several law firms, securities firms, restaurants, and other commercial businesses.

The Ravenswood project area is the last redevelopment project area within the City. The project area, still largely underdeveloped, consists of 186 acres of industrial, commercial, residential and open space. During this past year the City fiscally merged this project area with the Gateway 101 and University Circle project area as a financing tool to enhance bonding capacity for future development within the Ravenswood Project area.

Long Term Financial Planning

Since 2006-2007, and 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 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 maintaining a minimum of 15% of general budgeted operating costs as a reserve for the General Fund. The reserve was, in fact, established during 2008-09 budget process. As of June 30, 2010, the Council has established a minimum reserve of approximately 10% of budgeted General Fund expenditures. The purpose of the reserve is to provide the City with some fiscal capacity for responding to economic uncertainties and vulnerabilities, minimizing the impact on service levels during challenging economic times.

The City monitors revenues and expenditures on an ongoing basis to ensure that budgeted expenditures do not exceed available revenues and/or fund balances, as adopted. Management anticipates future budget challenges as the City moves toward the fiscally sustainable practice of adopting a balanced budget each year. Given that this goal was not articulated and achieved through the 2010-2011 Budget, the City will be resolving issues surrounding a General Fund structural deficit during the next budget cycle. The City anticipates meeting that challenge in a balanced and responsible manner.

Financial Policies & 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 Planning process. As mentioned above, this past year has been challenging as the economy remains sluggish with mixed economic data suggesting a slow recovery. However, city leaders are well-practiced at managing social and economic challenges and are familiar with accessing resources through local community foundations and organizations, as well as pursuing governmental grant funding sources. Notwithstanding the challenges, the City continues to plan, organize and accomplish goals in order to achieve the City Council's adopted priorities, including:

- **Federal, State, and Local Grant Awards:** The City aggressively pursues leveraging local resources in conjunction with several Federal, State and local grant initiatives. Notable non-capital programs funded during the year included the US EPA grant for environmental studies of Cooley Landing, the Bureau of Justice Gang Suppression Initiative, the Department of Labor Employment Training Initiative, the Department of Transportation Jobs Access Reverse Commute which, combined with Metropolitan Transportation Commission and local C/CAG funds, comprised the majority of funding for the City's Free Shuttle Bus Program providing citizen access to local mass-transit hubs. Also, the City is working with regional transit providers on a Metropolitan Transportation Commission study to analyze the feasibility of commuter trains along the existing Dumbarton Rail right of way. This grant, along with other Federal and local redevelopment funds, provided critical resources to accomplish the goal of

development within the Ravenswood redevelopment project area, as well as meeting regional transit goals. These, and other numerous grants, help the City tremendously in meeting the needs of our citizens.

- Capital Improvements: The City is adopting a multi-year Capital Improvement Program (the Plan). Throughout the Plan, the City intends to utilize Measure A and other local funds to match Federal, State, and local grant programs. Together these funds will be used to achieve the design and construction of several public improvement projects. Some of the major projects include the “Safe Routes to School” sidewalk improvement program, street resurfacing and traffic signal upgrade programs, and Runnymede storm drain improvements. The Plan anticipates funding from similar sources over a two-year period, and the City has sufficient local matching funds to initiate such efforts. The City also utilized local park-in-lieu monies to fund major improvements to Jack Farrell Park and initiate design plans for Cooley Landing open space and recreational improvements.
- Measure C Parcel Tax – The City continues to reap the benefits of aggressive crime prevention partially funded through the 2006 Measure C parcel tax. In addition to numerous local community-based organizations utilizing grants to fund crime prevention-related programs, the City has had notable success through internal public safety efforts to prevent crime, resulting in a 16% overall decrease of crime incidents during the year.
- User Fee Study (including a Cost Allocation Plan) – The City is undertaking a comprehensive User Fee Study and Cost Allocation Plan to accurately determine whether management is fully utilizing the capacity to charge user-related fees for services provided. The completion and implementation of these studies is critical to achieving internal cost accuracy and proper user-fee charges.

Awards & Acknowledgments

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, 2009. This was the *first* 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 our auditors. 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 and especially the Redevelopment Agency, 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,



Brenda Olwin
Interim Finance Director



ML Gordon
City Manager



CITY OF EAST PALO ALTO

DIRECTORY OF OFFICIALS

City Council

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

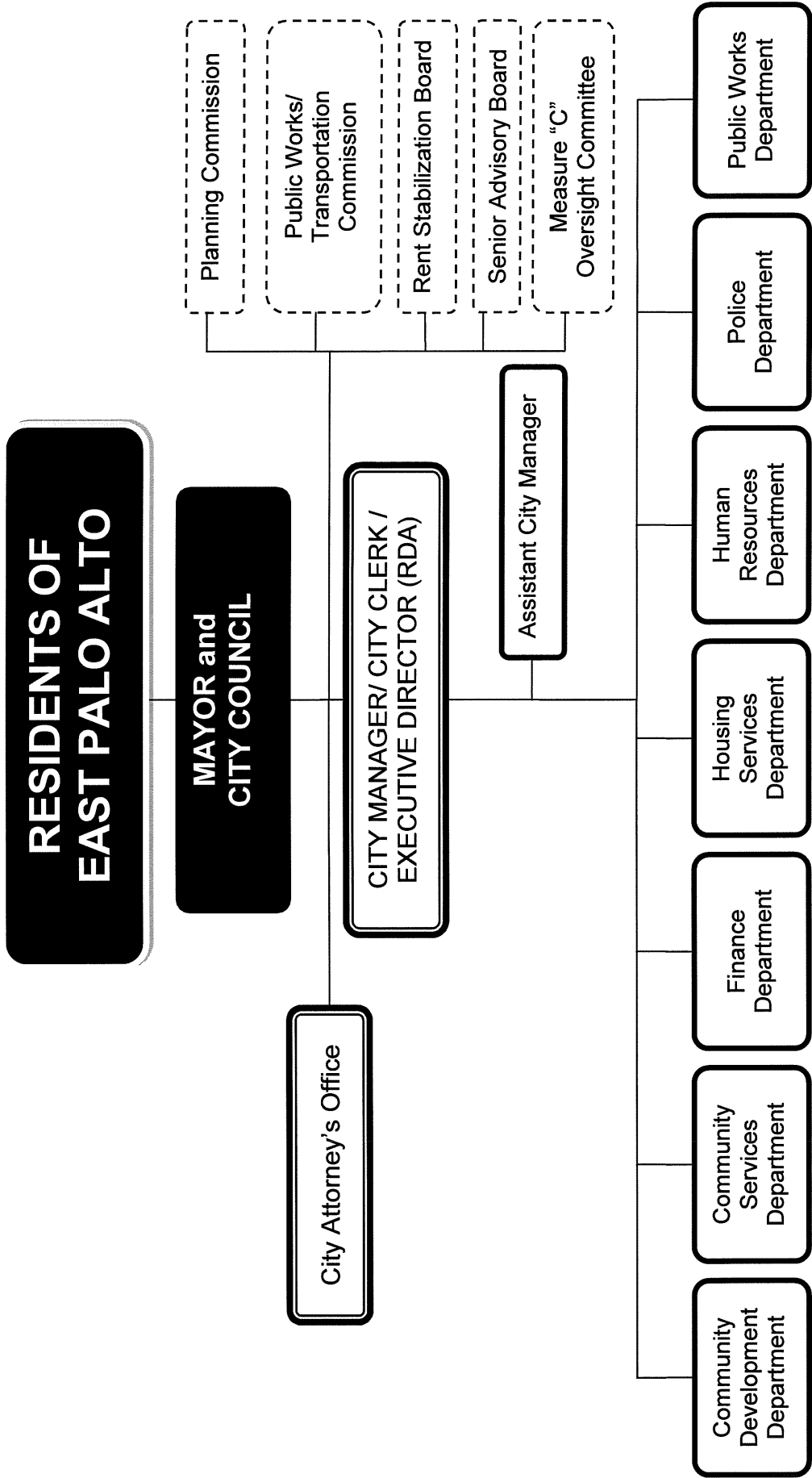
Administration

ML Gordon.....City Manager/Executive Director RDA
Stephanie Osaze Interim Assistant City Manager
Vincent C. Ewing City Attorney
Brenda OlwinInterim Finance Director
Ronald L. Davis Police Chief
Anthony Docto Public Works Director
Meda Okelo Community Services Director
Wilbert Lee Jr. Housing Director

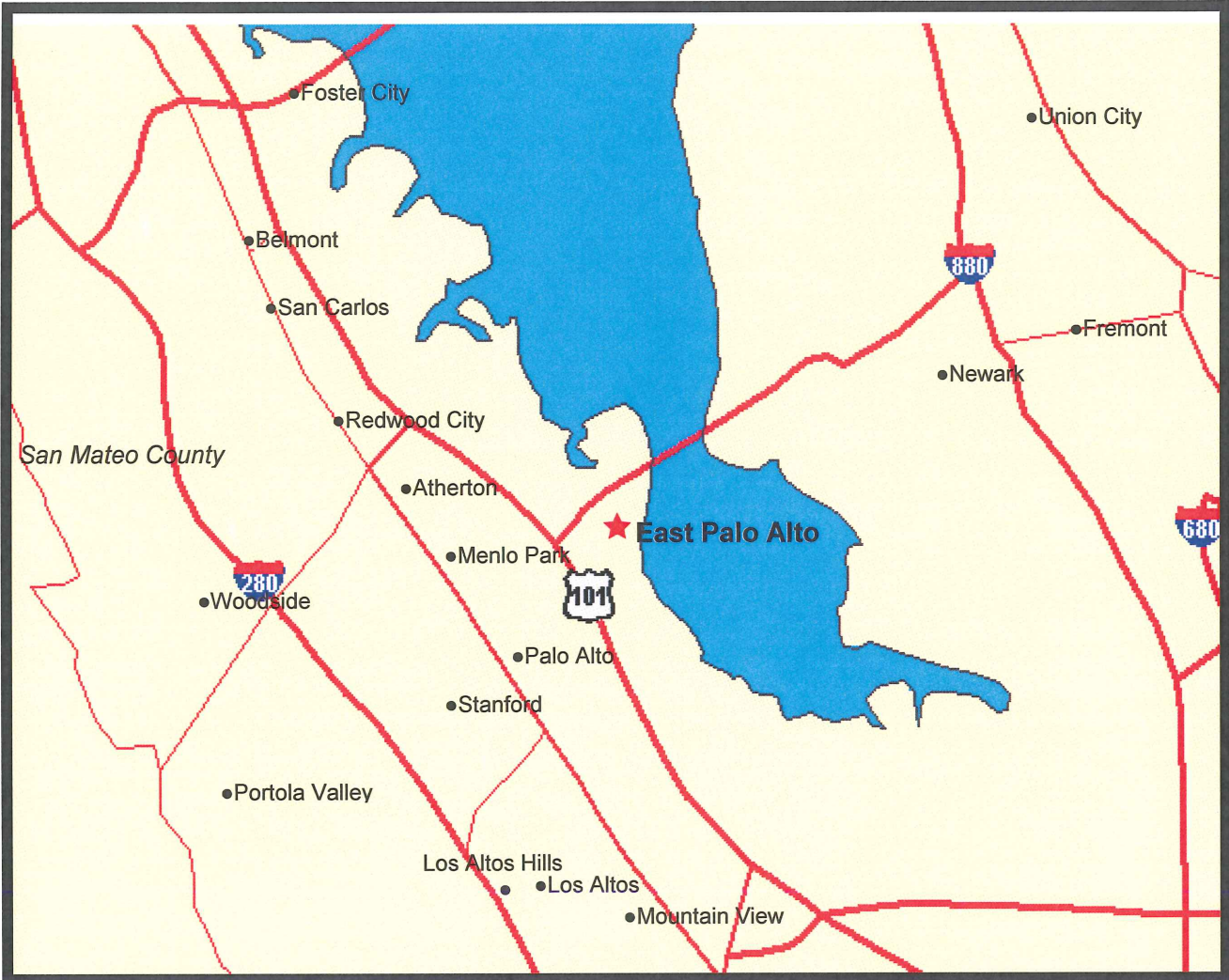


CITY OF EAST PALO ALTO

MASTER ORGANIZATIONAL CHART 2009-2010



Regional Map



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of East Palo Alto
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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



A stylized handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of East Palo Alto, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto at June 30, 2010 and the results of its operations and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the budgetary comparison for the General Fund and major special revenue funds are required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

Maze & Associates

October 28, 2010

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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, 2010, (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

As the nation slowly recovers from what some have referred to as the Great Recession, the City remains affected by a continued lack of activity in the development community, stubbornly high unemployment, and a sluggish housing market.

At the State level, California will likely lag the national recovery due to severe fiscal challenges. A recent Legislative Analyst's Office (LAO) report projected billions of dollars in budget deficits, including an estimated \$6 billion projected budget deficit during fiscal year 2010-2011. Many local leaders fear this will translate in continued "triple-flip" financing, deferred State payments, temporary "borrowing" of local funds, and raids of local government funds. For instance, in 2009-2010, the State successfully enacted a Supplemental Education Revenue Augmentation Fund (SERAF) payment from all redevelopment agencies, with East Palo Alto's share amounting to \$3.2M.

At the local level, the sluggish housing market resulted in declining property values due to foreclosures and reassessed valuations in the City. Overall, secured property values declined roughly -7% to -8%. This is significant and the first year there have been declines in property values after many years of strong growth. In the past few years, the trend of declining revenues and increasing wages pose lingering fiscal challenges to the City. However, on a positive note, the overall rate of revenue decline is leveling and the City has experienced encouraging recovery in sales tax revenues. At the end of the current fiscal year, the General Fund had an operating deficit of \$287,000. Even though the General Fund currently has a reserve of \$1.6M the challenges the City is facing in the near future could require use of the reserve, as intended when the reserve was created by Council.

The City will face challenges in its next fiscal year's budget as revenue assumptions will have to be formulated in light of current economic conditions and its impact on the service delivery of local government. Management will continue to closely monitor budget expenditures to ensure that the City is being financially prudent. The City will continue implementation of a multi-year financial plan to be used as a tool to develop strategies and policies to effectively manage the City's General Fund over the next four fiscal years, the horizon identified in the plan.

The following are some key financial highlights for the current fiscal year:

- Government-wide assets exceed liabilities by \$41.5M (net assets). The net assets are comprised of capital assets, restricted assets, and an unrestricted deficit in the amount of (\$12.2M). Overall, analysis of the statement of net assets shows that the City is able to meet current obligations; however long-term financial obligations must be paid through continued annual funding from operations.

- Government-wide total assets decreased by approximately \$19.7M over the prior year primarily due to the purchase in lieu of redemption of the 1999 tax allocation bonds (TAB), whereby the substance of the transaction was to defease \$15.6M of outstanding 1999 TAB, reducing the cash with fiscal agent balance by this amount. Additionally, \$3.2M was used to make the Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The SERAF payment resulted from the adoption of AB26 4X in July 2009 by the State of CA, which directed a portion of the incremental property taxes received by redevelopment agencies to be paid to the County's SERAF.
- Government-wide net liabilities decreased by approximately \$17.83M. This was primarily related to the purchase in lieu of redemption of the 1999 tax allocation bond (TAB), whereby the substance of the transaction was to defease \$15.6M outstanding 1999 TABs and a reduction in legal claims payable of approximately \$850,000 that was settled or resolved.
- Governmental revenues decreased by approximately \$2.4M from prior year. This is due to a decrease in a number of revenue sources including property tax of \$1.2M and property tax increment of \$106,000. In addition, there were decreases in sales tax, utility users tax, and charges for services.
- Governmental expenditures increased by \$3.8M over prior year primarily as a result of the \$3.2M SERAF payment mentioned earlier.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate financial compliance with legal requirements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. 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 22. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes (like the Capital Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Federal Government). The City's two types of funds - governmental and proprietary - use different accounting approaches.

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

Notes to the Financial Statements

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

Government-wide Financial Analysis

The City provides comparative information in its Management Discussion & Analysis by presenting two years of financial information in the GASB Statement No. 34 format and a comparative analysis of government-wide data. Net assets serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by approximately \$41.5M. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$76.2M total assets; only \$46.5M has short or long term liquidity. The remaining assets are capital assets such as roadways, storm drains, lighting, water system and other infrastructures owned by the City.

Analysis of Net Assets

Government-wide assets exceeded liabilities by \$41.5M at the end of the current fiscal year. The following table is a summary of the government-wide net assets for the governmental and business-type activities:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	43,774	63,270	2,758	2,893	46,532	66,163
Capital Assets	25,163	24,877	4,504	4,867	29,667	29,744
Total assets	<u>68,937</u>	<u>88,147</u>	<u>7,262</u>	<u>7,760</u>	<u>76,199</u>	<u>95,908</u>
Liabilities:						
Current and other liabilities	7,272	7,879	440	533	7,712	8,413
Noncurrent liabilities	26,983	44,108	-	-	26,983	44,108
Total liabilities	<u>34,255</u>	<u>51,987</u>	<u>440</u>	<u>533</u>	<u>34,695</u>	<u>52,520</u>
Net Assets:						
Investment in capital, net of debt	25,163	24,877	4,504	4,868	29,667	29,745
Restricted	23,200	38,925	-	-	23,200	38,925
Unrestricted	(13,681)	(27,642)	2,318	2,360	(11,363)	(25,282)
Total Net Assets	<u>34,682</u>	<u>36,160</u>	<u>6,822</u>	<u>7,228</u>	<u>41,504</u>	<u>43,388</u>

Numbers may not add due to rounding

Governmental Activity

- Total assets of \$68.9M consist of current and other assets of \$43.8M and capital assets of \$25.2M. Current and other assets decreased \$19.5M. This decrease is primarily due to the purchase in lieu of redemption of the 1999 Tax Allocation Bonds (TAB) (whereby the substance of the transaction was to defease \$15.65M outstanding 1999 TABs), which utilized \$15.65M of cash with fiscal agent. Additionally, \$3.26M was used to meet the Redevelopment Agency's SERAF obligation as mentioned earlier. The payment was made by the Gateway 101, University Circle, and Ravenswood Capital Projects Funds. Also, public safety expenditures increased approximately \$700,000 contributing to a lower cash balance.
- Total liabilities of \$34.3M consist of \$7.3M of current liabilities and \$27M of long-term debt. Total liabilities decreased by \$17.7M. This decrease mainly resulted from the \$15.65M purchase in lieu of redemption of the outstanding 1999 TABs (whereby the substance of the transaction was to defease \$15.65M outstanding 1999 TABs). As a result of the elimination of the 1999 tax allocation bond, the related bond interest payable at year end is also eliminated reducing accrued liabilities by approximately \$200,000. Additionally, claims and judgments declined approximately \$850,000 primarily due to legal liabilities that have either settled or resolved. Debt service principal of \$470,000 was paid during the year reducing bonded debt. Finally, accounts payable at year end was \$374,000 less than prior year.
- Net assets are comprised of 1) \$25.2M investment in capital assets (e.g. land building, improvements, infrastructure, etc.) less any outstanding debt used to acquire those assets. The City utilizes capital assets to provide services to citizens. These assets, however, are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities; 2) \$23.2M represents resources that are subject to external restrictions on how they may be expended; and, 3) a remaining deficit of \$13.7M. The \$13.7M deficit is comprised of long-term obligations secured by future tax increments and liabilities for claims and judgments and compensated absences. The City intends to liquidate those liabilities as the payments become due from continued operations.

Business-type Activity

The City's business-type activities reflect a \$4.5M investment in capital assets, which primarily consists of water-service type assets and infrastructure. Approximately, \$2.3M unrestricted net assets are available at year-end to pay current and future obligations. No major capital improvements were added to the water system during the current fiscal year.

Analysis of Statement of Activities

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

STATEMENT OF ACTIVITIES

(Dollars in thousands)

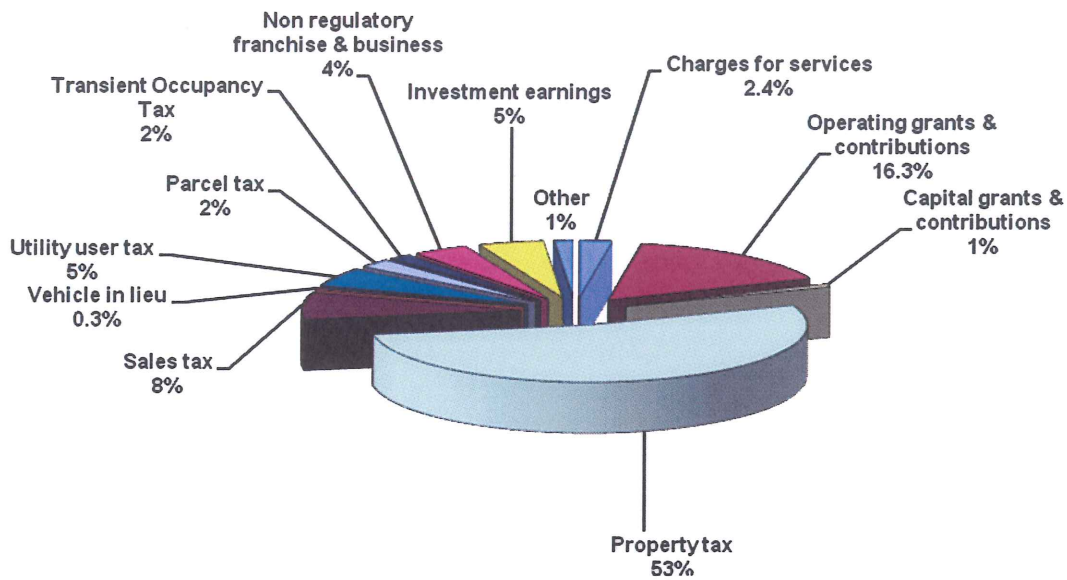
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	724	1,106	1,817	1,879	2,541	2,985
Operating grants & contributions	4,897	4,163	-	-	4,897	4,163
Capital grants & contributions	178	1,615	-	-	178	1,615
General revenues:						
Property taxes	15,934	17,193	-	-	15,934	17,193
Sales taxes	2,301	2,424	-	-	2,301	2,424
Vehicle in lieu	98	95	-	-	98	95
Utility user tax	1,591	1,647	-	-	1,591	1,647
Transient Occupancy Tax	500	500	-	-	500	500
Nonregulatory franchise & business	1,220	1,110	-	-	1,220	1,110
Parcel Tax	718	711	-	-	718	711
Investment earnings	1,443	1,139	13	(42)	1,456	1,097
Other general revenues	421	715	-	-	421	715
Total revenues	<u>30,025</u>	<u>32,418</u>	<u>1,830</u>	<u>1,837</u>	<u>31,855</u>	<u>34,255</u>
Expenses						
Program expenses:						
General government	5,119	3,859	-	-	5,119	3,859
Public safety	11,006	10,309	-	-	11,006	10,309
Public works	4,036	4,076	-	-	4,036	4,076
Culture and recreation	1,228	460	-	-	1,228	460
Community development	7,231	5,921	-	-	7,231	5,921
Water services	-	-	619	462	619	462
Garbage collection	-	-	1,617	1,709	1,617	1,709
Interest on long-term debt	2,882	3,067	-	-	2,882	3,067
Total expenses	<u>31,502</u>	<u>27,692</u>	<u>2,236</u>	<u>2,171</u>	<u>33,738</u>	<u>29,863</u>
Increase (decrease) in net assets	(1,477)	4,726	(406)	(334)	(1,883)	4,392
Beginning net assets	36,159	31,433	7,227	7,561	43,386	38,994
Prior Period Adjustment						-
Ending net assets	<u>34,682</u>	<u>36,159</u>	<u>6,821</u>	<u>7,227</u>	<u>41,503</u>	<u>43,386</u>

Numbers may not add due to rounding

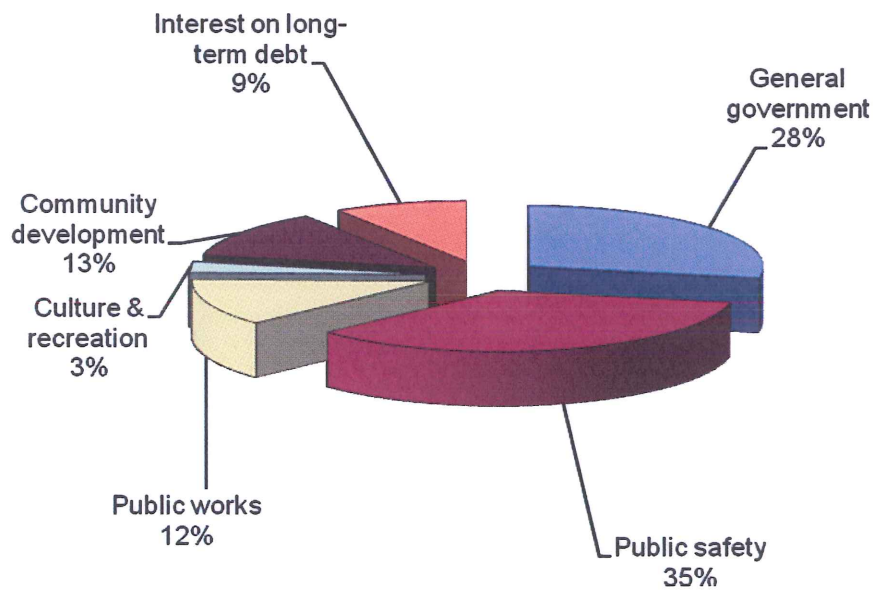
The government-wide net assets decreased by approximately \$1.88M as noted in the table above. The primary reasons for the decrease are expenses exceeding revenues in the governmental activities by \$1.48M and in the business-type activities \$406,000.

Further explanations on governmental type revenue and expenditure are illustrated in the charts below:

Governmental Activities Revenues by Source



Governmental Activities Expenditures by Type



Governmental activities

- Overall total revenues are approximately \$30M; a decrease of \$2.4M or -0.7% from the prior year. General revenues decreased by approximately \$1.3M from prior year. This is attributed primarily to a decrease in property taxes of \$1.26M.

Also, program revenues decreased by \$1.1M, largely due to a \$1.4M decrease in capital grants for funding received in the prior year, but not the current year from the Metropolitan Transportation Commission (MTC) for the Bay Road Phase 1 and Proposition 1B funding for street resurfacing. Additionally, charges for services revenue declined \$0.4M from the prior year largely due to a decline in planning, permit, and rent stabilization registration related fees. These are offset by a \$734,000 increase in operating grant and contribution revenue primarily resulting from a variety of public works federal and state grants.

- Overall, total expenditures are approximately \$31.5M; an increase of \$3.8M or 13.8% from the prior year. This is primarily due to a \$3.26M payment to the Supplemental Education Augmentation Revenue Fund (SERAF) by the Redevelopment Agency. The SERAF payment resulted from the adoption of AB26 4X by the State of CA in July 2009, which directed a portion of the incremental property taxes received by redevelopment agencies to be paid to the County's SERAF.

Additionally, it was the first year Measure C crime and violence prevention funds were disbursed totaling approximately \$840,000. Also, public safety expenditures increased \$700,000 primarily related to police operations. These were offset by reductions in rent stabilization expenditures of approximately \$420,000. The remaining offset of approximately \$550,000 relates to a variety of items including decreases in professional service fees for redevelopment agency's fiscal merger incurred in the prior year, but not the current year.

Business-type activities decreased City's net assets by \$406,000 in the current fiscal year. Key factors of this decrease are as follows:

- Net assets reduction of \$406,000 resulted in a decline in Water net assets of \$439,000 and an increase in Garbage net assets of \$33,000 in the current fiscal year.
- Water revenues decreased by \$20,000 from the previous year, resulting from slight reductions in water service fees of \$9,500 and water connection fees \$13,000. Note the majority of the revenue for the Water Fund is generated from the water lease revenue, which increased about \$3,000. Water expenses increased \$158,000 largely related to a \$131,000 increase in depreciation expense for improvements other than buildings. The remaining increase in expenses relate to small increases in salaries and professional services.
- A reduction of \$37,000 in Garbage operating revenues was caused by a \$35,000 final settlement payout from the City's operator in the prior year. Total operating expenses decreased by \$92,000 largely due to a prior year one-time purchase of equipment of approximately \$50,000. The remaining decrease is due to a reduction in administrative expenses. The net effect is a \$33,000 increase in Net Assets in the current year.

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, 2010, the City's governmental funds reported a combined ending fund balance of \$33.6M, a decrease of \$19.9M in comparison to the prior year.

- This decrease is primarily due to a purchase in lieu of redemption of the outstanding 1999 Tax Allocation Bonds. This \$15.6M purchase in lieu of redemption occurred on October 1st, 2009 whereby the substance of the transaction was to defease \$15.6M outstanding 1999 TABs. As the bonds are long term debt they are not reflected on the governmental funds balance sheet. However, this purchase is reflected on the balance sheet as a \$15.6M reduction in restricted cash and investments and a reduction in fund balance by the same amount. The remaining \$4.3M is largely related to \$3.2M SERAF payment as mentioned earlier. Also, a \$942,000 increase in interest expense or reduction in fund balance results from the interest owed on the long term advance by the Redevelopment Agency's Ravenswood District to the City.
- Governmental revenues at fiscal year-end were \$29M, a decrease of \$2.5M in revenues from the previous year. This was largely due to a \$1.2M decrease in property tax, a \$106,000 decrease in property tax increment, a \$123,000 decrease in sales tax, and \$56,000 decrease in utility-users tax, a \$376,000 decrease in charges for services, a \$851,000 net decrease in grant and intergovernmental revenue. The \$851,000 net decrease in grant and intergovernmental revenue primarily relates to a decrease in Proposition 1B street resurfacing funds, MTC grant funding for Bay Road, and the workforce grant for Jack Farrell Park bathroom. These decreases are offset by a variety of increases in revenue such as licenses, permits, and other taxes.
- Governmental expenditures totaled approximately \$48.9M, an increase of \$20.49M. However, as mentioned earlier \$15.6M was for the purchase in lieu of redemption of the outstanding 1999 Tax Allocation bonds. As mentioned earlier, \$3.2M of the increase is due to the SERAF payment. Also, approximately \$765K is due an increase in Measure C expenditures for crime and violence prevention. The remaining increase is due to a variety of items most notably increases in public safety operations of approximately \$700,000 and lighting district expenditures of approximately \$220,000.

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.

On June 30, 2010 fund balance was \$20.3M; a decrease of \$287,000 or 1.4% from the prior year. Of the total fund balance approximately \$6.6M is unreserved and is available for spending at City's discretion, which is a decrease of \$400,000 from the prior year. Of this \$6.6M, City has earmarked approximately \$1.59M designated as a reserve for economic uncertainties (contingency reserve). The \$6.6M Unreserved fund balance represents 42.7% (down from 49% in the prior year) of the current year total fund expenditures of \$15.41M. The City has available funds for unanticipated emergencies based on the adopted financial plan policy, which recommends a minimum reserve set aside of 10% percent of operating costs. The Council has set aside \$1.59M in reserve, which represents approximately 9.6% of the General Fund budgeted operating expenditures. Although the General Fund maintained an unreserved fund balance in the current year, being able to meet such level of reserves annually will be a challenge for the City, as the cost of services increase and revenue sources decline or remain stable. Management intends to continue meeting these challenges through careful financial planning, monitoring budget expenditures, and by identifying ways to reduce costs and/or generate more revenues for the City.

Revenues equaled \$14.4M; a decrease of \$1.4M or 8.7% over prior year. The decrease is primarily due a \$1.14M decline in property taxes, \$123,000 decline in sales tax, and a \$132,000 decline in charges for services.

Expenditures equaled \$15.4M; an increase of \$1.15M or 8.0% over prior year. The increase is mainly the result of increased costs in general government, public safety, public works, and community development. Overall, salaries and wages increased approximately \$800,000 and related payroll taxes and benefits costs also increased accordingly. The City increased personnel costs particularly in the area of public safety as the police department continued its efforts to achieve full staffing.

Expenditures exceeded revenues in the current year, creating an operating loss of approximately \$1.05M. After transfers in and transfers out the net change in fund balance was a decrease of approximately \$287,000.

The East Palo Alto Redevelopment Agency accounts for the activities of the Agency, which was created to prepare and carry out redevelopment plans for designated areas within the City.

The Capital Project Fund's revenues were \$6.4M in the current year, a increase of approximately \$48,000 from the previous year. This marginal decrease was a result of the continued reassessments in property values within the City to realign tax value with the current market values. Expenditures in the current year were \$7.26M; an increase of approximately \$2.17M from the prior year. The increase resulted from the \$3.26M SERAF payment as mentioned earlier. This is offset by a decrease of \$600,000 in pass through payments (related to one-time AB1389 pass through payments in the prior year) and a decrease of \$173,000 in management consulting fees (related to tax base growth and fiscal merger analyses in the prior year). The remaining decrease is primarily due to a reduction in overhead expenditures allocated to the capital project funds.

The fiscal merger enacted on July 02, 2010 combines the finances of the Ravenswood Industrial project area with the University Circle and Gateway 101 project areas to allow tax increment generated in these project areas to be used amongst all three areas together. This effort would allow the Agency to use tax increment from all project areas to develop the Ravenswood area and eliminate blight.

At the end of the current year, the Agency had fund balance reserve for encumbrances of approximately \$194,000, fund balance reserved for land held for resale of \$537,000, and fund balance reserve for receivables and deposits for \$149,000, and capital projects \$264,000 leaving an unreserved fund balance of approximately -\$13.1M. However it's important to note that the Agency has a long-term advance from the City's General Fund of approximately \$15.4M, and the Agency's obligation to make such payments is subordinate to all other long term debt obligations. If the Agency's ability to collect tax increment revenues expires, then any remaining long-term advance due to the City will be forgiven.

Low and Moderate Income Housing accounts for the legally required set-aside of 20% of property tax increment revenues received from within the Agency's redevelopment project areas and accounts for expenditures restricted to low and moderate income housing projects.

Total tax increment revenues received in the current year were approximately \$1.6M, a portion of which were used to repay low and moderate housing related debt.

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

At the end of the fiscal year, the unrestricted net assets for the Water and Garbage Funds were \$622,000 and \$862,000 respectively. The combined decrease in net assets for both funds was \$406,000 compared to prior year. Further discussions of these funds have been addressed previously in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original FY 2009-10 General Fund budget and the final amended budget resulted in an approximate \$191,000 decrease in budgeted revenues (including transfers in) and a \$317,000 decrease in expenditure appropriations (including transfers out). Following are the main components of the changes in revenues and expenditure appropriations.

- The fiscal year 2009-10 adopted revenues equaled \$16.73M (including transfers in) and the final amended revenue was \$16.54M (including transfers in); a reduction of approximately \$190,000 from the original budget. When the adopted budget was approved, the City anticipated revenues would be higher; however, it later appeared that the economic recovery would be slow with a continued negative effect on property values and tax revenues. The actual year-end operating revenue of approximately \$15.67M (including transfers in) was approximately \$870,000 less than amended FY2009-2010 budget as a result of a reduction in operating transfer in offset by greater than anticipated revenue in property taxes and utility users tax.
- The fiscal year 2009-10 adopted appropriations equaled \$18.9M (including transfers out) and the final amended appropriations of \$17.5M(including transfers out), a reduction of \$1.4M. The actual 2009-10 appropriations totaled \$15.96M (including transfers out), a difference of \$1.5M from FY2009-10 amended appropriations of \$17.5M. The decrease is a combination of reduced services related to decreases in general government and community development activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010 amounted to \$29.7M (net of accumulated depreciation). Capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The total decrease in the City's capital assets for the fiscal year was approximately \$78,000 or 0.3%.

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, 2010						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	902	902	\$ 207	\$ 207	\$ 1,109	\$ 1,109
Buildings and Improvements	4,869	4,745	44	44	4,913	4,789
Improvements Other than Bldgs.	3,665	3,536	7,058	7,058	10,723	10,594
Construction in Progress	2,214	1,212			2,214	1,212
Furnishings & Equipment	1,570	1,489	64	64	1,634	1,553
Vehicles	1,477	1,266	89	89	1,566	1,355
Street and Roadways	37,945	37,945			37,945	37,945
Storm Drain System	3,761	3,760			3,761	3,760
Less: Accumulated Depreciation	<i>(31,240)</i>	<i>(29,978)</i>	<i>\$ (2,958)</i>	<i>\$ (2,594)</i>	<i>(34,198)</i>	<i>(32,572)</i>
Total	\$ 25,163	\$ 24,877	\$ 4,504	\$ 4,868	\$ 29,667	\$ 29,745

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

Governmental Activities:

- Capital assets increased \$286,000, net of current year depreciation of \$1.26M reflecting relatively little capital asset activity during the year. The increase is primarily due to an increase in construction in progress (CIP) of \$1.0M over the prior year. The CIP was for the Runnymede Storm Drain Phase I, Cooley Landing improvements, and street resurfacing projects. Additionally, \$578,000 in capital assets was added during the year related to City Hall Improvements Phase 1, Jack Farrell Park building, police vehicles, and computer equipment.

Business-Type Activities:

- Garbage and Water Services' capital assets were not added during the year. Net Capital assets decreased \$364,000 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

At year-end, the City had \$27.3M in long term debt related to governmental activities. There was no debt related to the business-type activities. Net debt outstanding at year-end decreased by \$16.1M or -37.1% from the prior year. Below is a chart of long term debt outstanding as of June 30, 2010 with a comparison to prior year.

DEBT OUTSTANDING (Long Term)
June 30th, 2010
(Dollars in thousands)

	As of <u>June 30, 2010</u>	As of <u>June 30, 2009</u>	Net <u>Change</u>
Governmental activity			
Tax Allocation Bonds	8,235	24,355	(16,120)
Revenue Bonds	17,995	17,995	-
Amortized Bond Premiums	723	699	24
Claims & Judgements	30	-	30
Compensated Absences	272	276	(4)
Total government activity debt	<u>27,255</u>	<u>43,326</u>	<u>(16,071)</u>
Business-type activity debt	<u>-</u>	<u>-</u>	<u>-</u>
Total Government-wide debt	<u><u>27,255</u></u>	<u><u>43,326</u></u>	<u><u>(16,071)</u></u>

A \$16.1M net reduction in debt resulted primarily due to the purchase in lieu of redemption transaction, whereby the substance of the transaction was to defease \$15.65M outstanding 1999 TABs. Also, annual bond principal payments totaling \$470,000 contributes to the decrease in long term debt. Additionally, the 1999 tax allocation bond discount was eliminated increasing the amortized bond premium (netted against bond discounts) balance.

Additional information about the City's debt can be found in Note VII to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

According figures from the US Census Bureau, the City's growth projections generally reflect a slight increase in population from year to year. For 2009 the Census Bureau's population estimate is 33,899. This is a slight increase from the year before. According to the State of CA Employment Development Department statistics, the City unemployment rate increased from 20.7% in June 2009 to 21.0% in June 2010. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2010, the State and County unemployment rates were 12.2% and 9.2%, respectively. Comparatively in June 2009, the State and County unemployment rates were 11.6% and 9.2% respectively. Overall, the State of CA, County of San Mateo, and local economies continue to be sluggish and a solid economic recovery does not appear to be on near term horizon.

In the past year, the County Assessor's Office reduced some homeowner's assessment values. These factors have and will continue to impact the City's local revenues such as property tax, sales tax and construction fees.

- Overall property taxes for the City are expected to remain flat or decline as property values declined in 2010 and overall economic conditions continue to reflect an uneven recovery. Appeals to the County Tax Assessor for reductions in property values may continue. It is uncertain when property taxes will stabilize and rise; valuations will be tested in future years as a recovery from the recession in the State of California continues to lag the nation.
- 2010-2011 will be first full year a full-service grocery store will be open. This store represents the first major supermarket in recent memory. This store, along with two well-branded clothing and athletic-goods retailers, have generated a surprising level of tax revenue and also indirectly attracted more general retail traffic to the 101 Gateway Shopping Center. This, along with increased activity at the hotel within University Circle, provides highly valued goods and services to the community.
- Recent Legislative Analyst's Office (LAO) reports project billions of dollars in budget deficits, including an estimated \$6B budget deficit in 2010-2011. This likely translates into continued State "borrowing" from local governments. We expect to see at least attempted state takeaways similar to the \$1.7B SERAF in May 2010, which resulted in \$3.26M from the Agency. It is expected that in May 2011 a remaining \$350M will be paid to the State from redevelopment agencies. This translates into approximately \$671,000 for the Agency.
- As citywide actual revenues declined and the cost of general services continues to outpace budgeted revenues, the City may need to call on the Redevelopment Agency to repay outstanding obligations to the City. No obligation repayments have been budgeted in the 2010-11 fiscal year, however the Redevelopment Agency anticipates this will not likely remain so as the City faces local fiscal challenges into the foreseeable future.

Some of these factors were considered in preparing the City's operating budget for FY 2010-11. Others occurred after the City had finalized its budget and will be taken under consideration the FY10-11 budget is amended.

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.

CITY OF EAST PALO ALTO

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

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

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

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

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

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

Both of these Statements include the financial activities of the City, and the City of East Palo Alto Redevelopment Agency, which is legally separate but are component unit of the City because it is controlled by the City, which is financially accountable for the activities of this entity.

CITY OF EAST PALO ALTO
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations (Note 3)	\$24,842,369	\$1,873,505	\$26,715,874
Cash with fiscal agent (Note 3)	5,213,975	834,095	6,048,070
Receivables:			
Accounts	85,496	50,568	136,064
Accrued interest	114,714		114,714
Taxes	236,279		236,279
Intergovernmental	1,535,280		1,535,280
Loans and notes (Note 5)	7,357,141		7,357,141
Deposits and prepayments	147,197		147,197
Property held for resale (Note 1I)	3,141,165		3,141,165
Deferred charges	1,100,277		1,100,277
Capital assets (Note 6):			
Non-depreciable	3,115,618	206,750	3,322,368
Depreciable, net of accumulated depreciation	22,047,509	4,296,972	26,344,481
Total Assets	68,937,020	7,261,890	76,198,910
LIABILITIES			
Accounts payable	2,198,393	386,631	2,585,024
Accrued liabilities	774,975		774,975
Interest payable	321,458		321,458
Retentions payable	139,055		139,055
Deposits payable	990,479	53,622	1,044,101
Unearned revenue	2,005,606		2,005,606
Advance from developers	140,051		140,051
Compensated absences (Note 1F):			
Due within one year	427,894		427,894
Due in more than one year	272,434		272,434
Claims payable (Note 11)			
Due within one year	1,110		1,110
Due in more than one year	30,140		30,140
Long-term debt (Note 7):			
Due within one year	700,480		700,480
Due in more than one year	26,252,582		26,252,582
Total Liabilities	34,254,657	440,253	34,694,910
NET ASSETS (Note 9)			
Invested in capital assets	25,163,127	4,503,722	29,666,849
Restricted for:			
Debt service	4,421,602		4,421,602
Highway and streets projects	4,234,053		4,234,053
Low and moderate income housing	12,383,908		12,383,908
Parks and recreation	940,572		940,572
Measure C programs	1,219,908		1,219,908
Capital projects		834,095	834,095
Unrestricted	(13,680,807)	1,483,820	(12,196,987)
Total Net Assets	\$34,682,363	\$6,821,637	\$41,504,000

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$5,119,297	\$2,536	\$146,120	\$500	(\$4,970,141)		(\$4,970,141)
Public safety	11,005,614	207,305	1,538,729		(9,259,580)		(9,259,580)
Public works	4,036,926	47,852	3,120,113	177,573	(691,388)		(691,388)
Culture and recreation	1,228,036	11,411			(1,216,625)		(1,216,625)
Community development	7,230,567	455,586	91,676		(6,683,305)		(6,683,305)
Interest on long-term debt	2,882,117				(2,882,117)		(2,882,117)
Total Governmental Activities	31,502,557	724,690	4,896,638	178,073	(25,703,156)		(25,703,156)
Business-type Activities:							
Garbage collection	1,616,967	1,642,054				\$25,087	25,087
Water service	619,277	174,743				(444,534)	(444,534)
Total Business-type Activities	2,236,244	1,816,797				(419,447)	(419,447)
Total	\$33,738,801	\$2,541,487	\$4,896,638	\$178,073	(25,703,156)	(419,447)	(26,122,603)
General revenues:							
Taxes:							
Property taxes					15,934,214		15,934,214
Transient occupancy tax					500,000		500,000
Utility users tax					1,591,204		1,591,204
Parcel tax					717,549		717,549
Sales taxes					2,301,318		2,301,318
Franchise and business tax					1,220,233		1,220,233
Motor vehicle in-lieu, unrestricted					97,979		97,979
Investment earnings					1,442,654	13,171	1,455,825
Miscellaneous					420,557		420,557
Total general revenues					24,225,708	13,171	24,238,879
Change in Net Assets					(1,477,448)	(406,276)	(1,883,724)
Net Assets-Beginning					36,159,811	7,227,913	43,387,724
Net Assets-Ending					\$34,682,363	\$6,821,637	\$41,504,000

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 2010. 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 SPECIAL REVENUE FUND

To account for property tax increments received by the East Palo Alto Redevelopment Agency to use for Low and Moderate-Income Housing Programs.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

To account for the East Palo Alto Redevelopment Agency's resources for administrative costs, capital projects and long-term debt obligation.

DEBT SERVICE FUND

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

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General Fund	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Agency Capital Projects Fund	Debt Service Fund
ASSETS				
Cash and investments (Note 3)	\$7,866,937	\$2,766,440	\$4,320,689	\$1,225,424
Restricted cash and investments (Note 3)			78	3,355,389
Receivables:				
Accrued interest		114,714		
Taxes	236,279			
Intergovernmental	19,026			
Accounts receivable	85,493			
Deposits and prepayments	58,420		86,112	
Due from other funds (Note 4A)	546,458			
Advances to other funds (Note 4B)	15,392,220			
Property held for resale (Note 1I)		2,603,736	537,429	
Loans and notes receivable (Note 5)		6,900,143	63,036	
Total Assets	\$24,204,833	\$12,385,033	\$5,007,344	\$4,580,813
LIABILITIES				
Accounts payable	\$379,980	\$1,125	\$1,302,646	\$33,527
Retentions payable				
Deposits payable	893,134		91,112	
Other accrued liabilities	750,826		2,637	
Due to other funds (Note 4A)				125,684
Deferred revenue	1,893,451			
Advances from developers	1,175		138,876	
Advances from other funds			15,392,220	
Total Liabilities	3,918,566	1,125	16,927,491	159,211
FUND BALANCES				
Fund balance (Note 9)				
Reserved for:				
Advances to other funds	13,498,769			
Loans and notes receivables		\$6,900,143	63,036	
Deposits and prepayments			86,112	
Capital projects			264,382	
Debt service				4,319,385
Encumbrance	211,733		193,710	102,217
Measure C				
Property held for resale		2,603,736	537,429	
Unreserved:				
Designated, reported in:				
General Fund				
Contingency reserve	1,591,680			
Information services	326,585			
Equipment & vehicle	219,145			
Self-insurance	566,013			
Special Revenue Funds				
Low & moderate income housing projects		300,000		
Undesignated, reported in:				
General Fund				
General Fund	3,872,342			
Special Revenue Funds		2,580,029		
Capital projects funds			(13,064,816)	
Total Fund Balances	20,286,267	12,383,908	(11,920,147)	4,421,602
Total Liabilities and Fund Balances	\$24,204,833	\$12,385,033	\$5,007,344	\$4,580,813

See accompanying notes to financial statements

Other Governmental Funds	Total Governmental Funds
\$8,662,879	\$24,842,369
1,858,508	5,213,975
	114,714
	236,279
1,516,254	1,535,280
3	85,496
2,665	147,197
125,684	672,142
50,000	15,442,220
	3,141,165
393,962	7,357,141
<u>\$12,609,955</u>	<u>\$58,787,978</u>
\$481,115	\$2,198,393
139,055	139,055
6,233	990,479
21,512	774,975
546,458	672,142
2,933,916	4,827,367
	140,051
50,000	15,442,220
<u>4,178,289</u>	<u>25,184,682</u>
50,000	13,548,769
393,962	7,357,141
2,665	88,777
	264,382
	4,319,385
484,056	991,716
1,219,908	1,219,908
	3,141,165
	1,591,680
	326,585
	219,145
	566,013
	300,000
	3,872,342
5,510,133	8,090,162
770,942	(12,293,874)
<u>8,431,666</u>	<u>33,603,296</u>
<u>\$12,609,955</u>	<u>\$58,787,978</u>

CITY OF EAST PALO ALTO
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances reported on the Governmental Funds Balance Sheet	\$33,603,296
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds	25,163,127
BOND ISSUANCE COSTS	
Bond issuance cost are expended in the governmental funds, are capitalized and amortized over the life of the bonds in the statement of net assets	1,100,277
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	2,821,761
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 Funds:	
Long-term debt	(26,953,062)
Compensated absences	(700,328)
Claims payable	(31,250)
Interest payable	(321,458)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$34,682,363</u></u>

See accompanying notes to financial statements

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CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Agency Capital Projects Fund	Debt Service Fund
REVENUES				
Property tax	\$7,662,867			
Property tax increment		\$1,619,139	\$6,272,100	
Sales tax	2,301,318			
Transient occupancy tax	500,000			
Utility users tax	1,591,204			
Parcel Tax				
Other taxes	500			
Licenses and permits	757,967			
Charges for services	1,051,066			
Use of money and property	203,603	96,814	47,703	\$246,012
Intergovernmental	201,919			
Miscellaneous	119,133		103,660	
Total Revenues	14,389,577	1,715,953	6,423,463	246,012
EXPENDITURES				
Current:				
General government	2,992,949		791,981	2,001
Public safety	9,235,300		58,955	
Public works	1,560,326		43,577	
Culture and recreation	521,925			
Community development	1,010,825	312,106	5,262,384	
Capital outlay	119,859			
Debt service:				
Principal and purchase in lieu of redemption				16,120,000
Interest and fiscal charges			1,103,116	2,138,613
Total Expenditures	15,441,184	312,106	7,260,013	18,260,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,051,607)	1,403,847	(836,550)	(18,014,602)
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4C)	1,279,971			1,817,494
Transfers (out) (Note 4C)	(515,857)	(566,073)	(2,526,421)	(125,684)
Total Other Financing Sources (Uses)	764,114	(566,073)	(2,526,421)	1,691,810
NET CHANGE IN FUND BALANCES	(287,493)	837,774	(3,362,971)	(16,322,792)
BEGINNING FUND BALANCES	20,573,760	11,546,134	(8,557,176)	20,744,394
ENDING FUND BALANCES	\$20,286,267	\$12,383,908	(\$11,920,147)	\$4,421,602

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$1,052,068	\$8,714,935
	7,891,239
	2,301,318
	500,000
	1,591,204
855,788	856,288
543	758,510
137,785	1,188,851
49,948	644,080
4,117,173	4,319,092
	222,793
<u>6,213,305</u>	<u>28,988,310</u>
1,222,605	5,009,536
2,007,691	11,301,946
2,385,264	3,989,167
829,133	1,351,058
414,278	6,999,593
753,114	872,973
	16,120,000
	3,241,729
<u>7,612,085</u>	<u>48,886,002</u>
<u>(1,398,780)</u>	<u>(19,897,692)</u>
641,541	3,739,006
(4,971)	(3,739,006)
<u>636,570</u>	
(762,210)	(19,897,692)
<u>9,193,876</u>	<u>53,500,988</u>
<u><u>\$8,431,666</u></u>	<u><u>\$33,603,296</u></u>

CITY OF EAST PALO ALTO
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the Statement of Activities
 FOR THE YEAR ENDED JUNE 30, 2010

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$19,897,692)

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 their estimated useful lives and reported as depreciation expense.

The capital outlay and other capitalized expenditures are therefore added back to fund balance 1,547,666

Depreciation expense is deducted from the fund balance (1,261,796)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal are added back to fund balance 16,120,000

Interest expense are deducted from fund balance 263,602

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue 1,191,979

Compensated absences (16,597)

Claims 848,750

Retirement of long-term debt (273,360)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$1,477,448)

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

The City has identified the funds below as major proprietary funds in fiscal 2010.

GARBAGE COLLECTION FUND

To account for activities associated with garbage collection services.

WATER SERVICE FUND

To account for activities associated with providing water services.

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

	Business-type Activities-Enterprise Funds		
	Garbage Collection	Water Service	Totals
ASSETS			
Current Assets:			
Cash and investments (Note 3)	\$1,223,293	\$650,212	\$1,873,505
Cash with fiscal agents (Note 3)		834,095	834,095
Accounts receivables, net	25,000	25,568	50,568
Total Current Assets	1,248,293	1,509,875	2,758,168
Noncurrent Assets:			
Capital assets (Note 6)			
Non-depreciable		206,750	206,750
Depreciable capital assets, net		4,296,972	4,296,972
Total Non-current Assets	1,248,293	4,503,722	4,503,722
Total Assets	1,248,293	6,013,597	7,261,890
LIABILITIES			
Current Liabilities:			
Accounts payable	386,071	560	386,631
Noncurrent Liabilities:			
Deposits		53,622	53,622
Total Liabilities	386,071	54,182	440,253
NET ASSETS (Note 9)			
Invested in capital assets		4,503,722	4,503,722
Restricted for capital projects		834,095	834,095
Unrestricted	862,222	621,598	1,483,820
Total Net Assets	\$862,222	\$5,959,415	\$6,821,637

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

	<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	\$1,542,054	\$174,743	\$1,716,797
Other	100,000		100,000
Total Operating Revenues	<u>1,642,054</u>	<u>174,743</u>	<u>1,816,797</u>
OPERATING EXPENSES			
Outside services	1,566,069	255,087	1,821,156
Administration	50,898		50,898
Depreciation		364,190	364,190
Total Operating Expenses	<u>1,616,967</u>	<u>619,277</u>	<u>2,236,244</u>
Operating (Loss)	<u>25,087</u>	<u>(444,534)</u>	<u>(419,447)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	8,134	5,037	13,171
Total Nonoperating Revenues (Expenses)	<u>8,134</u>	<u>5,037</u>	<u>13,171</u>
Change in net assets	33,221	(439,497)	(406,276)
BEGINNING NET ASSETS	<u>829,001</u>	<u>6,398,912</u>	<u>7,227,913</u>
ENDING NET ASSETS	<u>\$862,222</u>	<u>\$5,959,415</u>	<u>\$6,821,637</u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010

	<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	\$1,642,054	\$211,683	\$1,853,737
Disbursements to suppliers for goods and services	<u>(1,669,378)</u>	<u>(295,846)</u>	<u>(1,965,224)</u>
Cash Flows from Operating Activities	<u>(27,324)</u>	<u>(84,163)</u>	<u>(111,487)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>8,134</u>	<u>5,037</u>	<u>13,171</u>
Cash Flows from Investing Activities	<u>8,134</u>	<u>5,037</u>	<u>13,171</u>
Net Cash Flows	(19,190)	(79,126)	(98,316)
Cash and investments at beginning of period	<u>1,242,483</u>	<u>1,563,433</u>	<u>2,805,916</u>
Cash and investments at end of period	<u>\$1,223,293</u>	<u>\$1,484,307</u>	<u>\$2,707,600</u>
 Reconciliation of Operating (Loss) to Cash Flows from Operating Activities:			
Operating (loss)	\$25,087	(\$444,534)	(\$419,447)
Adjustments to reconcile operating income (Loss) to cash flows from operating activities:			
Depreciation		364,190	364,190
Change in assets and liabilities:			
Receivables, net		36,940	36,940
Accounts payable	<u>(52,411)</u>	<u>(40,759)</u>	<u>(93,170)</u>
Cash Flows from Operating Activities	<u>(\$27,324)</u>	<u>(\$84,163)</u>	<u>(\$111,487)</u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

Blended Component Units

East Palo Alto Redevelopment Agency - The East Palo Alto Redevelopment Agency (Agency) was established pursuant to the State of California Health and Safety Code, Section 33000. The Agency is responsible for rehabilitation and economic revitalization of certain areas within the City. Complete financial statements of the Agency may be obtained at the City of East Palo Alto, 2415 University Avenue, East Palo Alto, California 94303.

East Palo Alto Public Financing Authority - The East Palo Alto Public Financing Authority (Authority) was organized in October 1999 under a joint exercise of power agreement to provide financing for public improvements for the City and the East Palo Alto Redevelopment Agency. The Authority's financial activity is reported in the Debt Service Fund. 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
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

C. Major Funds

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

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 SPECIAL REVENUE FUND - To account for 20% portion of the Agency's tax increment revenues and other sources that are required to be set-aside for low and moderate income housing and related expenditures.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND - To account for the City of East Palo Alto Redevelopment Agency's resources restricted for the acquisition or construction of specific capital projects or items.

REDEVELOPMENT AGENCY DEBT SERVICE FUND - To account for the accumulation of financial resources for payment of principal and interest on the City of East Palo Alto Redevelopment Agency long-term debt. Property tax increment is used for the payment and interest on the Agency's debt.

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

GARBAGE COLLECTION FUND - To account for activities associated with garbage collection services.

WATER SERVICE FUND - To account for activities associated with providing water services.

D. *Basis of Accounting*

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

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Revenue Recognition for Garbage Collection and Water Enterprise Funds

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

E. Property Tax

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

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

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. *Compensated Absences*

Compensated absences comprise of unpaid vacation and are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds. The liability for compensated absences is determined annually. Compensated absences are reported in governmental funds only if they have matured.

	Governmental Activities
Beginning Balance	\$683,731
Additions	478,211
Payments	(461,614)
Ending Balance	700,328
Current Portion	\$427,984

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

G. *Deposits*

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

H. *Prepayments*

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

I. *Property held for resale*

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

The property held for resale balance at June 30, 2010 in the amount of \$3,141,165 represents land acquired by the Redevelopment Agency for the purpose of resale to developers in regard to the development of the Gateway 101 Retail Center and related projects.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. *Bond Discounts, Premiums and Issuance Costs*

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

K. *Cash and Cash equivalents*

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

L. *Use of Estimates*

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

M. *Proposition 1A*

Under the provisions of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the City. The State is required to repay the \$648,510 it borrowed from the City, plus interest, by June 30, 2013.

Authorized with the 2009-10 State budget package was the Proposition 1A Securitization Program (Program), administered by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the participating cities receive cash equal to their share of State borrowings and forego interest they otherwise would have received from the State on the unpaid borrowings. The City is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the City and other participants, and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010 and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the City received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the City equal the book value of State borrowings no gain or loss was incurred.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

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 ISTEAA Grant, Housing Assistance and Public Improvements in Lieu Special Revenue Funds; and Capital Improvements Capital Projects Fund which are adopted on a project length basis. Supplemental appropriations made during the fiscal year were not substantial.

.In the chart below, the \$16,296,459 represents the purchase in lieu redemption of the 1999 Tax Allocation Bonds, which was known, but not included in the budget.

Fund	Excess of Expenditures Over Budget
Debt Service Fund	\$16,296,459

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 reserve 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 reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year

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 their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City's cash and investments consist of the following at June 30, 2010:

	Cash and Investments		Total
	Available for Operations	With Fiscal Agents	
Investments:			
Local Agency Investment Fund	\$17,479,734		\$17,479,734
San Mateo County Investment Fund	8,824,488		8,824,488
Certificates of deposits	100,000		100,000
Money Market Funds		\$4,081,673	4,081,673
Guaranteed investment agreements:			
JP Morgan Chase		1,966,397	1,966,397
Petty Cash	11,200		11,200
Cash in banks	300,452		300,452
Total cash and investments	<u>\$26,715,874</u>	<u>\$6,048,070</u>	<u>\$32,763,944</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 are acceptable of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the Entity's investment policy.

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Authorized Investments by Debt Agreements

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

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

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

C. Interest Rate Risk

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

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

	12 Months or less	More than 5 years	Total
Pooled cash and investments:			
Local Agency Investment Fund	\$17,479,734		\$17,479,734
San Mateo County Pooled Investments	8,824,488		8,824,488
Certificates of Deposits	100,000		100,000
Cash in bank and petty cash	311,652		311,652
Subtotal pooled cash and investments	\$26,715,874		\$26,715,874
Held with fiscal agent:			
Guaranteed investment agreements:			
JP Morgan Chase		\$1,966,397	1,966,397
Money market funds	4,081,673		4,081,673
Total Cash and Investments	\$30,797,547	\$1,966,397	\$32,763,944

Money Market Funds are available for withdrawal on demand.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual credit rating as of June 30, 2010, for each investment type:

Investment Type	Not Rated	Moody's Rating		Total
		Aa1	Aaa	
Local Agency Investment Fund	\$17,479,734			\$17,479,734
San Mateo County Investment Fund		\$8,824,488		8,824,488
Certificates of Deposits	100,000			100,000
Guaranteed investment agreements:				
JP Morgan Chase	1,966,397			1,966,397
Money Market Funds			\$4,081,673	4,081,673
Petty Cash	11,200			11,200
Cash in banks	300,452			300,452
Total Cash and Investments				\$32,763,944

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, 2010 investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of total City's investments include a Guaranteed Investment Agreement issued by JP Morgan Chase in the amount of \$1,966,397.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2010, these investments matured in an average of 203 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, 2010, these investments matured in an average of 1 year.

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, 2010 interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Funds:	
	Federal and State Law Enforcement	\$467,350
	Federal and State Grants	33,411
	U.S. EPA	45,697
Nonmajor Governmental Fund	Debt Service Fund	125,684
		\$672,142

The purpose of the balances was to cover negative cash and to fund facility improvements.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Advances (Long-Term Interfund Receivable/Payables)

Interfund advances are not expected to be repaid in the following fiscal year. At June 30, 2010, the outstanding balance of \$15,392,220 is comprised of two advances from the General Fund to the Redevelopment Agency Capital Projects Fund.

The first advance is for the ongoing assistance and services in connection with the implementation of the redevelopment plan for the Ravenswood Project Area. There is no repayment schedule and the repayment of the advance is limited to property tax increment revenues. The rate of interest on the advance is 12%. At June 30, 2010, the Agency's ending advance balance was \$8,789,851.

The second advance 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. There is no interest provision or repayment schedule and the repayment of this advance is limited to property tax increment revenues. The ending advance balance at June 30, 2010 was \$6,602,369.

If the Agency has not repaid these advances by the time of the Agency's ability to collect tax increment revenues expires, then the unpaid portion of the advances will be forgiven.

In addition, the Lighting District nonmajor governmental fund advanced \$50,000 to the Drainage District nonmajor governmental fund for long term working capital.

At June 30, 2010, outstanding balances from the above advances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Capital Projects Fund	\$15,392,220
Lighting District Special Revenue Fund	Drainage District Special Revenue Fund	50,000
		<u>\$15,442,220</u>

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

C. 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, 2010 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Redevelopment Agency Capital Projects Funds	\$1,275,000 A
	Special Revenue Fund:	
	Park in Lieu	4,971 B
Debt Service	Redevelopment Agency Capital Projects Funds	1,251,421 C
	Low and Moderate Income Housing Special Revenue Fund	566,073 C
Nonmajor Governmental Funds	General Fund	515,857 D,E
	Debt Service Fund	125,684 F
	Total Interfund Transfers	<u>\$3,739,006</u>

The reasons for these transfers are set forth below:

- A. Transfer TOT payment obligation
- B. To transfer interest earned
- C. To fund debt service payments
- D. To cover operating deficit
- E. To transfer 10% set aside of TOT for housing and CYSFF programs
- F. To transfer facilities improvements to capital improvements

NOTE 5 - LOANS RECEIVABLE

Loans receivable as of June 30, 2010, are composed of the following:

	<u>Balance as of</u> <u>June 30, 2010</u>
Nairobi Housing Associates Loan	\$5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	240,000
First Time Home Buyer Assistance Loans	393,962
Other Miscellaneous	<u>123,179</u>
Total:	<u>\$7,357,141</u>

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 5 - LOANS RECEIVABLE (Continued)

A. *Nairobi Housing Associates Loan*

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

B. *Nugent Square Partners*

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

C. *Owner Participant Agreement Loan*

Pursuant to an Owner Participation Agreement, the Agency has a loan receivable of \$63,036 from a local property owner, due March 2014. The loan is secured by a promissory note and a deed of trust.

D. *Bay Road Housing Loan*

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

E. *First Time Home Buyer Housing Assistance Loans*

As of June 30, 2010, the City has outstanding loans receivables in the amount of \$393,962 from 33 homeowners for the First Time Home Buyers Housing Assistance Loan.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

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 which means 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	5 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
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets during the year ended June 30, 2010, comprise of the following:

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Balance at June 30, 2010</u>
Governmental activities			
Capital assets not being depreciated:			
Land	\$901,610		\$901,610
Construction in progress	1,211,996	\$1,002,012	2,214,008
	<u>\$2,113,606</u>	<u>\$1,002,012</u>	<u>\$3,115,618</u>
Total capital assets not being depreciated			
Capital assets being depreciated:			
Infrastructure:			
Streets and roadways	\$37,944,771		\$37,944,771
Storm drain system	3,760,989		3,760,989
Building and Improvements	4,744,847	\$124,027	4,868,874
Improvements other than buildings	3,536,068	128,573	3,664,641
Furniture, Fixtures and Equipment	1,488,823	81,987	1,570,810
Vehicles	1,266,284	211,067	1,477,351
	<u>52,741,782</u>	<u>545,654</u>	<u>53,287,436</u>
Total capital assets being depreciated			
Less accumulated depreciation for:			
Infrastructure:			
Streets and roadways	(24,767,515)	(790,000)	(25,557,515)
Storm drain system	(2,075,368)	(28,368)	(2,103,736)
Building and Improvements	(1,107,330)	(155,384)	(1,262,714)
Improvements other than buildings	(487,482)	(91,713)	(579,195)
Furniture, Fixtures and Equipment	(987,250)	(107,961)	(1,095,211)
Vehicles	(553,186)	(88,370)	(641,556)
	<u>(29,978,131)</u>	<u>(1,261,796)</u>	<u>(31,239,927)</u>
Total accumulated depreciation			
Total capital assets, being depreciated, net	<u>22,763,651</u>	<u>(716,142)</u>	<u>22,047,509</u>
Governmental activities capital assets, net	<u>\$24,877,257</u>	<u>\$285,870</u>	<u>\$25,163,127</u>

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 6 - CAPITAL ASSETS (Continued)

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Balance at June 30, 2010</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	7,057,660		7,057,660
Furniture, fixtures and equipment	63,943		63,943
Vehicles	89,890		89,890
Total capital assets being depreciated	<u>\$7,255,283</u>		<u>\$7,255,283</u>
Less accumulated depreciation for:			
Building and improvements	(\$43,790)		(\$43,790)
Improvements other than buildings	(2,396,497)	(364,190)	(2,760,687)
Furniture, fixtures and equipment	(63,943)		(63,943)
Vehicles	(89,891)		(89,891)
Total accumulated depreciation	<u>(\$2,594,121)</u>	<u>(364,190)</u>	<u>(\$2,958,311)</u>
Total capital assets, being depreciated, net	<u>4,661,162</u>	<u>(364,190)</u>	<u>4,296,972</u>
Business-type activities capital assets, net	<u>\$4,867,912</u>	<u>(\$364,190)</u>	<u>\$4,503,722</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
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

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	\$15,774
Public Safety	158,130
Culture and Recreation	5,551
Public Works	818,368
Community Development	<u>263,973</u>
Total Governmental Activities	<u><u>\$1,261,796</u></u>
<i>Business-Type Activities</i>	
Water Service	<u>\$364,190</u>
Total Business-Type Activities	<u><u>\$364,190</u></u>

C. Capital Project Commitments

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

<u>Project</u>	<u>Project Authorization</u>	<u>Extended through June 30, 2010</u>	<u>Committed</u>
City-wide Annual Street Resurfacing	1,992,877	563,137	\$1,429,740
Tenant Improvement - City Hall	224,741	124,027	100,714
Cooley Landing Park - Design	231,116	129,650	101,466
Repair playground - Parks	38,157		38,157
Runnymede Strom Drain Improvement	251,185	225,000	26,185
	<u>\$2,738,076</u>	<u>\$1,041,814</u>	<u>\$1,696,262</u>

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 7 – LONG-TERM DEBT

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2009	Retirements	Balance June 30, 2010	Amount due within one year
Redevelopment Agency Bonds					
2003 Tax Allocation Refunding Bonds					
Series A					
4.00-5.00%, due 10/1/2032	5,155,000	5,045,000	(15,000)	\$5,030,000	\$15,000
2003 Tax Allocation Refunding Bonds					
Series B (Taxable)					
4.12-6.45%, due 10/1/2032	3,600,000	3,270,000	(65,000)	3,205,000	70,000
Unamortized Premium, Discounts, and Loss on Refundings	848,836	699,372	23,690	723,062	35,480
2005 Revenue Bonds, Series A					
3.40-5.00%, due 10/1/2029	17,995,000	17,995,000		17,995,000	580,000
1999 Tax Allocation Bonds					
4.200-6.625%, due 10/1/2032	22,785,000	16,040,000	(16,040,000)		
Total debt	\$50,383,836	\$43,049,372	(\$16,096,310)	26,953,062	\$700,480
			Less amount due within one year:	(700,480)	
			Amount due in more than one year:	\$26,252,582	

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

B. 2003A and 2003B Tax Allocation Bonds

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

The bonds are secured by a pledge of the annual tax increment revenues received by the Agency.

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 7 - LONG TERM DEBT (Continued)

Future debt service on the 2003A bonds at June 30, 2010, are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series A		
	Principal	Interest	Total
2011	\$15,000	\$250,050	\$265,050
2012	15,000	249,450	264,450
2013	15,000	248,850	263,850
2014	15,000	248,250	263,250
2015	15,000	247,594	262,594
2016-2020	90,000	1,226,212	1,316,212
2021-2025	115,000	1,201,869	1,316,869
2026-2030	140,000	1,170,750	1,310,750
2031- 2033	4,610,000	353,000	4,963,000
Total payments due	<u>\$5,030,000</u>	<u>\$5,196,025</u>	<u>\$10,226,025</u>

Future debt services on the 2003B bonds at June 30, 2010, are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series B		
	Principal	Interest	Total
2011	\$70,000	\$198,999	\$268,999
2012	70,000	195,205	265,205
2013	75,000	191,276	266,276
2014	80,000	187,076	267,076
2015	85,000	182,273	267,273
2016-2020	505,000	823,635	1,328,635
2021-2025	680,000	641,626	1,321,626
2026-2030	930,000	386,034	1,316,034
2031- 2033	710,000	70,306	780,306
Total payments due	<u>\$3,205,000</u>	<u>\$2,876,430</u>	<u>\$6,081,430</u>

The pledge of future tax increment revenues ends upon repayment of the \$10,226,025 in remaining debt service on the 2003A Tax Allocation Bonds which is scheduled to occur in 2033. For fiscal year 2010 tax increment revenues amounted to \$7.9 million which represented coverage of 29.7 over the \$265,650 in debt service.

The pledge of future tax increment revenues ends upon repayment of the \$6,081,430 in remaining debt service on the 2003B Tax Allocation Bonds which is scheduled to occur in 2032. For fiscal year 2010 tax increment revenues amounted to \$7.9 million which represented coverage of 29.5 over the \$267,658 in debt service.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 7 - LONG TERM DEBT (Continued)

C. 2005 East Palo Alto Public Financing Authority Bonds

The East Palo Alto Public Financing Authority issued \$17,995,000 University Circle-Gateway 101 Corridor Merged Project Area Revenue Bonds, 2005 Series A, dated August 1, 2005. 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 somewhat differently from a standard refunding in that on their 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 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. The Agency will continue to make debt service payments on the 1999 Bonds as previously scheduled. Additionally, up to and including the October 1, 2009 purchase date, debt service on the 2005 Authority Bonds were payable solely from an investment agreement with General Electric Capital Funding. The principal invested under the investment agreement, together with interest earnings thereon were sufficient to pay the interest cost of the 2005 Authority Bonds up to and including October 1, 2009 and to purchase the 1999 Bonds in lieu of redemption on October 1, 2009.

To provide security to the owners of the 2005 Authority Bonds after the October 1, 2009 purchase date, the Authority has assigned all principal and interest payments to be received from the 1999 Bonds to the benefit of the 2005 Authority Bonds, through a Bond Assignment and Purchase Agreement. According to the provisions of the Bond Assignment and Purchase Agreement, all debt service payments on the 1999 Bonds will be received by the Trustee and applied directly to the payment of debt service on the 2005 Authority Bonds. The Agency does not hold, nor have access to the debt service payments received from the 1999 Bonds. As such, the source of repayment for the 2005 Authority Bonds after the October 1, 2009 purchase date is the principal and interest paid on the 1999 Bonds, which is paid from tax increment revenue generated from the Project Areas.

The bonds bear interest at rates of 3.4% to 5% and the interest is payable each April 1 and October 1 commencing October 1, 2005. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal on the bonds is payable each October 1, commencing October 1, 2010.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 7 - LONG TERM DEBT (Continued)

Future debt service on the 2005 bonds at June 30, 2010, 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
2011	\$580,000	\$836,784	\$1,416,784
2012	600,000	816,424	1,416,424
2013	620,000	794,454	1,414,454
2014	645,000	770,487	1,415,487
2015	670,000	741,240	1,411,240
2016-2020	3,865,000	3,171,373	7,036,373
2021-2025	4,840,000	2,168,181	7,008,181
2026-2030	6,175,000	802,125	6,977,125
Total payments due	<u>\$17,995,000</u>	<u>\$10,101,068</u>	<u>\$28,096,068</u>

The pledge of future tax increment revenues ends upon repayment of the \$28,096,068 in remaining debt service on the 2005 Tax Allocation Bonds which is scheduled to occur in 2030. For fiscal year 2010 tax increment revenues amounted to \$7.9 million which represented coverage of 9.3 over the \$846,644 in debt service.

D. 1999 Tax Allocation Bonds (TABS)

The Agency issued \$22,785,000 in University Circle-Gateway 101 Corridor Merged Project Area Tax Allocation Bonds, Series 1999, dated October 21, 1999. The bonds were issued to finance the redevelopment activities within the 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.

The bonds are secured by a pledge of the Agency's tax increment revenues including the Agency's housing set-aside tax increment revenues. The annual tax increment revenues expected to be received by the Agency and pledged to secure repayment of the 1999 bonds are sufficient to pay annual debt service.

Purchase in Lieu of Redemption

Both the East Palo Alto Financing Authority's and East Palo Alto Redevelopment Agency's debt service activities are reported in the Debt Service Fund. As discussed in Note 7D, on October 9, 2009, the East Palo Alto Financing Authority used the proceeds from the 2005 Authority Bonds and executed the purchase in lieu of redemption of the 1999 Bonds in October 2009. Therefore in the financial statements, the transaction will be treated as a retirement, whereby, the unredeemed 1999 Bonds are retired from outstanding debt as well as the related assets held by the Financing Authority.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 7 - LONG TERM DEBT (Continued)

The bonds bear interest at rates of 4.2% to 6.625% and the interest is payable each April 1 and October 1, commenced on April 1, 2000. Principal on the bonds is payable each October 1, commenced on October 1, 2000. On October 21, 1999, the original bonds consisted of \$4,945,000 in serial bonds and \$17,840,000 in term bonds with a last maturity date of October 1, 2032.

The serial bonds of \$4,795,000 were refunded by the 2003 issue. The 1999 bonds maturing on or after October 1, 2010 are subject to optional redemption by the Agency on or after October 1, 2009, with premiums up to 2 percent.

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

For The Year Ending June 30	Principal	Interest	Total
2011	\$410,000	\$1,006,784	\$1,416,784
2012	435,000	981,424	1,416,424
2013	460,000	954,454	1,414,454
2014	490,000	925,487	1,415,487
2015	520,000	891,240	1,411,240
2016-2020	3,125,000	3,911,373	7,036,373
2021-2025	4,295,000	2,713,181	7,008,181
2026-2030	5,915,000	1,062,125	6,977,125
Total payments due	<u>\$15,650,000</u>	<u>\$12,446,068</u>	<u>\$28,096,068</u>

The pledge of future tax increment revenues ends upon repayment of the \$28,096,068 in remaining debt service on the 1999 Tax Allocation Bonds which is scheduled to occur in 2033. For fiscal year 2010, total tax increment revenues amounted to \$7.9 million which represented coverage of 5.6 over the \$1,417,197 in debt service.

E. Debt without City Commitment

The Agency sponsored \$11 million of the Redevelopment Agency of the City of East Palo Alto Multifamily Housing Mortgage Revenue Bonds, 1999 Series A and Series B, and taxable 1999 Series C to assist a developer in financing the construction of a multifamily rental housing project known as Gateway 101 Apartments. The Agency has no legal or moral liability with respect to repayment of the debt, and does not include these obligations in the City's financial statements. The bonds are secured by the developer's project and related rental operations, and are not an obligation of the Agency. The total principal outstanding as of June 30, 2010, is \$7,637,000.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 8 – OPERATING LEASE

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$478,445 for governmental activities and \$50,804 for business-type activities for the fiscal year ended June 30, 2010. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2011	\$266,010
2012	260,909
2013	123,696
2014	123,696
2015	123,690
	\$898,001
	\$898,001

NOTE 9 – NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

B. Fund Balance

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remainder is unreserved.

Portions of unreserved fund balance may be designated by the City Council or management for tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures.

Grants and transfers restricted for use as proprietary fund type capital expenditures are reflected as contributed capital upon expenditure of funds for capital assets.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)
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C. Reservations

Reserved for **advances, prepaids, and loans and notes receivable** are the portions of fund balance that are not available for appropriation.

Reserved for **capital projects** is the portion of fund balance legally restricted for use on capital outlay projects.

Reserved for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term obligations.

Reserved for **encumbrances** represents the balances for purchases of goods or services ordered, but not received.

Reserved for **Measure C** represents portions of fund balance legally restricted for use accordingly to Measure C.

Reserved for **property held for resale** represents funds reserved for property that the Agency is holding for resale in the construction of capital assets.

D. Designations

Designated for **contingency reserve** is a “rainy day” reserve established and designated by City Council.

E. Fund Balance Deficits

As of June 30, June 30, 2010, the Redevelopment Agency Capital Projects Fund, the Federal and State Law Enforcement Special Revenue Fund, the Federal and State Grants Special Revenue Fund, U.S. EPA Special Revenue Fund, and the Drainage District Special Revenue Fund had deficit fund balances of \$11,920,147; \$210,498; \$63,123; \$21,080 and \$8,943 respectively. Future revenues are expected to eliminate the deficits.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

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 annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2010, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4 - 3%	2 - 2.5%
Required employee contribution rates	9.0%	8.0%
Required employer contribution rates	19.666%	11.262%

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 10 - RETIREMENT BENEFITS (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Gain and losses that occur in the operation of risk pool are amortized over a rolling thirty year period.

As required by new State law, effective July 1, 2005, the City's Safety and Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry to these pools was that the City true-up any unfunded liability in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS.

Three-year historical trend information is presented below:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$698,956	100%	\$0
June 30, 2009	1,098,259	100%	0
June 30, 2010	1,231,814	100%	0

State-wide Pool Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	\$1,473,284,852	\$1,252,059,468	\$221,225,384	85.0%	\$177,088,890	124.9%
2007	1,648,159,522	1,422,143,105	226,016,417	86.3%	200,537,256	112.7%
2008	1,755,559,311	1,517,609,609	237,949,702	86.4%	210,590,567	113.0%

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
2006	\$912,988,585	\$787,758,909	\$125,229,676	86.3%	\$200,320,145	62.5%
2007	1,315,454,361	1,149,247,298	166,207,063	87.4%	289,090,187	57.5%
2008	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 10 - RETIREMENT BENEFITS (Continued)

The City's Safety Plan represents approximately 1.5%, 1.6%, and 1.7% of the State-wide pool for the years ended June 30, 2008, 2007, and 2006 respectively, based on covered payroll of \$3,223,247; \$3,242,948, and \$2,973,479 for those years.

The City's Miscellaneous Plan represents approximately 1.4%, 1.3%, and 1.5%, of the State-wide pool for the years ended June 30, 2008, 2007, and 2006 respectively, based on covered payroll of \$4,605,218; \$3,755,077, and \$3,062,495 for those years.

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

B. *Deferred Compensation Plan*

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

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

NOTE 11 – RISK MANAGEMENT

A. *Insurance Coverage*

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

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

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

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 11 – RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

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

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2010 and 2009:

	2010	2009
Beginning balance of claims payable	\$880,000	\$410,000
Increase/Decrease in estimated claims liability	(503,985)	627,653
Claims paid	344,765	157,653
Ending balance of claims payable	\$31,250	\$880,000
Current Portion	\$1,110	

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

NOTE 12 – JOINT VENTURES

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

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.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 12 – JOINT VENTURES (Continued)

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

B. *San Francisquito Creek Joint Powers Authority*

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

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS

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

On April 9, 2001, the City entered into a lease agreement with American Water Services, Inc. (the Company) and agreed to lease the waster system owned by the City to the Company. The Company is responsible to operate, maintain and manage the water system as well as bill and collect water services charges and utility tax from the City's resident. The Company also agreed to pay lease payment and franchise fee to the City. The franchise fee and lease payment represents 6% and 5%, respectively, of the net revenue, defined as gross revenue of the Company received from the City's resident net of utility tax collected and transferred to the City. For the year ended June 30, the Company paid lease payment, and franchise fee to the City in the amount of \$164,630 and \$137,192 respectively.

B. *Transient Occupancy Tax Settlements*

On March 15, 2007, a settlement agreement was reached between the Agency and the developers of the Four Seasons Hotel (the Hotel Developer) related to Transient Occupancy Tax (TOT). The agreement resulted in the City receiving annual TOT payments of \$500,000 beginning in 2006 and continuing until the earlier of the following events:

- January 30, 2011; or
- The date on which the Hotel Developer has received and retained the cumulative sum of TOT equal to the actual amount of TOT generated during the first 42 months of the hotel operations, up to a maximum of \$7 million.

Any TOT collected and retained by the Hotel Developer, up to the \$7 million, becomes a commitment of the Agency to reimburse the City from future tax increment generated from the University Circle Project. As of June 30, 2010, the hotel collected \$6,275,281 in TOT, of which \$2,000,000 was paid to the City, leaving a net balance of \$4,725,281 that was retained by the Hotel Developer. The Agency reimbursed the City \$3,834,050 of the estimated \$4,725,281 current commitment, leaving a net commitment amount of approximately \$891,231.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

C. Long-Term Pass-Throughs

Menlo Park Fire Protection District - In 1988 the Agency entered into an agreement with the Menlo Park Fire Protection District (District) whereby the Agency agreed to pay the District the equivalent of 10.24% of the tax increment received by the Agency from the University Circle Project Area (Project Area) to help defray the additional costs to the District to manage the new risk in the Project Area. In the event that the Agency is not able to make the payment, the District has agreed that the payment will be deferred to future years when tax increment is available. At June 30, 2010, the total commitment was \$3,961,247.

East Palo Alto Sanitary District - In 1988 the Agency entered into an agreement with the East Palo Alto Sanitary District (EPASD) whereby the Agency agreed to pay the EPASD the equivalent of 3.968% of the tax increment received by the Agency from the University Circle Project Area up to a cumulative total of \$1,500,000 to defray the additional costs to the EPASD to provide wastewater transport facilities to the University Circle Project Area. At June 30, 2010, the total commitment was \$593,824.

D. Cooperative Agreement with State of California – Stage 2

On January 8, 2001, the City entered into an agreement with the State of California whereby the parties agreed to modifications of the Interchange on Route 101 at University Avenue. As part of the approval of the agreement, the City committed future tax increment of the University Circle Project Area. The project was divided in two stages. To date, the second stage of the project (Stage 2) has not been completed. The estimated cost of Stage 2 is approximately \$4.8 million, of which the Agency has incurred approximately \$560,000. The Agency is actively seeking Federal and State grants to fund the commitment, and has Federal earmarks of approximately \$2,000,000 from the Department of Transportation.

E. Bay Road Housing LP

In December 2004, the Redevelopment Agency provided an operating subsidy loan from low and moderate income housing funds to Bay Road Housing L.P. for the development of affordable housing at the Courtyard at Bay Road. In consideration for the loan, Bay Road Housing agreed the housing units will be regulated to comply with the requirements of the Health and Safety Code with regard to replacement housing, production of affordable housing and use of the housing fund. The units are to be counted towards the Agency's replacement housing obligation. The operating subsidy loan is a maximum not to exceed \$1,200,000 consisting of an annual obligation until the development is self-sustaining. Based on a variety of factors the annual subsidy may vary and as such the total of all annual commitments is estimated to be in the range of \$280,000 to \$960,000.

CITY OF EAST PALO ALTO
Note to Financial Statements
For the Fiscal Year ended June 30, 2010

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

F. *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 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND (SERAF)

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies, based on the property taxes received in fiscal year 2006-07, be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment from the Gateway/101, University Circle, and Ravenswood Capital Projects Funds of \$3,263,513 in fiscal year 2009-10.

Based on the calculations in AB26 4X, the Agency's SERAF payment is estimated to be \$671,250 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The obligation to make the SERAF payment is subordinate to obligations to repay bonds. However, if the Agency fails to make the full SERAF payment, the Agency may not encumber or expend funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF is paid in full.

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.

Redevelopment Agency Special Revenue Fund - To account for property tax increments received by the City of East Palo Alto Redevelopment Agency to use for Low and Moderate-Income Housing Programs.

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, 2010

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Property tax	\$7,556,450	\$7,428,040	\$7,662,867	\$234,827
Sales tax	2,379,945	2,357,000	2,301,318	(55,682)
Transient occupancy tax	500,000	500,000	500,000	
Utility users tax	1,470,030	1,488,110	1,591,204	103,094
Other taxes			500	500
Licenses and permits	566,300	683,500	757,967	74,467
Charges for services	1,059,300	994,852	1,051,066	56,214
Use of money and property	244,540	155,180	203,603	48,423
Grants and intergovernmental	189,300	172,390	201,919	29,529
Miscellaneous	130,000	125,000	119,133	(5,867)
Total Revenues	14,095,865	13,904,072	14,389,577	485,505
EXPENDITURES:				
Current:				
General government:	3,304,552	3,212,922	2,992,949	219,973
Public safety - police	9,214,455	9,023,609	9,235,300	(211,691)
Public works:	1,532,371	1,540,322	1,560,326	(20,004)
Culture and recreation	627,780	613,409	521,925	91,484
Community development	1,120,113	1,092,593	1,010,825	81,768
Capital outlay	215,300	215,300	119,859	95,441
Total Expenditures	16,014,571	15,698,155	15,441,184	256,971
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,918,706)</u>	<u>(1,794,083)</u>	<u>(1,051,607)</u>	<u>742,476</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,635,000	2,635,000	1,279,971	(1,355,029)
Transfers (out)	<u>(2,909,210)</u>	<u>(1,754,800)</u>	<u>(515,857)</u>	<u>1,238,943</u>
Total other financing sources (uses)	<u>(274,210)</u>	<u>880,200</u>	<u>764,114</u>	<u>(116,086)</u>
NET CHANGE IN FUND BALANCES	<u><u>(\$2,192,916)</u></u>	<u><u>(\$913,883)</u></u>	<u><u>(287,493)</u></u>	<u><u>\$626,390</u></u>
BEGINNING FUND BALANCE			<u>20,573,760</u>	
ENDING FUND BALANCE			<u><u>\$20,286,267</u></u>	

CITY OF EAST PALO ALTO
 LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
GOVERNMENTAL REVENUES				
Property tax increment	\$1,540,800	\$1,635,330	\$1,619,139	(\$16,191)
Use of money and property			96,814	96,814
Total Revenues	<u>1,540,800</u>	<u>1,635,330</u>	<u>1,715,953</u>	<u>80,623</u>
EXPENDITURES				
Community development	248,708	248,708	312,106	(63,398)
Capital outlay	2,603,736	2,603,736		2,603,736
Total Expenditures	<u>2,852,444</u>	<u>2,852,444</u>	<u>312,106</u>	<u>2,540,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,311,644)</u>	<u>(1,217,114)</u>	<u>1,403,847</u>	<u>2,620,961</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(1,275,000)</u>	<u>(780,480)</u>	<u>(566,073)</u>	<u>214,407</u>
Total Other Financing Sources (Uses)	<u>(1,275,000)</u>	<u>(780,480)</u>	<u>(566,073)</u>	<u>214,407</u>
NET CHANGE IN FUND BALANCES	<u><u>(\$2,586,644)</u></u>	<u><u>(\$1,997,594)</u></u>	<u>837,774</u>	<u><u>\$2,835,368</u></u>
BEGINNING FUND BALANCE			<u>11,546,134</u>	
ENDING FUND BALANCE			<u><u>\$12,383,908</u></u>	

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

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States except for ISTE Grant, Housing Assistance, Public Improvements in Lieu Special Revenue Funds; and Capital Improvements Capital Projects Fund which are adopted on a project length basis. Supplemental appropriations made during the fiscal year were not substantial.

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OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST PALO ALTO
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property		\$246,012	246,012
Total Revenues		<u>246,012</u>	<u>246,012</u>
EXPENDITURES			
Current:			
General government	\$9,000	2,001	6,999
Debt service:			
Principal - purchase in lieu of redemption	470,000	16,120,000	(15,650,000)
Interest and fiscal charges	<u>1,485,155</u>	<u>2,138,613</u>	<u>(653,458)</u>
Total Expenditures	<u>1,964,155</u>	<u>18,260,614</u>	<u>(16,296,459)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,964,155)</u>	<u>(18,014,602)</u>	<u>(16,050,447)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,950,072	1,817,494	(132,578)
Transfers out		<u>(125,684)</u>	<u>(125,684)</u>
Total Other Financing Sources (Uses)	<u>1,950,072</u>	<u>1,691,810</u>	<u>(258,262)</u>
NET CHANGE IN FUND BALANCES	<u><u>(\$14,083)</u></u>	<u>(16,322,792)</u>	<u><u>(\$16,308,709)</u></u>
BEGINNING FUND BALANCE		<u>20,744,394</u>	
ENDING FUND BALANCE		<u><u>\$4,421,602</u></u>	

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.

ISTEA Grant - Accounts for Intermodal Surface Transportation Efficiency Act Grant money received and expended.

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 organizations and special events related to Child/Family programs.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)

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 votes 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 Project Funds

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

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CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	SPECIAL REVENUE FUNDS				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
ASSETS					
Cash and investments	\$66,587	\$657,196		\$633,943	\$48,055
Cash with fiscal agent				416,585	
Receivables:					
Intergovernmental		83,955	\$621,103		
Other receivables					
Deposits and prepayments					
Due from other funds					
Advances to other funds					
Loans and notes receivables					
Total Assets	\$66,587	\$741,151	\$621,103	\$1,050,528	\$48,055
LIABILITIES					
Accounts payable	\$1,705	\$35,115	\$69,192	\$74,203	\$18,588
Retentions payable					
Deposits					
Other accrued liabilities					
Due to other funds			467,350		
Deferred revenue			295,059	416,585	29,467
Advances from other funds					
Total Liabilities	1,705	35,115	831,601	490,788	48,055
FUND BALANCE					
Fund balances:					
Reserved for					
Advances to other funds					
Deposits and prepayments					
Loans receivable					
Measure C					
Encumbrances				171,539	
Unreserved:					
Undesignated, reported in:					
Special Revenue Funds	64,882	706,036	(210,498)	388,201	
Capital Project Funds					
Total Fund Balances	64,882	706,036	(210,498)	559,740	
Total Liabilities and Fund Balances	\$66,587	\$741,151	\$621,103	\$1,050,528	\$48,055

SPECIAL REVENUE FUNDS

ISTEA Grant	Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assistance	Public Improvements in Lieu	Measure A	Local Grants
\$639,807			\$448,507	\$6,081	\$236,457 1,441,923	\$2,623,958	\$166,550
	\$256,430	\$45,697			3	42,162 2,665	56,437
				\$393,962			
<u>\$639,807</u>	<u>\$256,430</u>	<u>\$45,697</u>	<u>\$448,507</u>	<u>\$400,043</u>	<u>\$1,678,383</u>	<u>\$2,668,785</u>	<u>\$222,987</u>
	\$83,162		\$6,175		\$6,233	\$6,820 68,864	\$22,655
	21,512 33,411 181,468	45,697 21,080			1,441,923		111,762
	<u>319,553</u>	<u>66,777</u>	<u>6,175</u>		<u>1,448,156</u>	<u>75,684</u>	<u>134,417</u>
				\$393,962		2,665	
			51,021			12,926	88,570
\$639,807	(63,123)	(21,080)	391,311	6,081	230,227	2,577,510	
<u>639,807</u>	<u>(63,123)</u>	<u>(21,080)</u>	<u>442,332</u>	<u>400,043</u>	<u>230,227</u>	<u>2,593,101</u>	<u>88,570</u>
<u>\$639,807</u>	<u>\$256,430</u>	<u>\$45,697</u>	<u>\$448,507</u>	<u>\$400,043</u>	<u>\$1,678,383</u>	<u>\$2,668,785</u>	<u>\$222,987</u>

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUND	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C	Capital Improvements	
ASSETS						
Cash and investments	\$374,129	\$748,192	\$47,564	\$1,223,152	\$742,701	\$8,662,879
Cash with fiscal agent						1,858,508
Receivables:						
Intergovernmental					410,470	1,516,254
Other receivables						3
Deposits and prepayments						2,665
Due from other funds					125,684	125,684
Advances to other funds		\$50,000				50,000
Loans and notes receivables						393,962
Total Assets	\$374,129	\$798,192	\$47,564	\$1,223,152	\$1,278,855	\$12,609,955
LIABILITIES						
Accounts payable	\$81,867	\$70,732	\$6,507	\$3,244	\$1,150	\$481,115
Retentions payable					70,191	139,055
Deposits						6,233
Other accrued liabilities						21,512
Due to other funds						546,458
Deferred revenue					436,572	2,933,916
Advances from other funds			50,000			50,000
Total Liabilities	81,867	70,732	56,507	3,244	507,913	4,178,289
FUND BALANCE						
Fund balances:						
Reserved for						
Advances to other funds		50,000				50,000
Deposits and prepayments						2,665
Loans receivable						393,962
Measure C				\$1,219,908		1,219,908
Encumbrances	160,000					484,056
Unreserved:						
Designated, reported in:						
Special Revenue Funds	132,262	677,460	(8,943)			5,510,133
Capital Project Funds					770,942	770,942
Total Fund Balances	292,262	727,460	(8,943)	1,219,908	770,942	8,431,666
Total Liabilities and Fund Balances	\$374,129	\$798,192	\$47,564	\$1,223,152	\$1,278,855	\$12,609,955

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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, 2010

	SPECIAL REVENUE FUNDS				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
GOVERNMENTAL REVENUES					
Property tax					
Other taxes		\$855,788			
License and permits					
Charges for services					\$137,785
Use of money and property	\$422	4,549	\$624	\$4,971	740
Grants and intergovernmental	126,389		1,471,781		
Total Revenues	126,811	860,337	1,472,405	4,971	138,525
EXPENDITURES					
Current:					
General government	7,933	102,796	52,738		32,717
Public safety			1,585,786		
Public works	111,640	816,438	372		
Culture and recreation				305,344	
Community development					324,488
Capital outlay					
Total Expenditures	119,573	919,234	1,638,896	305,344	357,205
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,238	(58,897)	(166,491)	(300,373)	(218,680)
OTHER FINANCING SOURCES (USES)					
Transfers in					160,857
Transfers (out)				(4,971)	
Total Other Financing Sources (Uses)				(4,971)	160,857
NET CHANGE IN FUND BALANCES	7,238	(58,897)	(166,491)	(305,344)	(57,823)
BEGINNING FUND BALANCES (DEFICITS)	57,644	764,933	(44,007)	865,084	57,823
ENDING FUND BALANCES (DEFICITS)	\$64,882	\$706,036	(\$210,498)	\$559,740	

SPECIAL REVENUE FUNDS

ISTEA Grant	Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assist	Public Improvements in Lieu	Measure A	Local Grants
					\$543		
	1,453,409	\$146,120	\$2,690		1,986	\$16,444	\$314,141
	1,453,409	146,120	2,690		2,529	437,494	314,141
	538,775	61,630				7,409	143,273
	23,443						
	571,025	72,318	1,023			167,445	56,421
	131,871		89,790				32,330
		33,252			131,581		
	1,265,114	167,200	90,813		131,581	174,854	232,024
	188,295	(21,080)	(88,123)		(129,052)	262,640	82,117
			177,500				
			177,500				
	188,295	(21,080)	89,377		(129,052)	262,640	82,117
\$639,807	(251,418)		352,955	\$400,043	359,279	2,330,461	6,453
\$639,807	(\$63,123)	(\$21,080)	\$442,332	\$400,043	\$230,227	\$2,593,101	\$88,570

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	SPECIAL REVENUE FUNDS				CAPITAL PROJECTS FUND	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C	Capital Improvements	
GOVERNMENTAL REVENUES						
Property tax		\$243,504	\$91,015	\$717,549		\$1,052,068
Other taxes						855,788
License and permits						543
Charges for services						137,785
Use of money and property	\$3,118	5,636	362	8,406		49,948
Grants and intergovernmental					\$184,283	4,117,173
Total Revenues	3,118	249,140	91,377	725,955	184,283	6,213,305
EXPENDITURES						
Current:						
General government	164,160	25,126	3,704	82,344		1,222,605
Public safety				398,462		2,007,691
Public works		494,649	93,933			2,385,264
Culture and recreation				359,588		829,133
Community development						414,278
Capital outlay					588,281	753,114
Total Expenditures	164,160	519,775	97,637	840,394	588,281	7,612,085
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(161,042)	(270,635)	(6,260)	(114,439)	(403,998)	(1,398,780)
OTHER FINANCING SOURCES (USES)						
Transfers in	177,500				125,684	641,541
Transfers (out)						(4,971)
Total Other Financing Sources (Uses)	177,500				125,684	636,570
NET CHANGE IN FUND BALANCES	16,458	(270,635)	(6,260)	(114,439)	(278,314)	(762,210)
BEGINNING FUND BALANCES (DEFICITS)	275,804	998,095	(2,683)	1,334,347	1,049,256	9,193,876
ENDING FUND BALANCES (DEFICITS)	\$292,262	\$727,460	(\$8,943)	\$1,219,908	\$770,942	\$8,431,666

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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, 2010

SPECIAL REVENUE FUNDS

	NPDES FEES			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes				\$843,356	\$855,788	\$12,432
Licenses and permits						
Charges for services						
Use of money and property		\$422	\$422		4,549	4,549
Grants and intergovernmental	\$124,254	126,389	2,135			
Total Revenues	124,254	126,811	2,557	843,356	860,337	16,981
EXPENDITURES						
Current:						
General government	9,795	7,933	1,862	99,765	102,796	(3,031)
Public safety						
Public works	120,900	111,640	9,260	905,241	816,438	88,803
Culture and recreation						
Community development						
Capital outlay						
Total Expenditures	130,695	119,573	11,122	1,005,006	919,234	85,772
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,441)	7,238	13,679	(161,650)	(58,897)	102,753
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	(\$6,441)	7,238	\$13,679	(\$161,650)	(58,897)	\$102,753
BEGINNING FUND BALANCES (DEFICITS)		57,644			764,933	
ENDING FUND BALANCES (DEFICITS)		\$64,882			\$706,036	

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)
	\$624	\$624		\$4,971	\$4,971	\$140,000	\$137,785 740	(\$2,215) 740
\$826,955	1,471,781	644,826						
<u>826,955</u>	<u>1,472,405</u>	<u>645,450</u>		<u>4,971</u>	<u>4,971</u>	<u>140,000</u>	<u>138,525</u>	<u>(1,475)</u>
	52,738	(52,738)				102,480	32,717	69,763
2,186,021	1,585,786	600,235						
5,160	372	4,788						
			\$346,960	305,344	41,616			
						376,021	324,488	51,533
<u>2,191,181</u>	<u>1,638,896</u>	<u>552,285</u>	<u>346,960</u>	<u>305,344</u>	<u>41,616</u>	<u>478,501</u>	<u>357,205</u>	<u>121,296</u>
<u>(1,364,226)</u>	<u>(166,491)</u>	<u>1,197,735</u>	<u>(346,960)</u>	<u>(300,373)</u>	<u>46,587</u>	<u>(338,501)</u>	<u>(218,680)</u>	<u>119,821</u>
						236,300	160,857	(75,443)
				(4,971)	(4,971)			
				(4,971)	(4,971)	236,300	160,857	(75,443)
<u>(\$1,364,226)</u>	<u>(166,491)</u>	<u>\$1,197,735</u>	<u>(\$346,960)</u>	<u>(305,344)</u>	<u>\$41,616</u>	<u>(\$102,201)</u>	<u>(57,823)</u>	<u>\$44,378</u>
	<u>(44,007)</u>			<u>865,084</u>			<u>57,823</u>	
	<u>(\$210,498)</u>			<u>\$559,740</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, 2008

SPECIAL REVENUE FUNDS

	FEDERAL AND STATE GRANTS			U.S. EPA		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Other taxes						
Licenses and permits						
Charges for services						
Use of money and property						
Grants and intergovernmental	\$1,904,171	\$1,453,409	(\$450,762)	\$172,721	\$146,120	(\$26,601)
Miscellaneous						
Total Revenues	<u>1,904,171</u>	<u>1,453,409</u>	<u>(450,762)</u>	<u>172,721</u>	<u>146,120</u>	<u>(26,601)</u>
EXPENDITURES						
Current:						
General government	623,040	538,775	84,265	55,811	61,630	(5,819)
Public safety		23,443	(23,443)			
Public works	450,203	571,025	(120,822)	75,000	72,318	2,682
Culture and recreation	93,511	131,871	(38,360)			
Community development						
Capital outlay	486,000		486,000	41,910	33,252	8,658
Total Expenditures	<u>1,652,754</u>	<u>1,265,114</u>	<u>387,640</u>	<u>172,721</u>	<u>167,200</u>	<u>5,521</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>251,417</u>	<u>188,295</u>	<u>(63,122)</u>		<u>(21,080)</u>	<u>(21,080)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	<u>\$251,417</u>	<u>188,295</u>	<u>(\$63,122)</u>		<u>(21,080)</u>	<u>(\$21,080)</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>(251,418)</u>				
ENDING FUND BALANCES (DEFICITS)		<u>(\$63,123)</u>			<u>(\$21,080)</u>	

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)
	\$2,690	\$2,690	\$430,000	\$16,444 421,050	\$16,444 (8,950)	\$324,278	\$314,141	(\$10,137)
	2,690	2,690	430,000	437,494	7,494	324,278	314,141	(10,137)
			9,225	7,409	1,816	\$170,000	143,273	26,727
	1,023	(1,023)	219,821	167,445	52,376	147,491 6,787	56,421 32,330	91,070 (25,543)
\$133,932	89,790	44,142						
133,932	90,813	43,119	229,046	174,854	54,192	324,278	232,024	92,254
(133,932)	(88,123)	45,809	200,954	262,640	61,686		82,117	82,117
177,500 (236,300)	177,500	236,300						
(58,800)	177,500	236,300						
<u>(\$192,732)</u>	89,377	<u>\$282,109</u>	<u>\$200,954</u>	262,640	<u>\$61,686</u>		82,117	<u>\$82,117</u>
	352,955			2,330,461			6,453	
	<u>\$442,332</u>			<u>\$2,593,101</u>			<u>\$88,570</u>	

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, 2010

SPECIAL REVENUE FUNDS

	CYSFF CHILD/ FAMILY			LIGHTING DISTRICT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax				\$264,988	\$243,504	(\$21,484)
Other taxes						
Licenses and permits						
Charges for services						
Use of money and property		\$3,118	\$3,118		5,636	5,636
Grants and intergovernmental						
Total Revenues		3,118	3,118	264,988	249,140	(15,848)
EXPENDITURES						
Current:						
General government	\$202,329	164,160	38,169	61,965	25,126	36,839
Public safety						
Public works				491,298	494,649	(3,351)
Culture and recreation						
Community development						
Capital outlay	1,225		1,225			
Total Expenditures	203,554	164,160	39,394	553,263	519,775	33,488
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(203,554)</u>	<u>(161,042)</u>	<u>42,512</u>	<u>(288,275)</u>	<u>(270,635)</u>	<u>17,640</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	177,500	177,500				
Transfers (out)						
Total Other Financing Sources (Uses)	<u>177,500</u>	<u>177,500</u>				
NET CHANGE IN FUND BALANCES	<u>(\$26,054)</u>	<u>16,458</u>	<u>\$42,512</u>	<u>(\$288,275)</u>	<u>(270,635)</u>	<u>\$17,640</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>275,804</u>			<u>998,095</u>	
ENDING FUND BALANCES (DEFICITS)		<u>\$292,262</u>			<u>\$727,460</u>	

(Continued)

SPECIAL REVENUE FUNDS

DRAINAGE DISTRICT			MEASURE C		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$65,934	\$91,015	\$25,081	\$688,580	\$717,549	\$28,969
	362	362		8,406	8,406
<u>65,934</u>	<u>91,377</u>	<u>25,443</u>	<u>688,580</u>	<u>725,955</u>	<u>37,375</u>
4,612	3,704	908	97,645	82,344	15,301
98,388	93,933	4,455	384,441	398,462	(14,021)
			360,000	359,588	412
<u>103,000</u>	<u>97,637</u>	<u>5,363</u>	<u>842,086</u>	<u>840,394</u>	<u>1,692</u>
<u>(37,066)</u>	<u>(6,260)</u>	<u>30,806</u>	<u>(153,506)</u>	<u>(114,439)</u>	<u>39,067</u>
39,800		(39,800)			
<u>39,800</u>		<u>(39,800)</u>			
<u>\$2,734</u>	<u>(6,260)</u>	<u>(\$8,994)</u>	<u>(\$153,506)</u>	<u>(114,439)</u>	<u>\$39,067</u>
	<u>(2,683)</u>			<u>1,334,347</u>	
	<u>(\$8,943)</u>			<u>\$1,219,908</u>	

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STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

1. Demographic and Economic Statistics
2. Principal Employers – information not available

Operating Information

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

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

Sources

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

City of East Palo Alto
Net Assets by Component
June 30, 2010
Last Seven Fiscal Years
(accrual basis of accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Government activities							
Investment in capital assets, net of related debt	\$20,821,102	\$20,799,470	\$20,574,619	\$21,298,218	\$24,175,266	\$24,877,257	\$25,163,127
Restricted For:							
Debt Service					19,881,567	20,744,394	4,421,602
Public Safety	54,846	136,650	239,521	97,796	460,293		
Highways and streets	1,867,256	1,934,130	2,622,482	3,372,600	3,725,541	4,152,124	4,234,053
Parks and recreation	1,096,207	1,231,943	1,431,231	1,304,783	1,379,246	1,147,341	940,572
Low and moderate income housing	2,779,093	1,278,216	2,132,049	9,616,232	10,937,302	11,546,134	12,383,908
Measure C programs						1,334,347	1,219,908
Total restricted	5,797,402	4,580,939	6,425,283	14,391,411	36,383,949	38,924,340	23,200,043
Unrestricted	(21,537,804)	(19,174,140)	(19,556,466)	(20,401,483)	(29,124,597)	(27,641,786)	(13,680,807)
Total governmental activities net assets	<u>\$5,080,700</u>	<u>\$6,206,269</u>	<u>\$7,443,436</u>	<u>\$15,288,146</u>	<u>\$31,434,618</u>	<u>\$36,159,811</u>	<u>\$34,682,363</u>
Business-type activities							
Investment in capital assets, net of related debt	\$6,172,324	\$5,887,825	\$5,657,772	\$5,381,783	\$5,100,616	\$4,867,912	\$4,503,722
Restricted For:							
Capital Projects							834,095
Total restricted							834,095
Unrestricted	875,495	1,153,837	1,186,307	1,738,594	2,459,697	2,360,001	1,483,820
Total business-type activities net assets	<u>\$7,047,819</u>	<u>\$7,041,662</u>	<u>\$6,844,079</u>	<u>\$7,120,377</u>	<u>\$7,560,313</u>	<u>\$7,227,913</u>	<u>\$6,821,637</u>
Primary Government							
Investment in capital assets, net of related debt	\$26,993,426	\$26,687,295	\$26,232,391	\$26,680,001	\$29,275,882	\$29,745,169	\$29,666,849
Restricted	5,797,402	4,580,939	6,425,283	14,391,411	36,383,949	38,924,340	24,034,138
Unrestricted	(20,662,309)	(18,020,303)	(18,370,159)	(18,662,889)	(26,664,900)	(25,281,785)	(12,196,987)
Total primary government net assets	<u>\$12,128,519</u>	<u>\$13,247,931</u>	<u>\$14,287,515</u>	<u>\$22,408,523</u>	<u>\$38,994,931</u>	<u>\$43,387,724</u>	<u>\$41,504,000</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
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
Public Safety	8,452,372	8,627,051	9,010,553	9,220,203	8,935,880	10,309,298	11,005,614
Culture and Recreation	1,158,334	919,419	779,360	798,679	700,497	4,076,009	1,228,036
Public Works	3,388,142	2,995,043	2,190,525	2,964,223	3,063,920	459,853	4,036,926
Community Development	3,176,220	3,081,094	3,303,821	3,131,545	3,603,493	5,920,364	7,230,567
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
Total Governmental Activities Expenses	<u>21,250,234</u>	<u>20,562,724</u>	<u>20,235,411</u>	<u>22,029,331</u>	<u>22,854,740</u>	<u>27,692,407</u>	<u>31,502,557</u>
Business-Type Activities:							
Water service	539,020	597,795	511,861	440,589	524,709	460,887	1,616,967
Garbage collection	1,613,488	1,603,614	1,732,952	1,765,870	1,895,331	1,708,893	619,277
Total Business-Type Activities Expenses	<u>2,152,508</u>	<u>2,201,409</u>	<u>2,244,813</u>	<u>2,206,459</u>	<u>2,420,040</u>	<u>2,169,780</u>	<u>2,236,244</u>
Total Primary Government Expenses	<u>\$23,402,742</u>	<u>\$22,764,133</u>	<u>\$22,480,224</u>	<u>\$24,235,790</u>	<u>\$25,274,780</u>	<u>\$29,862,187</u>	<u>\$33,738,801</u>
Program Revenues							
Governmental Activities:							
Charges for Services:							
General Government	\$13,644	\$16,214	\$16,227	\$41,641	\$3,481	\$19,249	\$2,536
Public Safety	267,768	305,717	222,306	99,012	186,210	173,177	207,305
Culture and Recreation	12,749	13,602	7,235	7,696	11,808	43,638	11,411
Public Works	679,383	333,960	539,740	178,202	121,665	104,772	47,852
Community Development	946,723	1,003,516	1,270,591	966,262	1,211,953	765,015	455,586
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
Capital Grants and Contributions	1,368,358	728,800	461,214	435,188	3,416,868	1,614,942	178,073
Total Government Activities Program Revenues	<u>6,932,754</u>	<u>5,354,854</u>	<u>4,774,295</u>	<u>6,147,016</u>	<u>8,166,764</u>	<u>6,883,507</u>	<u>5,799,401</u>
Business-Type Activities:							
Charges for Services:							
Water service	198,380	277,442	218,900	329,539	885,986	199,816	1,642,054
Garbage collection	1,562,954	1,868,865	1,757,508	2,059,546	1,895,698	1,679,492	174,743
Total Business-Type Activities Program Revenue	<u>1,761,334</u>	<u>2,146,307</u>	<u>1,976,408</u>	<u>2,389,085</u>	<u>2,781,684</u>	<u>1,879,308</u>	<u>1,816,797</u>
Total Primary Government Program Revenues	<u>\$8,694,088</u>	<u>\$7,501,161</u>	<u>\$6,750,703</u>	<u>\$8,536,101</u>	<u>\$10,948,448</u>	<u>\$8,762,815</u>	<u>\$7,616,198</u>
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)
Business-Type Activities	(391,174)	(55,102)	(268,405)	182,626	361,644	(290,472)	(419,447)
Total Primary Government Net Expense	<u>(\$14,708,654)</u>	<u>(\$15,262,972)</u>	<u>(\$15,729,521)</u>	<u>(\$15,699,689)</u>	<u>(\$14,326,332)</u>	<u>(\$21,099,372)</u>	<u>(\$26,122,603)</u>

(Continued)

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
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
Utility Users Tax	1,110,407	1,254,066	1,417,642	1,585,722	1,582,042	1,647,057	1,591,204
Parcel tax					702,840	710,500	717,549
Sales Taxes	2,244,644	2,709,643	2,750,392	2,481,442	2,524,797	2,424,013	2,301,318
Other Taxes	944,168	988,787	980,973	1,586,173	1,959,798	1,610,286	1,720,233
Motor Vehicle Tax	1,382,813	818,011	230,561	201,344	139,173	94,542	97,979
Interest Earnings	239,700	634,543	644,602	1,638,500	2,131,569	1,138,926	1,442,654
Other	386,414	223,034	71,607	89,974		715,478	420,557
Total Government Activities	<u>13,485,498</u>	<u>16,333,439</u>	<u>16,700,709</u>	<u>23,727,025</u>	<u>25,270,429</u>	<u>25,534,093</u>	<u>24,225,708</u>
Business-Type Activities:							
Interest Earnings	51,679	48,945	70,822	93,672	78,292	(41,928)	13,171
Total Business-Type Activities	<u>51,679</u>	<u>48,945</u>	<u>70,822</u>	<u>93,672</u>	<u>78,292</u>	<u>(41,928)</u>	<u>13,171</u>
Total Primary Government	<u>\$13,537,177</u>	<u>\$16,382,384</u>	<u>\$16,771,531</u>	<u>\$23,820,697</u>	<u>\$25,348,721</u>	<u>\$25,492,165</u>	<u>\$24,238,879</u>
Change in Net Assets							
Governmental Activities	(\$831,982)	\$1,125,569	\$1,239,593	\$7,844,710	\$10,582,453	\$4,725,193	(\$1,477,448)
Business-Type Activities	(339,495)	(6,157)	(197,583)	276,298	439,936	(332,400)	(406,276)
Total Primary Government	<u>(\$1,171,477)</u>	<u>\$1,119,412</u>	<u>\$1,042,010</u>	<u>\$8,121,008</u>	<u>\$11,022,389</u>	<u>\$4,392,793</u>	<u>(\$1,883,724)</u>

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund							
Reserved	\$13,758,950	\$ 11,713,911	\$ 11,916,073	\$ 11,379,597	\$ 12,676,253	\$13,597,260	\$13,710,502
Unreserved	151,024	1,425,019	729,939	3,154,308	5,406,886	6,976,500	6,575,765
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>	<u>\$20,573,760</u>	<u>\$20,286,267</u>
All Other Governmental Funds							
Reserved	\$11,426,147	\$15,851,827	\$28,803,392	\$28,930,206	\$29,665,723	\$30,755,524	\$17,220,741
Unreserved, reported in:							
Special revenue funds	868,237	1,133,716	1,642,166	3,016,232	10,947,512	10,728,072	8,390,162
Capital project funds	(9,758,868)	(14,683,942)	(10,608,195)	(9,330,371)	(8,279,431)	(8,556,368)	(12,293,874)
Permanent funds	3,123,232	3,808,483	4,877,558	6,464,873			
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>	<u>\$32,927,228</u>	<u>\$13,317,029</u>

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

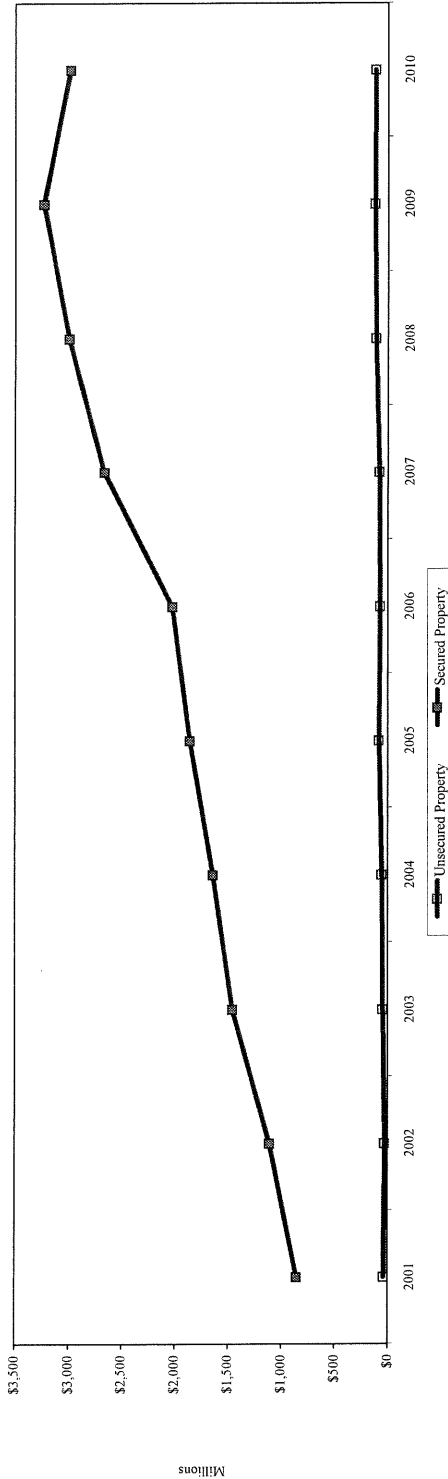
City of East Palo Alto
Changes in Fund Balance of Governmental Funds
Last Seven Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues							
Taxes	\$10,492,050	\$13,574,214	\$14,729,697	\$20,480,740	\$22,093,509	\$23,285,450	\$21,854,984
Licenses and permits	800,705	832,783	854,222	741,979	695,105	684,903	758,510
Charges for services	1,795,903	1,644,136	1,640,193	1,757,569	1,960,341	1,565,339	1,188,851
Fines and forfeitures	248,723						
Investment earnings	817,780	634,543	1,312,057	2,112,772	2,793,335	535,836	644,080
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	5,169,616	4,319,092
Miscellaneous	382,018	348,456	90,025	89,974	376,924	253,140	222,793
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>	<u>31,494,284</u>	<u>28,988,310</u>
Expenditures							
Current:							
General government	3,910,913	2,802,995	2,994,610	3,218,307	4,168,820	3,842,178	5,009,536
Public safety	8,246,476	8,426,629	8,814,019	9,317,197	8,862,537	10,278,800	11,301,946
Public works	2,206,872	1,818,944	1,661,489	2,447,594	2,583,643	3,206,456	3,989,167
Culture and recreation	927,450	801,800	626,076	605,279	693,526	830,598	1,351,058
Community development	2,526,304	1,908,979	2,136,579	1,974,137	3,361,924	4,963,224	6,999,593
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	1,564,730	872,973
Debt service:							
Principal repayment	7,770,265	1,589,118	1,269,510	1,156,063	420,000	445,000	16,120,000
Interest and fiscal charges	2,638,058	1,844,965	2,361,859	2,890,750	3,054,581	3,269,253	3,241,729
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>	<u>28,400,239</u>	<u>48,886,002</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>	<u>3,094,045</u>	<u>(19,897,692)</u>
Other Financing Sources (Uses)							
Transfers in	4,463,424	3,114,580	2,088,071	2,826,543	2,866,768	3,794,238	3,739,006
Transfers (out)	(4,463,424)	(3,114,580)	(2,088,071)	(2,826,543)	(2,866,768)	(3,794,238)	(3,739,006)
Bonds issued/Proceeds from bonds	11,659,000	22,838	17,995,000				
Proceeds on Loans			507,958				
Advances on loans	(2,904,000)						
Total other financing sources (uses)	<u>8,755,000</u>	<u>22,838</u>	<u>18,502,958</u>				
Net Change in fund balances	<u>(\$2,063,111)</u>	<u>(\$319,708)</u>	<u>\$18,111,919</u>	<u>\$6,253,912</u>	<u>\$6,792,098</u>	<u>\$3,094,045</u>	<u>(\$19,897,692)</u>
Debt service as a percentage of noncapital expenditures	57%	20%	25%	21%	18%	14%	41%

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.

**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)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Gateway 101 Corridor	University Circle	Ravenswood	Total Secured Property	Gateway 101 Corridor	University Circle			
2001	\$78,581,119	\$9,187,927	\$44,803,972	\$813,418,367	\$1,476,482	\$1,110,277	\$14,607,239	\$852,173,494	1.00%
2002	\$138,751,889	\$43,008,681	\$50,416,805	\$1,077,877,490	\$4,308,562	\$134,948	\$6,468,480	\$1,108,291,749	1.00%
2003	\$189,975,178	\$102,968,852	\$61,873,984	\$1,410,135,677	\$5,136,734	\$10,919,005	\$3,436,102	\$1,456,415,659	1.00%
2004	\$233,714,655	\$109,112,054	\$64,396,546	\$1,585,380,922	\$5,221,932	\$11,472,035	\$9,346,432	\$1,642,918,228	1.00%
2005	\$281,087,465	\$105,172,961	\$65,880,186	\$1,777,256,338	\$10,541,193	\$20,009,124	\$8,039,438	\$1,859,570,395	1.00%
2006	\$289,348,595	\$115,592,414	\$68,670,547	\$1,952,256,173	\$10,377,700	\$18,552,585	\$3,520,421	\$2,024,474,417	1.00%
2007	\$297,541,707	\$348,165,460	\$73,562,973	\$2,582,667,878	\$9,849,847	\$24,836,342	\$3,427,001	\$2,663,989,425	1.00%
2008	\$306,561,634	\$372,177,677	\$88,893,136	\$2,883,740,961	\$10,104,010	\$40,495,044	\$3,378,665	\$2,997,111,194	1.00%
2009	\$327,844,925	\$379,621,229	\$92,952,830	\$3,111,129,899	\$13,006,019	\$42,195,488	\$3,241,611	\$3,233,620,707	1.00%
2010	\$315,872,778	\$379,888,089	\$96,422,143	\$2,868,198,470	\$8,807,463	\$43,695,337	\$2,870,813	\$2,983,632,187	1.00%

2009-10 Total "City" Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
1,387,449,728	560,638,381	64,002,570	63,924,781	2,076,015,460

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

(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. These values are considered to be full market values.

(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 the taxing entities within a tax rate area. This represents the Total Direct Tax rate for the City (excludes the Redevelopment Agency).

**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
2001	1.000	0.0193	0.0092	0.0000	1.0285
2002	1.000	0.0282	0.0079	0.0000	1.0361
2003	1.000	0.0313	0.0130	0.0079	1.0522
2004	1.000	0.0272	0.0238	0.0065	1.0575
2005	1.000	0.0331	0.0164	0.0065	1.0560
2006	1.000	0.0374	0.0223	0.0065	1.0662
2007	1.000	0.0335	0.0208	0.0184	1.0727
2008	1.000	0.0316	0.0205	0.0171	1.0692
2009	1.000	0.0299	0.0282	0.0165	1.0746
2010	1.000	0.0364	0.0277	0.0182	1.0823

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

**CITY OF EAST PALO ALTO
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR 2009-10**

(secured taxpayers)

Property Tax Payer (Local Secured)	Primary Land Use	Total Assessed Value	% of Total Assessed Value (1)
1 Wells REIT II-University Circle LP	Office Building	\$310,933,941	10.84%
2 Ikea Property Inc.	Commercial Store	80,303,570	2.80%
3 LD Riviera LLC	Hotel	67,300,000	2.35%
4 One Newell LLC	Apartments	35,581,679	1.24%
5 Gateway 101 LLC	Commercial Store	24,700,000	0.86%
6 HD Development of Maryland Inc.	Commercial Store	18,706,358	0.65%
7 Romic Environmental Tech Corp.	Industrial	17,189,266	0.60%
8 45/55 Newell LLC	Apartments	12,916,045	0.45%
9 Nairobi Housing Inc. (2)	Apartments	12,658,544	0.44%
10 TMG/MFP Ravenswood Palms LLC	Commercial Store	12,443,995	0.43%
	Total	<u>\$592,733,398</u>	<u>20.67%</u>

Total Assessed Value (City and Redevelopment Agency) 2,868,198,470

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

NOTE: Top Ten Principal Property Taxpayers ten years prior (200-2001) for comparative purposes was not presented as it was not available.

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

Fiscal Year Ended June 30	Total Tax Levied for Fiscal Year (1)	Collected Within the Fiscal Year of the Levy				Total Tax Collections	Percentage of Levy
		Current Tax Collections (2)	Percentage of Levy	Delinquent Tax Collections	Total Tax Collections		
2006	\$8,195,377	\$8,237,968	101%		\$8,237,968	101%	
2007	11,274,920	13,183,996	117%		13,183,996	117%	
2008	12,498,426	13,251,420	106%		13,251,420	106%	
2009	13,397,566	13,892,862	104%		13,892,862	104%	
2010	12,529,052	13,051,893	104%		13,051,893	104%	

Sources:

(1) San Mateo County Estimated Property Tax Revenues. This adjusts (reduces) for the County calculated Educational Revenue Augmentation Fund (ERAF) shift of property taxes from the City to the State of CA As this ERAF shift is redirected at the County level, the City never receives this money.

(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.

NOTE: Total Tax Levied for Fiscal Year are estimates. Current Tax Collections are actual collections and due to

**CITY OF EAST PALO ALTO
RATIOS OF OUTSTANDING DEBT BY TYPE
JUNE 30, 2010
LAST SIX FISCAL YEARS**

Fiscal Year	Redevelopment Tax Allocation Bonds	1	Revenue Bond	1	Less: Restricted Bond Proceeds to be used to purchase 1999 TABs	2	Total Primary Government Bonded Debt (including Redevelopment Agency Bonds)	Percentage of Assessed Valuation	3	Outstanding Debt Per Capita	4
2005	\$26,005,000		\$17,995,000		\$16,040,000		\$27,960,000	1.5%		\$871	
2006	25,620,000		17,995,000		16,040,000		27,575,000	1.4%		860	
2007	25,220,000		17,995,000		16,040,000		27,175,000	1.0%		838	
2008	24,800,000		17,995,000		16,040,000		26,755,000	0.9%		816	
2009	24,355,000		17,995,000		16,040,000		26,310,000	0.8%		793	
2010	8,050,500		17,995,000		-		26,045,500	0.9%		777	

Sources:

- 1 Tax Allocation Bonds and Revenue Bonds for financing Redevelopment Agency projects and activities
- 2 Bond proceeds invested and to be used as part of a purchase in lieu of redemption structure.
- 3 Calculate by taking the Total Primary Government Bonded Debt and dividing by total City and Redevelopment Agency secured and unsecured assessed values (found on the Assessed and Estimated Actual Value of taxable proeprerty - Last Ten Fiscal Years report)
- 4 Calculate by taking the total Primary Government Bonded Debt and dividing by the city population (found on the Demographic and Economic Statistics report).

**CITY OF EAST PALO ALTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2010**

2009-10 Assessed Valuation:	\$2,136,075,564
Redevelopment Incremental Valuation:	786,386,430
Adjusted Assessed Valuation:	<u>\$1,349,689,134</u>

	Total Debt 6/30/2010	% Applicable (1)	City's Share of Debt 6/30/10
<u>OVERLAPPING TAX INCREMENT DEBT:</u>			
2003A Refunding Tax Allocation Bonds	\$5,030,000	100	\$5,030,000
2003B Refunding Tax Allocation Bonds (Taxable)	3,205,000	100	3,205,000
2005 Series A Revenue Bonds	17,995,000	100	<u>17,995,000</u>
TOTAL OVERLAPPING TAX INCREMENT DEBT			\$26,230,000
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Mateo Community College District	\$624,979,994	1.04%	\$6,512,292
Sequoia Union High School District	302,420,000	2.51%	7,602,839
Ravenswood School District	12,426,977	67.80%	8,425,242
City of East Palo Alto		100%	
California Statewide Communities Development Authority 1915 Act Bonds	3,337,880	100%	<u>3,337,880</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$25,878,253
DIRECT AND OVERLAPPING TAX, ASSESSMENT AND TAX INCREMENT DEBT			\$52,108,253
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$349,089,816	1.04%	\$3,637,516
San Mateo County Board of Education Certificates of Participation	12,885,000	1.42%	134,262
Menlo Park Fire Protection District Certificates of Participation	11,990,000	6.89%	825,871
San Mateo County Mosquito Abatement District Certificates of Participation	275,000	1.42%	3,916
Midpeninsula Regional Open Space District General Fund Obligations	113,788,031	0.84%	<u>958,095</u>
TOTAL OVERLAPPING GENERAL FUND DEBT			\$5,559,660
COMBINED TOTAL DEBT			\$57,667,913 (2)

- (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.

<u>Ratios to Incremental Valuation:</u>	
Overlapping Tax Increment Debt	3.34%

<u>Ratios to 2009-10 Assessed Valuation:</u>	
Direct Debt	
Direct and Overlapping Tax and Assessment Debt	1.21%
Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.44%

<u>Ratios to Adjusted Assessed Valuation:</u>	
Combined Total Debt	4.27%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10:	\$0
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**CITY OF EAST PALO ALTO
COMPUTATION OF LEGAL BONDED DEBT MARGIN
LAST TEN YEARS**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Gross Assessed Valuation	\$702,406,478	\$865,202,384	\$1,082,105,804	\$1,209,654,574	\$1,368,840,028
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	175,601,620	216,300,596	270,526,451	302,413,644	342,210,007
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	26,340,243	32,445,089	40,578,968	45,362,047	51,331,501
Debt Applicable to Limit:					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	<u>\$26,340,243</u>	<u>\$32,445,089</u>	<u>\$40,578,968</u>	<u>\$45,362,047</u>	<u>\$51,331,501</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Gross Assessed Valuation	\$1,518,412,155	\$1,906,606,095	\$2,175,501,028	\$2,374,758,605	\$2,136,075,564
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	379,603,039	476,651,524	543,875,257	593,689,651	534,018,891
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	56,940,456	71,497,729	81,581,289	89,053,448	80,102,834
Debt Applicable to Limit:					
Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	<u>\$56,940,456</u>	<u>\$71,497,729</u>	<u>\$81,581,289</u>	<u>\$89,053,448</u>	<u>\$80,102,834</u>

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.

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

**City of East Palo Alto
Pledged-Revenue Coverage
RDA Tax Allocation Bonds
June 30, 2010
Last Six Fiscal Years**

Fiscal Year	Tax Increment Revenue	RDA Tax Allocation Bonds (1) Debt Service Requirements			Tax Allocation Bond Coverage
		Principal	Interest	Total Debt Service	
2005	\$4,557,353	\$470,000	\$1,587,010	\$2,057,010	2.2
2006	4,409,635	385,000	1,566,883	1,951,883	2.3
2007	8,622,619	400,000	1,547,675	1,947,675	4.4
2008	7,857,564	420,000	1,527,176	1,947,176	4.0
2009	7,996,776	445,000	1,505,072	1,950,072	4.1
2010	7,891,237	470,000	1,819,063	2,289,063	3.4

NOTE: The above reflects the 1999, 2003A, and 2003 B Tax Allocation Bonds (TABs). It should be noted that the 1999 Tax Allocation Bonds were defeased (from a financial perspective) on October 1st, 2009. Tax proceeds from the 2005 East Palo Alto Public Financing Authority bonds were used to purchase all outstanding 1999 Tax Allocation bonds on October 1st, 2009. This was a purchase in lieu of redemption transaction. Financially, the 1999 Tax Allocation Bonds were defeased as the East Palo Alto Public Financing authority, a blended component unit of the City, purchased the City's outstanding 1999 TABs. As of October 1st, 2009 all debt service payments made on the 1999 bonds to the East Palo Alto Public Financial Authority are and will be used to make the debt service payments on the 2005 Public Financial Authority bonds.

SOURCES: (1) Tax Allocation bonds 1999, 2003A, 2003B

**CITY OF EAST PALO ALTO
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 JUNE 20, 2010
 LAST SIX FISCAL YEARS**

Calendar Year	City Population ¹	City's Unemployment Rate ²	County's Unemployment Rate ³	County's Per Capita Personal Income ⁴	K-12 Public School Enrollments ⁵
2005	32,090	10.5%	4.3%	\$61,678	4,883
2006	32,049	9.1%	3.7%	67,279	4,453
2007	32,413	9.4%	3.8%	71,753	4,607
2008	32,800	11.6%	4.7%	73,839	4,936
2009	33,164	19.8%	8.6%	na	4,554
2010	33,524	21.3%	9.4%	na	na

Sources:

1 State of CA, Department of Finance estimates. The 2009 population figure is a preliminary estimate.

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

These are calendar year annual unemployment rates. Year 2010 rate is an average of six months (January 2010 to June 2010).

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

The 2010 Unemployment rate is an average of six months (January 2010 to June 2010).

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

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

5 Ed-Data (www.ed-data.com) updated by California Department of Education. These are fiscal year enrollment figures for

Ravenswood School District. For instance, 2009 represents fiscal year 2008-2009.

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, 2010
LAST TWO YEARS**

Function	<u>2009</u>	<u>2010</u>
General Government (City Council, CM, CC, Finance, HR, CA)	22	22.5
Public Safety		
Police		
Officers	43	44
Civilians	7	7
Public Works		
Administration	2	2
Engineering	6	6
Maintenance	12	12
Culture & recreation		
Administration	2	2
Recreation	1	2
Senior Services	1.38	1.63
Community Development		
Administration	2	2
Economic Development/Redevelopment Agency	6	6
Planning Division	5	5
Building Services	5	5
Housing Services & Rent Stabilization	4	5
Total	118	122

Source: City of East Palo Alto Government Budget.
Note: Data for prior to 2009 is not available.

**CITY OF EAST PALO ALTO
OPERATING INDICATORS BY FUNCTION
JUNE 30, 2010
LAST TWO YEARS**

Function	Fiscal Year 2008-2009	Fiscal Year 2009-2010
Police		
Calls for Service	37,385	35,736
Number of serious crimes *	630	551
Number of burglaries	347	424
Number of assaults	482	385
Number of auto thefts reported	256	213
Number of homicides	8	9
Number of robberies	121	137
Number of physical arrests	713	1,172
Public Works		
<u>Transportation</u>		
Shuttle Passengers		
Caltrain/Commuter Shuttle	21,433	32,872
Shopper Shuttle	7,055	5,186
Youth Job On-Demand	12,835	18,471
Weekend Shuttle	14,321	17,783
<u>Streets</u>		
Street Resurfacing (lane miles)	1.30	1.30
Potholes repaired	12	67
<u>Engineering</u>		
Encroachment permits	76	44
Culture & recreation		
Facility Rentals	25	27
Lunches Served to Seniors	8,188	9,225
Transportation trips provided to Seniors	3,457	3,375
Special Event participants	1,899	2,600
Program Registration participants	115	206
Community Development		
<u>Building Permits Issued:</u>		
Residential - Count	650	425
Commercial Count	27	22
Water **		
Hydrant Breaks	13	7
Water main breaks	18	6
Average daily consumption per family (in gallons)	227	322

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

Note: Data prior to 2009 is not available.

**CITY OF EAST PALO ALTO
CAPITAL ASSET STATISTICS BY FUNCTION
JUNE 30, 2010
LAST TWO YEARS**

FUNCTION	<u>2009</u>	<u>2010</u>
Government owned buildings		
Public Works & Comm Development Building	1	1
Housing (Water Enterprise Fund)	1	1
Highways & Streets		
Streets (miles)	38	38
Streetlights	827	827
Traffic Signals	14	14
Culture & recreation		
Parks (number of parks)	6	6
Parks acreage (acres)	16	16
Senior Centers	1	1
Water *		
Water pipelines (miles)	39.2	38.6
Fire hydrants	230	282
Maximum daily capacity (millions of gallons per day)	1.9	1.9

Source: Various city departments

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

Note: Data prior to 2009 is not available.