

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2016

City of East Palo Alto, California



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



### ***Report Cover Artwork***

The report cover artwork was created in collaboration with Cultural Kaleidoscope who generously donated their staff time and enthusiastically offered pictures of student art. Cultural Kaleidoscope is a unique artists-in-the-schools program that links the neighboring and diverse communities of Palo Alto, East Palo Alto, and Menlo Park; building bridges through the arts. By partnering K-5 classrooms from the Palo Alto Unified School District and Ravenswood City School District, Cultural Kaleidoscope fosters connections between hundreds of students annually.

### ***Dogon Masks***

The rich cultural history of mask-making from the Dogon Tribe of Mali in northwest Africa inspired the students from Green Oaks/Cesar Chavez to create these vibrant sculptures. Claude Ferguson, teaching artist, introduced the students to the ceremonial use of African masks in dancing and musical events that bring the whole tribal community together. The masks were created using a mixed-media approach, incorporating paper, plaster, paint, jewels, and glitter.

Completed April 2016

# City of East Palo Alto

East Palo Alto, California

*Comprehensive Annual Financial Report*

*For the year ended June 30, 2016*

Prepared by:  
Finance Department



**City of East Palo Alto**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2016**

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**CITY OF EAST PALO ALTO**  
**DEPARTMENT OF FINANCE**  
2415 University Avenue, East Palo Alto, CA 94303

December 28, 2016

Honorable Mayor Larry Moody  
Honorable Vice Mayor Ruben Abrica  
Members of the City Council  
City Manager, and Citizens of the  
City of East Palo Alto, California

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of East Palo Alto for the fiscal year ended June 30, 2016. It is the policy of the City of East Palo Alto to annually publish financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. This CAFR report is published to fulfill that requirement.

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

The City's financial statements have been audited by an independent firm of Certified Public Accountants, Badawi & Associates, licensed to practice in the State of California. The auditors expressed an opinion that the City's financial statements for the year ended June 30, 2016 are fairly stated in conformity with accounting principles generally

accepted in the United States. This is the most favorable conclusion and is most commonly known as an “unqualified” or “clean” opinion. The auditor’s report is located in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management’s Discussion & Analysis (MD&A). The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## **REPORTING ENTITY**

The City of East Palo Alto was incorporated in 1983. It is located in San Mateo County on the Peninsula in the Greater San Francisco Bay Area. It is in a desirable setting, with enviable weather, and well situated among three major metropolitan cities: San Jose, Oakland, and San Francisco. The City borders Menlo Park to the north, Palo Alto to the west and south, and the San Francisco Bay to the east. East Palo Alto currently occupies 2.5 square miles and has a population of approximately 30,545.

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

The City Council is required to adopt a budget on an annual basis which is passed by June 30<sup>th</sup> of each year. For the most recent budget period, the Council approved the adoption of a biennial budget covering Fiscal Year 2016-17 and 2017-18. In compliance with the City’s municipal ordinance, the Council will review and update the Fiscal Year 2017-18 budget through a public hearing process. The 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, or designee, approval. Unless mandated by regulation, transfers between funds require approval from the City Council.

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

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

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the City Council has financial and/or fiduciary accountability. The Council serves in separate session as the governing body of the East Palo Alto Public Financing Authority; and, the Successor Agency to the former Redevelopment Agency of the City of East Palo Alto, for which it has fiduciary responsibility.

## **ECONOMIC CONDITION AND FISCAL OUTLOOK**

The City continues to participate in regional Silicon Valley economic activity in many respects. As a result, we are experiencing record highs across most categories of tax revenues, and continued development and real estate investment interest is expected to propel property valuations higher in the near term. The City's unemployment rate typically has been approximately 2.4 times the unemployment rate in San Mateo County (County). The City's current unemployment rate of 5.4% now stands at only 1.59 times the County rate of 3.4%.

Assessed property values in fiscal year 2015-16 totaled \$2.29 billion - near the record high of \$2.37 billion set in fiscal year 2008-09. Growth in assessed valuation is expected to expand over the next two years due to the recent purchase of Woodland Park Apartments for approximately \$412.5 million in February of 2016, the Blackstone acquisition of Strategic Hotels in December of 2015, and various well-funded developers steadily assembling a portfolio of business and industrial properties within the Ravenswood Business District. The recent property acquisition activity is coupled with the completion of 51 single-family housing units, and the near-completion of 208,000 square feet of Class A office space. While property purchase activity and current development construction result in strong projections of near-term property valuation growth; the continued growth beyond FY 2017-18 is uncertain. The primary uncertainty relates to the implementation of a moratorium for new or expanded water service connections in July of 2016 due to a lack of water supply available for additional development projects.

Additionally, while economic forecast consensus through FY 2017-18 is generally positive, the most recent budget forecast prepared by the State Legislative Analyst's

Office views economic growth prospects beyond FY 17-18 with a heightened degree of uncertainty, and we tend to agree with this view.

Sales tax revenues continued to surpass the pre-recession high of \$2.7 million set in fiscal year 2005-06. More recent trends are indicating year over year leveling and we are monitoring for further signaling to confirm whether the current sales tax expansion may be at or near the peak of the current economic cycle.

Expanded economic and development activity also resulted in higher than average transient occupancy tax, business license, and permits and plan review fee revenues. The development-related permits and plan review fees projected in the near-term are highly volatile and uncertain due to the development moratorium.

For East Palo Alto, indicators of economic recovery and expansion always must be balanced in consideration of difficult issues facing the City today.

The City must continue to address existing long-term funding challenges while, also, finding efficient ways to expand targeted services that provide a sense of community for our citizens. Our challenges, among others, include: a lack of sufficient funding for substantial infrastructure investment, particularly in water supply/distribution and storm drain systems; low City staffing to service ratios in a community with high needs; and, a community who is at the heart of Statewide issues related to inadequate housing stock, rising housing costs, and increasing fears of community displacement.

In furtherance of addressing these issues, the citizens recently passed a one-half percent local sales and use tax, a 1.5% gross receipts tax on landlords renting more than five rental units, and streamlining procedures related to the City's rent stabilization program. Together, these initiatives will help fund critical infrastructure, maintain police staffing levels, improve local housing and displacement services, and address the slow, but deleterious effects of Redevelopment Dissolution and other significant losses of Federal, State and local restricted funding sources for police, violence prevention, and streets maintenance and construction.

Despite projected tax revenues at all-time highs, an operating budget that absorbed and funded targeted service expansion, and significant improvements toward funding water infrastructure; the overall budget conspicuously lacks sustained and committed operating resources needed to adequately address past deferred capital infrastructure investment, employee retention issues, and elevated citizen service improvement needs and demands.

The strategic funding decisions regarding the recently-approved tax measures will determine the fiscal resiliency with which the City crosses the gap between the existing economic trends today and whenever, and in what form, the next cycle of economic uncertainty and contraction arrives in Silicon Valley.

## LONG TERM FINANCIAL PLANNING

As part of a strategic budget planning process, management annually presents a multi-year financial projection to the City Council. This document is intended to provide the City Council with the opportunity to plan for the management of financial resources and to address forecasted financial challenges. The most recently prepared multi-year projection reflected a soft-growth economic “extension” through FY 2020-21; however, recent U.S. political and global events, spiking Treasury yields, and some indications of local economic peaking (sales tax and real estate transfer tax) will lead to a mid-cycle revision to provide both economic “extension” and mild recession scenarios to demonstrate the City’s fiscal resiliency under both conditions.

Demonstration of both scenarios is particularly important as the Council makes difficult, strategic spending and allocation decisions about the approved local tax measures that are estimated to increase local revenues, collectively, by a range estimation of approximately \$2.2 to \$2.4 million under current economic conditions. Notably, the revenues from these measures are difficult to estimate, and the actual base revenues will not be known for approximately one year.

The financial plan also calls for the City to exercise financial “best practices,” including achieving a minimum General Fund contingency reserve of 15% of budgeted operating expenditures. As of June 30, 2016, the City Council fully funded the reserve at \$3.0 million, representing approximately 15.0% of budgeted General Fund expenditures.

The purpose of the reserve is to provide the City with fiscal capacity for responding to emergencies and economic uncertainties and vulnerabilities, thereby minimizing the impact on service levels to the community during such challenging times.

## FINANCIAL POLICIES AND INFORMATION

### **Budgetary Controls**

The City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the Annual Budget and approved by the City Council. The level of control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

### **Major Initiatives**

Major initiatives for the year were developed through both the budget planning process and with the guidance of the City Council as articulated through its Strategic Priorities process, as follows:

Enhance Public Safety and Emergency Preparedness: This set of initiatives includes goals for implementing a long-term crime and violence reduction programs and conducting public education and outreach on fire safety and emergency preparation.

Enhance Economic Vitality: This set of initiatives includes goals to continue with the dissolution process for the former redevelopment agency, providing assistance to small businesses, setting aside capital improvement monies, and developing appropriate development impact fees.

Increase Organizational Effectiveness and Efficiency: These goals include the development of a long-term financial plan, addressing the infrastructure funding deficit, developing a staff development training plan, and acquiring systems to improve efficiencies and effectiveness.

Improve Public Facilities and Infrastructure: These goals pertain to completion of street, sidewalk, and bicycle-related infrastructure, exploring options for City facilities, developing additional water supply and enhancing the water system, and enhancing flood protection for the City's residents.

Improve Communication and Enhance Community Engagement: This set of objectives includes goals to develop and implement a website management plan, developing a communications plan, and fostering community cultural events and activities.

Create a Healthy and Safe Community: This set of objectives includes goals to improve pedestrian and bicycle access safety, fully implement the Rent Stabilization program, develop a comprehensive Healthy Community Plan, and develop a parks master plan.

The City made notable progress in all strategic areas, particularly in the following areas:

- *The City experienced a 30% drop in the rate of aggravated assault crimes from 2015 to 2016, and current community policing and intervention actions continue to support improved crime statistics today.*
- *The City also completed and engaged in significant emergency preparedness measures and projects that will minimize fluvial flooding risk from San Francisquito Creek.*
- *The Citizens passed two local tax measures: Measure P is a one-half percent local transactions and use tax; Measure O is a 1.5% gross rental receipts tax on landlords renting five or more units. Passage of the measure will help the City achieve long-term sustainability of current service levels, capital investment, and program funding.*
- *Addressed the City's water supply shortage through an innovative and multi-pronged approach, including:*
  - *Adopting the Urban Water Management Plan.*
  - *Engaging other agencies in discussions and negotiation of a water supply transfer.*
  - *Making substantial progress in developing underground water resources.*
  - *Together with approved transfers, capital surcharges, connection fees, and secured grant funding the City has collected \$3.9 million toward water projects.*

- *Adopted the City's General Plan and accompanying Environmental Impact Report.*
- *Opened Cooley Landing Educational Center, held a Senior Expo, and held "Movies in the Park" events as part of expanding local recreational services.*
- *Through voter-approval, strengthened the Just Cause for Eviction Ordinance.*
- *Entered into a \$13.3M settlement agreement with Facebook to mitigate project impacts.*
- *Securing a \$9.6M construction grant from the California Transportation Commission to build a pedestrian overpass over Hwy. 101.*

## AWARDS AND ACKNOWLEDGEMENTS

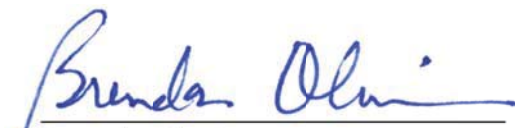
The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the seventh year the City 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 staff of the Finance Department. Deepest appreciation is extended to Financial Services Manager, Paul Maumalanga; Accountant II, Ana Torres; Account Technician II, Mona Nissan; and Interim Account Technician I, James Colin - each of whom demonstrated exemplary personal dedication and professionalism during this process. Thank you, also, to the patient and responsive audit staff at Badawi & Associates.

Finally, the Finance Department wishes to express our sincere appreciation to the Mayor, Vice Mayor, and City Council for providing policy direction and support for the pursuit of excellence in attaining the City's goals.

Respectfully submitted,



Brenda Olwin  
Finance Director



# CITY OF EAST PALO ALTO

## DIRECTORY OF OFFICIALS

### City Council

Larry Moody.....	Mayor
Ruben Abrica.....	Vice Mayor
Lisa Gauthier.....	Councilmember
Carlos Romero.....	Councilmember
Donna Rutherford.....	Councilmember

### Administration

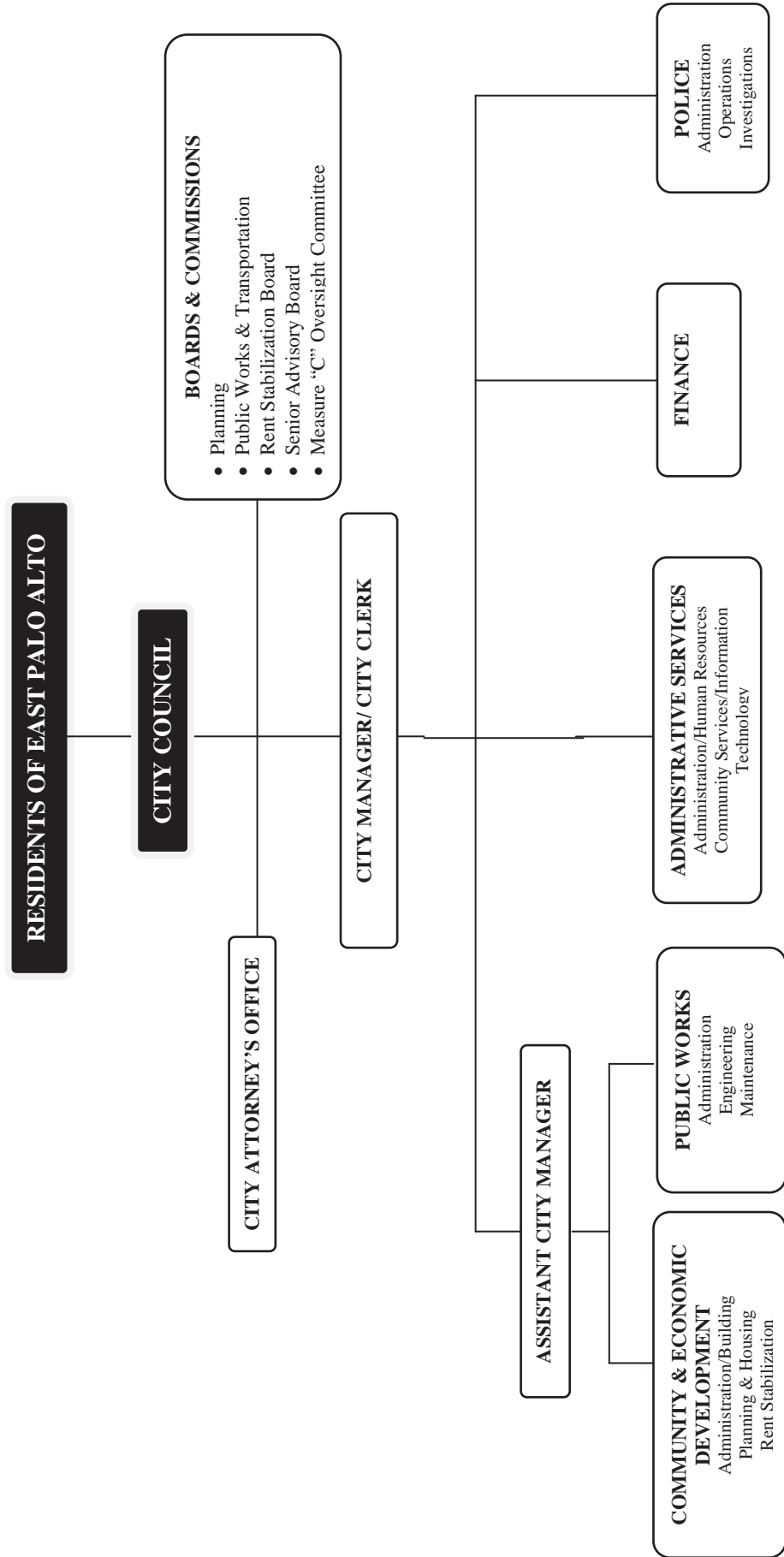
Carlos Martinez.....	City Manager
Sean Charpentier.....	Assistant City Manager
Rafael E. Alvarado Jr. ....	City Attorney
Marie McKenzie.....	Administrative Services Director
Brenda Olwin.....	Finance Director
Albert Pardini.....	Police Chief
Kamal Fallaha.....	Public Works Director



# Regional Map



# CITY OF EAST PALO ALTO CITY ORGANIZATIONAL CHART





Government Finance Officers Association

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

Presented to

**City of East Palo Alto  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto, California (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan information on pages 5-18 and 92-98 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparison schedules on pages 102-122 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and Members of the City Council  
of the City of East Palo Alto  
East Palo Alto, California  
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The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Badawi & Associates".

Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 28, 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. We advise readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

### FISCAL YEAR 2015-16 FINANCIAL HIGHLIGHTS

- The City's total net position equaled \$106.2 million at June 30, 2016, an increase of \$18.8 million during FY 2015-16 over the previous year's restated balance of \$87.4 million. The total increase in net position \$15.9 million is attributable to governmental activities. The remaining increase of \$2.9 million relates to business-type activities as a result of implemented water surcharges and funding transfers for major water capital projects.
- Total City revenues, including program and general revenues, are \$44.0 million which represents an increase of \$9.9 million over the prior year. Total expenses are \$25.2 million in fiscal year 2015-16 compared to prior year expenses of \$24.6 million.
- Governmental program revenues are \$13.9 million in fiscal year 2015-16 compared to \$9.8 million in fiscal year 2014-15 primarily due to increased capital grants and contributions, including capital development impact fees, of \$4.1 million. Business-type program revenues are \$3.5 million in fiscal year 2015-16 compared to \$2.8 million in fiscal year 2014-15 primarily due to water capital fees and meter replacement surcharges of \$0.7 million.
- Governmental general revenues are \$24.4 million in fiscal year 2015-16 compared to \$21.5 million in fiscal year 2014-15, an increase of \$2.9 million. Business-type general revenues increased by \$2.2 million due to the transfer in of general funds for water capital infrastructure projects with the remaining increase due to water service surcharges.
- General Fund revenues of \$24.6 million increased by \$3.5 million over the prior year. Major increases relate to a spike in activity for buildings permits, charges for services, community benefit contributions, and other one-time reimbursements; and, also, general increases in major tax revenues due to continued economic recovery.
- General Fund balance of \$28.6 million increased by \$3.4 million over the prior year, including transfers of \$3.5 million; of which \$2.2 million relates to amounts transferred to the Water Enterprise fund, and the remaining reflects funding transfers to the Capital Improvements fund for funding major capital infrastructure.

## OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

### **Government-wide Financial Statements**

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

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

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

In the Statement of Net Position and the Statement of Activities, activities are divided into two types:

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

### **Fund Financial Statements**

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

The fund financial statements provide detailed information about the most significant funds, called major funds. 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 (such as the Capital Improvements fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as grants received from the Federal Government). The City reports the following major funds: General

Fund, Low and Moderate Income Housing Successor Fund, Public Improvements in Lieu Fund, Housing in Lieu Fund, and Capital Improvements Fund. The remaining non-major funds of the City are summarized and presented in a single column. The City's different types of funds – governmental, proprietary, and fiduciary - 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in detail in a reconciliation located after each of the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.
- *Fiduciary funds* - the City maintains a Private Purpose Trust Fund to account for the activity of the former Redevelopment Agency of the City of East Palo Alto. The City's fiduciary activities as the Successor Agency are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The accounting basis used for fiduciary funds is similar to the proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use the assets to finance its own operations.

### **Notes to the Financial Statements**

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City provides comparative information in its Management Discussion & Analysis by presenting two years of financial information in the GASB Statement No. 34 format and a comparative analysis of government-wide data. Net position serves as a useful indicator of a government's financial position.

## Analysis of Net Position

Government-wide assets exceeded liabilities by \$106.2 million at the end of the current fiscal year. However, a significant portion of these assets are not liquid, and are not available to pay current and future liabilities of the City. The following table is a summary of the government-wide net position for the governmental and business-type activities:

### STATEMENT OF NET POSITION (Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current and other assets	66,544	57,966	6,487	3,302	73,031	61,268
Capital Assets	<u>41,144</u>	<u>35,723</u>	<u>3,353</u>	<u>3,548</u>	<u>44,497</u>	<u>39,271</u>
Total assets	<u>107,688</u>	<u>93,689</u>	<u>9,840</u>	<u>6,850</u>	<u>117,528</u>	<u>100,540</u>
<b>Deferred outflows of resources</b>						
Deferred outflows related to pension	<u>3,828</u>	<u>2,188</u>	<u>-</u>	<u>-</u>	<u>3,828</u>	<u>2,188</u>
Total deferred outflow	3,828	2,188	-	-	3,828	2,188
<b>Liabilities:</b>						
Current and other liabilities	3,452	2,592	587	524	4,039	3,116
Noncurrent liabilities	<u>9,356</u>	<u>10,059</u>	<u>54</u>	<u>54</u>	<u>9,410</u>	<u>10,113</u>
Total liabilities	<u>12,808</u>	<u>12,651</u>	<u>641</u>	<u>578</u>	<u>13,449</u>	<u>13,229</u>
<b>Deferred inflows of resources</b>						
Deferred inflows related to pension	<u>1,750</u>	<u>1,833</u>	<u>-</u>	<u>-</u>	<u>1,750</u>	<u>1,833</u>
Total deferred inflow	1,750	1,833	-	-	1,750	1,833
<b>Net Position:</b>						
Investment in capital, net of debt	41,044	35,562	3,353	3,548	44,397	39,110
Restricted	27,115	22,708	3,899	835	31,014	23,543
Unrestricted	<u>28,799</u>	<u>23,124</u>	<u>1,947</u>	<u>1,890</u>	<u>30,746</u>	<u>25,014</u>
Total Net Position	<u>96,958</u>	<u>81,394</u>	<u>9,199</u>	<u>6,273</u>	<u>106,157</u>	<u>87,667</u>

Numbers may not add due to rounding

### *Net Position - Governmental Activities*

Total governmental activities assets of \$107.7 million consist of current and other assets of \$66.5 million and capital assets of \$41.1 million.

Deferred outflows of \$3.8 million relate to GASB #68 "Accounting and Financial Reporting for Pensions" (GASB #68), of which \$1.4 million relates to deferred employer pension contributions paid after the pension liability measurement date, \$1.0 million relates to differences in proportionate share of aggregate employer contributions, and \$1.4 million is the change in proportion under the City's multi-employer cost-sharing plans.

Total liabilities of \$12.8 million consist of \$3.5 million current liabilities and \$9.3 non-current liabilities. Of the non-current liabilities, the most significant portion (\$8.1 M) relates to net pension liability reported as a result of GASB #68 reporting requirements.

Deferred inflows of \$1.7 million also relate to GASB #68 due to certain differences between actuarial estimates versus results, as well as, changes in proportion in the City's multi-employer cost-sharing plans.

The most significant portion of net position (42%) of the governmental net position represents capital assets net of related debt. The City uses capital assets, such as roadways, storm drains, lighting, parks, and other infrastructure, to provide services to residents; therefore the assets provide no cash liquidity to pay liabilities. The City has not issued a significant amount of debt to finance capital assets primarily due to a focus on cash and grant-funded capital investment.

A lesser portion of net position (28%) relates to resources that are subject to external restrictions on how they may be spent by the City. The restricted balance relates to local and county special taxes, tax districts, State taxes, housing funds, and other restricted uses.

The City is able to report positive balances in all three categories of the net position for both governmental and business-type activities.

### *Net Position - Business-type Activity*

The City's business-type activities include \$3.4 million in capital assets, consisting primarily of municipal water-service assets and infrastructure. About \$3.9 million of restricted net position is for capital projects to improve water system infrastructure. The City has not issued debt to finance capital assets. Approximately \$1.9 million of unrestricted net position is available at year-end to pay current and future obligations.

### **Analysis of Statement of Activities**

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

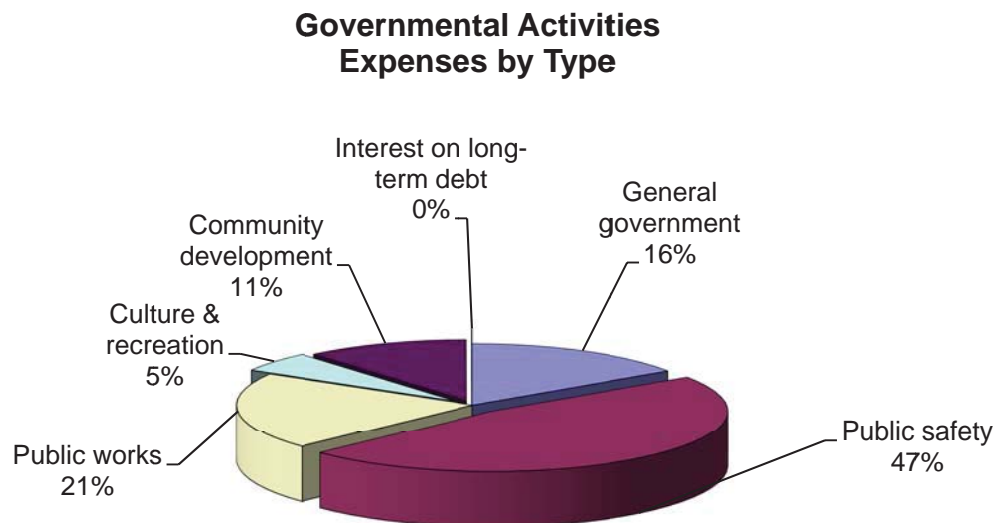
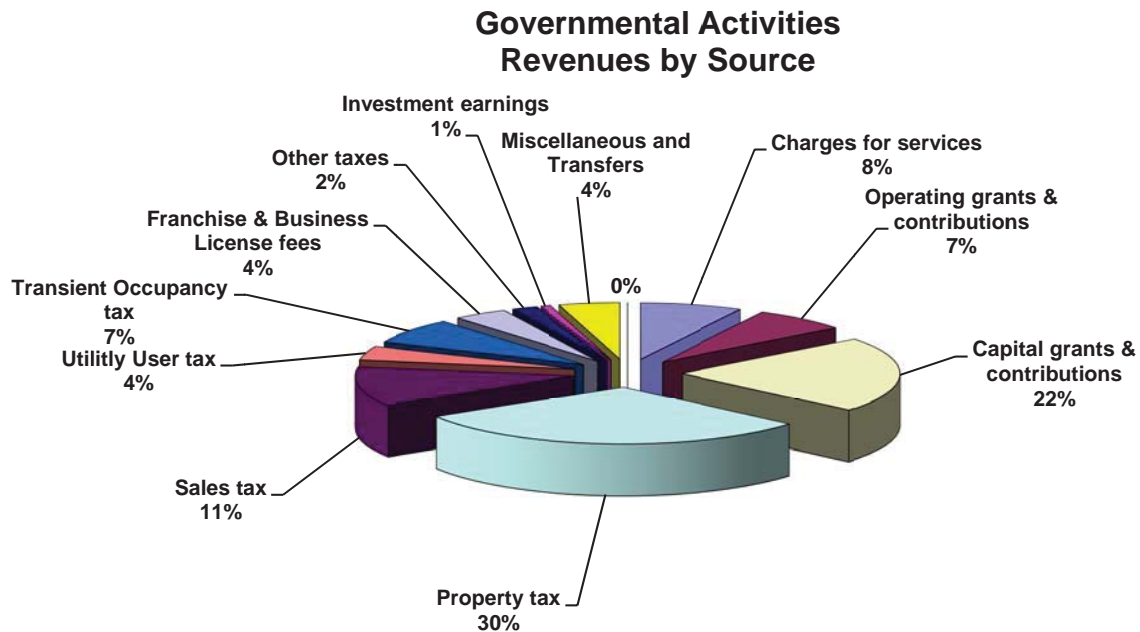
**STATEMENT OF ACTIVITIES**

(Dollars in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues:						
Charges for services	2,907	2,195	3,463	2,774	6,370	4,969
Operating grants & contributions	2,643	3,353	-	-	2,643	3,353
Capital grants & contributions	8,348	4,290	-	-	8,348	4,290
General revenues:						
Property taxes	11,428	10,261	-	-	11,428	10,261
Sales taxes	4,364	3,798	-	-	4,364	3,798
Utility user tax	1,516	1,513	-	-	1,516	1,513
Transient Occupancy taxes	2,809	2,804	-	-	2,809	2,804
Franchise & Business taxes	1,510	1,698	-	-	1,510	1,698
Other taxes	714	711	-	-	714	711
Investment Earnings	313	232	34	13	347	245
Miscellaneous and Transfers	1,705	494	2,262	-	3,967	494
<b>Total revenues</b>	<u>38,257</u>	<u>31,349</u>	<u>5,759</u>	<u>2,787</u>	<u>44,016</u>	<u>34,136</u>
<b>Expenses</b>						
Program expenses:						
General government	3,491	3,661	-	-	3,491	3,661
Public safety	10,591	10,304	-	-	10,591	10,304
Public works	4,609	4,623	-	-	4,609	4,623
Culture and recreation	1,196	786	-	-	1,196	786
Community development	2,502	2,419	-	-	2,502	2,419
Water services	-	-	342	358	342	358
Garbage collection	-	-	2,491	2,420	2,491	2,420
Interest on long-term debt	4	3	-	-	4	3
<b>Total expenses</b>	<u>22,393</u>	<u>21,796</u>	<u>2,833</u>	<u>2,778</u>	<u>25,226</u>	<u>24,574</u>
<b>Change in Net Position</b>	15,864	9,554	2,926	9	18,790	9,562
Net Position-Beginning	81,394	71,840	6,273	6,264	87,667	78,105
Restatement of Net Position	(300)	-	-	-	(300)	-
<b>Net Position-Ending</b>	<u>96,958</u>	<u>81,394</u>	<u>9,199</u>	<u>6,273</u>	<u>106,157</u>	<u>87,667</u>

*Statement of Activities - Governmental*

Government-wide Net position for governmental activities increased by approximately \$15.6 million; consisting of a beginning net position restatement of \$0.3 million due to write-off low income housing loan; offset by a positive change in net position of \$15.9 million. A further depiction of governmental type revenues and expenditures are illustrated in the following charts:



*Statement of Activities - Governmental, continued*

- Total revenues equal \$38.3 million; an increase of \$7.0 million or 22.4% over the prior year. The overall increase is attributable to a combination of continued economic recovery, specific development activity including building permit fee and charges for services, collection of capital development impact fees, and one-time revenues such as community benefit contributions (\$0.8M). The major revenue gains are attributable to the development impact fees classified as capital grants/contributions (\$4.6M), property tax (\$1.2M), sales tax (\$0.6M), and transient occupancy tax (\$0.05M). The tax increases reflect the City's ties to economic trends in Silicon Valley as employees and developers continue to seek more affordable housing and available land development options, and the City's major retail stores and hotel draw from the surrounding region.
- Total expenses equal \$22.4 million, an increase of \$0.6 million or 2.7% from the prior year. Expenditures increased slightly from the prior year due to slightly higher depreciation levels, as well as, improved staff vacancy rates over the prior year.

*Statement of Activities - Business-type*

- Net position increased by \$2.9 million due primarily to an increase of \$2.9 million in the Water Fund as the result of operating transfers in to fund water capital infrastructure projects.
- Garbage operating revenues declined slightly to \$2.5 million due to a minor change in the number of residential properties utilizing services. Operating expenses increased by 2.9%, or \$70,500, to \$2.5 million as garbage service costs continue to rise.
- Water revenues increased significantly by \$0.7 million due to implementing new water surcharges and collecting capital connection fees. Water expenses decreased by \$15,500 to \$0.34 million as the City completed consulting work related to preliminary testing for a second ground water well and constructions to start.

## **FINANCIAL ANALYSIS OF THE CITY'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, and Capital Project Funds.

At June 30, 2016, the City's governmental funds reported a combined ending fund balance of \$59.8 million.

Governmental revenues total \$38.8 million compared to \$30.0 million in the prior year. The increase of 29.3%, or \$8.8 million reflects the economic improvements in City and the



neighboring region and as a result City experienced revenue gains in recurring property tax, sales tax, and transient occupancy tax revenues, as well as, receiving one-time or specific revenues such as community benefit contributions, grant reimbursements, housing in-lieu fees, and park in-lieu fees.

Governmental expenditures total \$23.2 million compared to \$26.7 million in the prior year. The \$3.5 million net decrease in expenditures is primarily due to a decrease in capital outlay of \$4.4 million offset by an increase in operating expenses of \$0.9 million. The City made significant investments in Public Works and community and administrative services, as well as, negotiating modest pay increases for employees.

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

Revenues (before transfers in) were \$24.6 million; an increase of \$3.5 million or 16.6% from the prior year. The increase is primarily due to economic recovery in major tax categories, charges for services as a result of large commercial and residential construction projects, and certain one-time revenues. The major year over year increases are due to property taxes (\$1.1M), sales tax (\$0.9M), permit fees and charges for services (\$0.6M), and community benefit payments (\$0.8M).

Expenditures (before transfers out) were \$17.7 million, an increase of \$1.2 or 7.4%. The major increases in expenditures are due to increased wages and operating costs in General Government (\$0.53M) primarily due to forming an administration services division as the city focused resources on providing increased small business and local hiring and community services, and increased staff positions in public works in order to address the back-log of complicated capital infrastructure projects contemplated.

Net Other Financing Uses total \$3.5 million primarily as a result of transfers out to the Capital Improvement fund (\$1.2M) and the Water Enterprise fund (\$2.3) to provide funding for major capital projects approved during the fiscal year.

Total Fund Balance equaled \$28.6 million, an increase of \$3.4 million or 13.5% over the prior year. Of the total fund balance, \$11.9 million is non-spendable, primarily for loans to the Successor Agency and \$0.38 million is assigned for encumbrances. Of the \$16.3 million remaining balance, the following amounts are set-aside: Minimum Fund Reserve (\$3.0M), Technology, Equipment & Vehicles, and Self-Insurance (\$3.4M); Community Benefits (\$0.2M); leaving a remaining unassigned balance of \$9.7 million; some of which was committed to fund capital infrastructure projects during the next budget cycle.

Low and Moderate Income Housing Successor Special Revenue Fund: This fund was added in fiscal year 2011-12 upon the City's election to become the Housing Successor of the former Redevelopment Agency of the City (former RDA). Certain assets of the former RDA's Housing Fund were distributed to the Housing Successor to be used in accordance with the low and moderate incoming housing provisions of California Redevelopment Law.

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

Total Fund Balance increased by \$91,000, from \$188,000 in the prior year to the current amount of \$279,000 as a result of revenue collections of \$111,400 offset by slight expenditures incurred to partially fund the Bay Road Phase II capital project.

Housing in Lieu Special Revenue Fund is used to account for revenues and expenditures related to housing including in lieu fees collected from developers and 10% of TOT taxes collected as approved by voters.

Total Fund Balance increased by \$6.1 million, from \$2.4 in the prior year to the current amount of \$8.5 million as a result of revenue collections of (\$0.3M) TOT taxes and (\$5.8M) housing in lieu fees collected from a major residential housing project offset by expenditures related to housing.

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

Total Fund Balance increased by \$2.3 million from \$2.54 million in the prior year to \$4.86 million on June 30, 2016. Capital projects expenditures of \$1.6 million were funded by a combination of capital grants (\$2.7M) and operating transfer in from the General Fund for both current and future projects (\$1.2M) resulting in net change in fund balance of \$2.3 million. The City currently has cash set-aside and/or grant commitments available to fund budgeted capital projects if such project costs remain at current budgeted levels.

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

Total Net Position for the Garbage and Water Funds are \$0.90 million and \$8.3 million, respectively. The Garbage Fund net position balance is unrestricted. The Water Fund net position includes \$3.4 million net investment in capital and \$3.9 million in cash restricted for capital projects leaving an unrestricted net position of \$1.0 million. The net change in position of both funds equals \$2.9 million; consisting of an increase in the Garbage Fund of \$3,000 and Water Fund of \$2.9 million. Discussions of these funds have been previously made in the City's government-wide business-type activities section.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The \$2.4 million difference between the adopted General Fund budget and the final amended budget is the result of adding \$2.4 million in budgeted revenues at mid-year; from \$19.8 million adopted revenues to \$22.2 million amended revenues. Major revenue budget amendments relate to property taxes (\$0.5M) as assessed property values experienced greater than expected gains, charges for services and fees and permits (\$0.5M) due to continued development and permit activity prior to the moratorium on new or expanded water service connections enacted in July 2016, housing and miscellaneous revenue related to a community

benefits contribution (\$0.8M). Following are the main components of the differences between final amended budget and actual results:

- Despite a \$2.4 million upward adjustment in total amended revenues, total actual revenues of \$24.6 million were \$2.4 million greater than the amended budget of \$22.2 million. Major actual differences relate to property taxes (\$0.8M) due to real estate transfer tax and supplement allocations, and redevelopment residual payments greater than expected; sales tax (\$0.7M) mainly due to the one-time unwind of the State Triple Flip and receipt of retailer corrections in previously under-reported sales earnings; charges for services and fees and permits (\$0.5M) related to building and engineering plan check fees as a result of major development activity through year end; use of money and property (\$0.3M) due to a temporary decline in general yields resulting unrealized gains at year-end.
- Total actual expenditures are \$2.3 million less than budgeted expenditures. There are several factors relating to the decrease, but it is primarily related to continued employee vacancies and turnover, as well as, difficulty attaining funded operational goals due to staff turnover, or simply low staffing levels relative to the level of operational goals funded and set for departments.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The beginning capital assets for governmental and business-type activities is restated and increased by a net amount of \$2.6M from \$39.3 million to \$41.9 million due to the proper classification of land held for resale as a capital asset. The balance as of June 30, 2016 amounted to \$44.5 million (net of accumulated depreciation), an increase of \$2.6 million or 6.2% over the prior year. The increase is primarily attributable to transfer of property (\$3.2M) from the Successor Agency to the City. Total capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

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

<b>GOVERNMENT-WIDE CAPITAL ASSETS</b>						
<b>June 30, 2016</b>						
(Dollars in thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015 Restated	2016	2015	2016	2015 Restated
Land	4,059	3,225	\$ 207	\$ 207	\$ 4,266	\$ 3,432
Buildings and Improvements	8,186	5,289	44	44	8,230	5,333
Improvements Other than Bldgs.	9,327	6,962	7,058	7,058	16,385	14,020
Construction in Progress	4,024	7,055	-	-	4,024	7,055
Furnishings & Equipment	1,979	2,045	64	64	2,043	2,109
Vehicles	1,788	1,665	89	89	1,877	1,754
Street and Roadways	46,022	45,021	-	-	46,022	45,021
Storm Drain System	4,089	4,089	-	-	4,089	4,089
Less: Accumulated Depreciation	(38,330)	(37,024)	\$ (4,109)	\$ (3,914)	(42,439)	(40,938)
<b>Total</b>	<b>\$ 41,144</b>	<b>\$ 38,327</b>	<b>\$ 3,353</b>	<b>\$ 3,548</b>	<b>\$ 44,497</b>	<b>\$ 41,875</b>

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

*Governmental Activities*

Capital assets increased by \$4.11 million, net of depreciation. New assets acquired and in progress totaled \$1.0 million, including Bay Road improvements, Cooley Landing Park improvements, drainage system improvements, Gloria Way Well rehabilitation, and replacement of police vehicles.

*Business-Type Activities*

There were no additions to the Garbage and Water Services funds' capital assets during the year. Net Capital assets decreased by \$0.02 million due to depreciation of existing capital assets.

For government-wide financial statements presentation, all depreciable capital assets are 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**

The City carries \$99,790 thousand of capital-related debt; consisting of capitalized lease financing of five police vehicles. The lack of debt is due to both a heavy reliance on outside grant funding and pay-go financing for major infrastructure improvements and is one of the factors contributing to the major deferred investment in critical infrastructure improvements. Additionally, with the dissolution of the former RDA, the Successor Agency fiduciary fund assumed the long-term term debt of the former RDA as of February 1, 2012. Total Successor Agency fiduciary debt balance outstanding at June 30, 2016 is \$20.3 million. Additional information about the Successor Agency assumed debt can be found in Note 15 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

According to California Employment Development Department statistics, the City of East Palo Alto's unemployment rate slightly increased from 5.1% in June 2015 to 5.4% in June 2016. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2016, the State and County unemployment rates were 5.4% and 3.4%, respectively. Compared to June 2015, the State and County unemployment rates were 6.3% and 3.2% respectively. Overall, California, San Mateo County, and local economies are continuing to experience a long, expanded recovery. Historically East Palo Alto lags behind most other communities in the San Francisco Bay Area during economic recoveries; however, the City is experiencing heightened property and development interest as a result of relatively inexpensive land and property values compared to other communities in the Silicon Valley. While this does not always translate to local job improvement, it does provide the City with additional resources to help fund citizen services.

Although the local economic activity was greater than expected during the past year, primarily due to the large turn-over of properties and due to significant development projects nearing completion, the City continues to be engaged in careful planning and expenditure containment. Aside from necessary prudence, the City faces critical infrastructure issues related to water supply, water distribution, drainage, and flood control. In this regard, City management recognizes these partially must be resolved through tax increases as reliance on the creation of unrestricted reserves is not a viable strategy for funding capital - and, also, as the Finance Department implements more stringent budgetary projections, unplanned discrepancies between budget and actual operations are expected to narrow considerably.

The FY 2016-18 Adopted Biennial Budget is balanced operationally, but is not balanced when considered together with capital funding transfers. On-going infrastructure funding continues to be funded "after the fact" with excess reserves accumulated in the General Fund from prior year operations - reflecting the lack of a reliable and continuous funding stream for capital investment and maintenance. Additionally, the FY 2016-17 Adopted Budget contains modest wage increases previously negotiated; however, planned top-line wage increases are not reflected due to the lack of an identified general funding source for further wage increases in FY 2017-18 at the time of budget adoption.

In order to address the lack of funding available for a consistent capital investment program, as well as, to address the ability to maintain or slightly increase current staffing levels and

expand certain citizen services; the citizens recently approved two tax measures: a one-half percent local transactions and use tax and a 1.5% gross receipts tax on landlords owning five or more residential rental units. Over the course of the 2017 strategic planning session, Council will consider the uses of the additional funding resources estimated to result in a potential range of \$2.2M to \$2.4M in annual revenues given the current economic climate.

The City Council also has taken action to fully fund its General Fund reserve at 15% of operating expenditures (currently over reserve) and establish a capital reserve to address the many unfunded capital improvement projects.

Changes in conditions and circumstances of the City's fiscal year 2016-17 adopted budget will be taken under consideration as budget amendments by the City Council at its mid-year budget review scheduled in February 2017. Changes in conditions and circumstances for the fiscal year 2017-18 budget will be taken under consideration as budget amendments by the City Council in approximately May of 2017.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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**BASIC  
FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**City of East Palo Alto**  
**Statement of Net Position**  
**June 30, 2016**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 40,107,402	\$ 5,469,932	\$ 45,577,334
Restricted cash and investments with fiscal agents	1,210,005	835,311	2,045,316
Receivables:			
Accounts receivable	429,280	172,209	601,489
Interest receivable	261,693	9,040	270,733
Taxes receivable	1,674,819	-	1,674,819
Intergovernmental receivables	2,849,610	-	2,849,610
Deposits and prepayments	84,015	-	84,015
Total current assets	<u>46,616,824</u>	<u>6,486,492</u>	<u>53,103,316</u>
Noncurrent assets:			
Loans to Successor Agency	11,866,125	-	11,866,125
Loans and notes receivable	8,060,867	-	8,060,867
Capital assets:			
Non-depreciable	8,082,836	206,750	8,289,586
Depreciable, net	33,061,480	3,146,262	36,207,742
Total capital asset	<u>41,144,316</u>	<u>3,353,012</u>	<u>44,497,328</u>
Total noncurrent assets	<u>61,071,308</u>	<u>3,353,012</u>	<u>64,424,320</u>
<b>Total assets</b>	<u>107,688,132</u>	<u>9,839,504</u>	<u>117,527,636</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred employer pension contributions	1,371,578	-	1,371,578
Deferred outflows of resources - pension	2,455,938	-	2,455,938
<b>Total deferred outflows of resources</b>	<u>3,827,516</u>	<u>-</u>	<u>3,827,516</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	1,051,548	586,861	1,638,409
Accrued liabilities	555,604	-	555,604
Retention payable	124,411	-	124,411
Unearned revenue	1,307,482	-	1,307,482
Compensated absences - due within one year	353,770	-	353,770
Claims payable - due within one year	6,750	-	6,750
Capital lease payable - due within one year	52,302	-	52,302
Total current liabilities	<u>3,451,867</u>	<u>586,861</u>	<u>4,038,728</u>
Noncurrent liabilities:			
Deposits payable	702,687	47,757	750,444
Advance from developers	103,115	5,865	108,980
Compensated absences - due in more than one year	351,876	-	351,876
Claims payable - due in more than one year	38,250	-	38,250
Capital lease payable - due in more than one year	47,484	-	47,484
Net pension liability	8,112,375	-	8,112,375
Total noncurrent liabilities	<u>9,355,787</u>	<u>53,622</u>	<u>9,409,409</u>
<b>Total liabilities</b>	<u>12,807,654</u>	<u>640,483</u>	<u>13,448,137</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pension	1,749,757	-	1,749,757
<b>Total deferred inflows of resources</b>	<u>1,749,757</u>	<u>-</u>	<u>1,749,757</u>
<b>NET POSITION</b>			
Net investment in capital assets	41,044,530	3,353,012	44,397,542
Restricted for:			
Highway and Street Projects	5,816,534	-	5,816,534
Parks and Recreation	1,120,082	-	1,120,082
Measure C Program	1,405,053	-	1,405,053
Housing Program	17,325,494	-	17,325,494
Special Programs	1,168,856	-	1,168,856
Capital Projects	279,184	3,899,058	4,178,242
Total restricted	<u>27,115,203</u>	<u>3,899,058</u>	<u>31,014,261</u>
Unrestricted	28,798,504	1,946,951	30,745,455
<b>Total net position</b>	<u>\$ 96,958,237</u>	<u>\$ 9,199,021</u>	<u>\$ 106,157,258</u>

See accompanying Notes to Basic Financial Statements.

**City of East Palo**  
**Statement of Activities**  
**For the year ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Governmental activities:</b>					
General government	\$ 3,490,986	\$ 22,278	\$ 275,718	\$ -	\$ 297,996
Public safety	10,590,305	574,595	309,785	-	884,380
Public works	4,608,966	221,994	1,359,381	7,025,826	8,607,201
Culture and recreation	1,196,143	-	-	1,026,196	1,026,196
Community Development	2,501,949	2,088,395	698,144	296,042	3,082,581
Interest on long-term debt	4,325	-	-	-	-
Total governmental activities	22,392,674	2,907,262	2,643,028	8,348,064	13,898,354
<b>Business-type activities:</b>					
Garbage Collections	2,490,862	2,482,434	-	-	2,482,434
Water Services	342,263	980,296	-	-	980,296
Total business-type activities	2,833,125	3,462,730	-	-	3,462,730
<b>Total primary government</b>	<b>\$ 25,225,799</b>	<b>\$ 6,369,992</b>	<b>\$ 2,643,028</b>	<b>\$ 8,348,064</b>	<b>\$ 17,361,084</b>

**General Revenues:**

Taxes:

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

Total taxes

Investment earnings

Miscellaneous

Transfers

Special item:

Transfer of property from Successor Agency Private Purpose Trust

**Total general revenues, transfers and special item**

**Change in net position**

**Net position - beginning of year, as restated**

**Net position - end of year**

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (3,192,990)	\$ -	\$ (3,192,990)
(9,705,925)	-	(9,705,925)
3,998,235	-	3,998,235
(169,947)	-	(169,947)
580,632	-	580,632
(4,325)	-	(4,325)
(8,494,320)	-	(8,494,320)
-	(8,428)	(8,428)
-	638,033	638,033
-	629,605	629,605
(8,494,320)	629,605	(7,864,715)
11,428,331	-	11,428,331
4,364,562	-	4,364,562
1,516,104	-	1,516,104
2,809,127	-	2,809,127
713,931	-	713,931
1,510,308	-	1,510,308
22,342,363	-	22,342,363
312,707	34,159	346,866
719,437	-	719,437
(2,262,000)	2,262,000	-
3,246,461	-	3,246,461
24,358,968	2,296,159	26,655,127
15,864,648	2,925,764	18,790,412
81,093,589	6,273,257	87,366,846
\$ 96,958,237	\$ 9,199,021	\$ 106,157,258

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# FUND FINANCIAL STATEMENTS

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*Governmental Fund Financial Statements*

*Proprietary Fund Financial Statements*

*Fiduciary Fund Financial Statements*

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## GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

*Public Improvements in Lieu Special Revenue Fund* accounts for development fee revenues and capital expenditures for related public improvement assets.

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

*Capital Improvements Capital Projects Fund* accounts for capital project improvement revenues and expenditures financed by various sources primarily Federal and State grants, General Fund transfers, and community benefit payments for related capital projects.

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

**City of East Palo Alto**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	Major Funds		
	General	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund
<b>ASSETS</b>			
Cash and investments	\$ 16,643,487	\$ 558,911	\$ 289,988
Restricted cash and investments	-	-	1,208,152
Receivables:			
Accrued interest	32,317	228,182	962
Taxes	1,619,949	-	-
Intergovernmental	59,416	-	-
Accounts receivable	281,006	-	-
Deposits and prepayments	66,350	15,000	-
Due from other funds	-	-	-
Loans to Successor Agency	11,866,125	-	-
Loans and notes receivable	-	7,114,046	-
<b>Total assets</b>	<b>\$ 30,568,650</b>	<b>\$ 7,916,139</b>	<b>\$ 1,499,102</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 578,884	\$ 138	\$ 11,766
Retentions payable	-	-	-
Deposits payable	697,687	-	-
Other accrued liabilities	555,604	-	-
Unearned revenue	-	-	1,208,152
Due to other funds	-	-	-
Advances from developers	1,175	-	-
<b>Total liabilities</b>	<b>1,833,350</b>	<b>138</b>	<b>1,219,918</b>
<b>Deferred inflows of resources:</b>			
Unavailable revenues	125,514	214,113	-
<b>Fund Balances: (Note 9)</b>			
Nonspendable	11,932,475	-	-
Restricted	-	7,701,888	279,184
Assigned	383,658	-	-
Unassigned	16,293,653	-	-
<b>Total fund balances</b>	<b>28,609,786</b>	<b>7,701,888</b>	<b>279,184</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 30,568,650</b>	<b>\$ 7,916,139</b>	<b>\$ 1,499,102</b>

See accompanying Notes to Basic Financial Statements.

Major Funds			
Housing in Lieu Special Revenue Fund	Capital Improvements Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 7,746,864	\$ 4,862,666	\$ 10,005,486	\$ 40,107,402
-	-	1,853	1,210,005
12,948	-	19,651	294,060
27,435	-	27,435	1,674,819
-	2,207,234	582,960	2,849,610
-	-	115,907	396,913
-	-	2,665	84,015
-	324,296	-	324,296
-	-	-	11,866,125
700,000	-	246,821	8,060,867
<u>\$ 8,487,247</u>	<u>\$ 7,394,196</u>	<u>\$ 11,002,778</u>	<u>\$ 66,868,112</u>
\$ 9,326	\$ 189,953	\$ 261,481	\$ 1,051,548
-	51,769	72,642	124,411
-	5,000	-	702,687
-	-	-	555,604
-	-	99,330	1,307,482
-	-	324,296	324,296
-	101,940	-	103,115
<u>9,326</u>	<u>348,662</u>	<u>757,749</u>	<u>4,169,143</u>
<u>-</u>	<u>2,186,761</u>	<u>363,689</u>	<u>2,890,077</u>
-	-	-	11,932,475
8,477,921	-	10,078,408	26,537,401
-	4,858,773	-	5,242,431
-	-	(197,068)	16,096,585
<u>8,477,921</u>	<u>4,858,773</u>	<u>9,881,340</u>	<u>59,808,892</u>
<u>\$ 8,487,247</u>	<u>\$ 7,394,196</u>	<u>\$ 11,002,778</u>	<u>\$ 66,868,112</u>

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**City of East Palo Alto**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2016**

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**Total Fund Balances - Total Governmental Funds** \$ 59,808,892

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

Governmental funds report capital outlays as expenditures. In the Government-wide financial statements, the cost of assets are capitalized and depreciated over the estimated useful lives of the assets and reported as depreciation expense. The capital assets, net of depreciation, are adjusted as follows:

Non-depreciable	8,082,836
Depreciable, net	33,061,480
	41,144,316

Employer pension contributions are recorded as expenditures in the Governmental funds when paid based upon recommended actuarial contributions. In the Government-wide financial statements, certain pension activity is reported as deferred inflows of resources or deferred outflows of resources, as follows:

Employer pension contributions reported as expense in the Governmental funds, but paid after the pension liability measurement date.	1,371,578
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For multi-employer cost sharing pension plans, differences between actual employer pension contributions and the City's proportionate share of total aggregate employer contributions during the measurement period are deferred and amortized over the estimated average remaining service period of active members in the plan in the Government-wide statements, however, in the Governmental funds such transactions are not recorded.	2,455,938
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In the Government-Wide Financial Statements certain differences between actuarial estimates and actual results for pension and differences due to changes proportion are deferred and amortized over a period of time, however in the governmental funds no transactions are recorded.	(1,749,757)
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Unavailable revenue recorded in the fund financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements.	2,890,077
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Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences - due within one year	(353,770)
Claims payable - due within one year	(6,750)
Capital lease payable - due within one year	(52,302)
Compensated absences - due in more than one year	(351,876)
Claims payable - due in more than one year	(38,250)
Capital lease payable - due in more than one year	(47,484)
Net pension liability	(8,112,375)
	(8,962,807)

**Net Position of Governmental Activities** \$ 96,958,237

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**City of East Palo Alto**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2016**

	Major Funds		
	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund
<b>REVENUES:</b>			
Property taxes	\$ 10,858,874	\$ -	\$ -
Sales taxes	4,364,562	-	-
Transient occupancy tax	2,247,301	-	-
Utility users tax	1,516,104	-	-
Other taxes	11,756	-	-
Licenses, fees and permits	1,355,765	-	48,140
Charges for services	1,972,144	-	58,138
Fines and forfeitures	532,143	-	-
Use of money and property	319,581	6,857	5,117
Grants and intergovernmental	267,493	-	-
Miscellaneous	1,182,682	-	-
<b>Total revenues</b>	<b>24,628,405</b>	<b>6,857</b>	<b>111,395</b>
<b>EXPENDITURES:</b>			
Current:			
General government	3,467,286	-	-
Public safety	9,726,008	-	-
Public works	2,364,514	-	-
Culture and recreation	304,319	-	-
Community development	1,661,624	1,638	11,767
Capital outlay	145,120	-	(15,289)
Debt service:			
Principal	61,347	-	-
Interest, and fiscal charges	4,325	-	-
<b>Total expenditures</b>	<b>17,734,543</b>	<b>1,638</b>	<b>(3,522)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>6,893,862</b>	<b>5,219</b>	<b>114,917</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	5,668	-	-
Transfers out	(3,468,742)	-	(24,377)
<b>Total other financing sources (uses)</b>	<b>(3,463,074)</b>	<b>-</b>	<b>(24,377)</b>
<b>Net change in fund balances</b>	<b>3,430,788</b>	<b>5,219</b>	<b>90,540</b>
<b>FUND BALANCES:</b>			
Beginning of year, as restated	25,178,998	7,696,669	188,644
End of year	<u>\$ 28,609,786</u>	<u>\$ 7,701,888</u>	<u>\$ 279,184</u>

See accompanying Notes to Basic Financial Statements.

Major Funds

Housing in Lieu Special Revenue Fund	Capital Improvements Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 531,887	\$ 11,390,761
-	-	569,334	4,933,896
280,913	-	280,913	2,809,127
-	-	-	1,516,104
-	-	1,353,540	1,365,296
5,795,438	-	1,026,196	8,225,539
-	-	748,011	2,778,293
-	-	-	532,143
44,684	-	98,385	474,624
-	2,711,189	610,470	3,589,152
-	-	30,049	1,212,731
<u>6,121,035</u>	<u>2,711,189</u>	<u>5,248,785</u>	<u>38,827,666</u>
26,831	-	542,898	4,037,015
-	-	474,110	10,200,118
-	(167)	742,028	3,106,375
-	-	732,253	1,036,572
10,327	(18,189)	590,403	2,257,570
-	1,608,738	785,540	2,524,109
-	-	-	61,347
-	-	-	4,325
<u>37,158</u>	<u>1,590,382</u>	<u>3,867,232</u>	<u>23,227,431</u>
<u>6,083,877</u>	<u>1,120,807</u>	<u>1,381,553</u>	<u>15,600,235</u>
-	1,196,358	34,761	1,236,787
-	-	(5,668)	(3,498,787)
-	1,196,358	29,093	(2,262,000)
<u>6,083,877</u>	<u>2,317,165</u>	<u>1,410,646</u>	<u>13,338,235</u>
<u>2,394,044</u>	<u>2,541,608</u>	<u>8,470,694</u>	<u>46,470,657</u>
<u>\$ 8,477,921</u>	<u>\$ 4,858,773</u>	<u>\$ 9,881,340</u>	<u>\$ 59,808,892</u>

# City of East Palo Alto

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities For the year ended June 30, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 13,338,235
Amounts reported for governmental activities in the Statement of Activities were different because:	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over the estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	1,010,667
Donated capital assets and capital assets contributed by fiduciary funds are reflected in the Government-Wide Statement of Activities as capital contributions. However capital contributions related to these capital assets are not reported in governmental funds as capital assets are not considered current financial resources.	3,246,461
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(1,439,310)
Payments of accrued compensated is reported as an expenditure in the Governmental funds when paid, but the repayment reduces accrued compensated absences payable in the Government-wide statements.	(241,688)
Payments on existing claims against the City are recorded as expenditures in governmental funds, but the payment reduced long-term liabilities in the Government-Wide Statement of Net Position. Expenses related to new claims and changes in claim estimates do not require the use of current financial resources and therefore are not reported as an expenditure in Governmental funds.	(22,797)
Payments on capital lease obligations are reported as expenditures in Governmental funds as paid, but the repayments reduce long-term liabilities in the Government-wide Statement of Net Position.	61,347
Current year employer pension contributions are recorded as expenditures in the Governmental funds, however these amounts are reported as a deferred outflow of resources in the Government-Wide Statement of Net Position.	1,371,578
Pension expense is recorded as incurred in the Government-Wide Statement of Activities, however pension expense is not recognized in the governmental funds.	94,960
Grant and tax revenues that do not meet the revenue recognition criteria in the governmental funds but are recognized as revenue in the Government-Wide Financial Statements.	<u>(1,554,805)</u>
<b>Change in Net Position of Governmental Activities</b>	<u>\$ 15,864,648</u>

See accompanying Notes to Basic Financial Statements.



## PROPRIETARY FUND FINANCIAL STATEMENTS

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

*Water Service Fund* accounts for activities related to water lease and capital improvement surcharge revenues utilized to improve and expand the City's water system infrastructure.

**City of East Palo Alto**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	Enterprise Funds		
	Garbage Collection	Water Service	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 1,364,503	\$ 4,105,429	\$ 5,469,932
Cash with fiscal agents	-	835,311	835,311
Accrued interest	2,429	6,611	9,040
Accounts receivable, net	72,084	100,125	172,209
<b>Total current assets</b>	<b>1,439,016</b>	<b>5,047,476</b>	<b>6,486,492</b>
Noncurrent assets:			
Capital assets:			
Non-depreciable	-	206,750	206,750
Depreciable, net	-	3,146,262	3,146,262
<b>Total capital assets</b>	<b>-</b>	<b>3,353,012</b>	<b>3,353,012</b>
<b>Total noncurrent assets</b>	<b>-</b>	<b>3,353,012</b>	<b>3,353,012</b>
<b>Total assets</b>	<b>1,439,016</b>	<b>8,400,488</b>	<b>9,839,504</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	541,669	45,192	586,861
<b>Total current liabilities</b>	<b>541,669</b>	<b>45,192</b>	<b>586,861</b>
Noncurrent liabilities:			
Deposits payable	-	47,757	47,757
Advances from developers	-	5,865	5,865
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>53,622</b>	<b>53,622</b>
<b>Total liabilities</b>	<b>541,669</b>	<b>98,814</b>	<b>640,483</b>
<b>NET POSITION</b>			
Net investment in capital assets	-	3,353,012	3,353,012
Restricted for:			
Capital projects	-	3,899,058	3,899,058
Unrestricted	897,347	1,049,604	1,946,951
<b>Total net position</b>	<b>\$ 897,347</b>	<b>\$ 8,301,674</b>	<b>\$ 9,199,021</b>

See accompanying Notes to Basic Financial Statements.

**City of East Palo Alto**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the year ended June 30, 2016**

	Enterprise Funds		
	Garbage Collection	Water Service	Total
<b>OPERATING REVENUES:</b>			
Charges for services and other fees	\$ 2,282,434	\$ 980,296	\$ 3,262,730
Other	200,000	-	200,000
<b>Total operating revenues</b>	<b>2,482,434</b>	<b>980,296</b>	<b>3,462,730</b>
<b>OPERATING EXPENSES:</b>			
Outside services	2,394,550	146,972	2,541,522
Administration	96,312	-	96,312
Depreciation	-	195,291	195,291
<b>Total operating expenses</b>	<b>2,490,862</b>	<b>342,263</b>	<b>2,833,125</b>
<b>OPERATING INCOME</b>	<b>(8,428)</b>	<b>638,033</b>	<b>629,605</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	11,537	22,622	34,159
<b>Total nonoperating revenues (expenses)</b>	<b>11,537</b>	<b>22,622</b>	<b>34,159</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS</b>	<b>3,109</b>	<b>660,655</b>	<b>663,764</b>
Transfers in	-	2,262,000	2,262,000
<b>Total transfers</b>	<b>-</b>	<b>2,262,000</b>	<b>2,262,000</b>
<b>Change in net position</b>	<b>3,109</b>	<b>2,922,655</b>	<b>2,925,764</b>
<b>NET POSITION</b>			
Beginning of year	894,238	5,379,019	6,273,257
End of year	\$ 897,347	\$ 8,301,674	\$ 9,199,021

See accompanying Notes to Basic Financial Statements.

**City of East Palo Alto**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2016**

	Enterprise Funds		
	Garbage Collection	Water Service	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from others	\$ 200,000	\$ -	\$ 200,000
Cash received from customers	2,248,224	909,071	3,157,295
Cash payments to suppliers for goods and services	(2,382,026)	(103,900)	(2,485,926)
Cash paid to employees	(88,911)	-	(88,911)
<b>Net cash provided by operating activities</b>	<b>(22,713)</b>	<b>805,171</b>	<b>782,458</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in	-	2,262,000	2,262,000
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>2,262,000</b>	<b>2,262,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income received	9,108	16,011	25,119
<b>Net cash provided by investing activities</b>	<b>9,108</b>	<b>16,011</b>	<b>25,119</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(13,605)</b>	<b>3,083,182</b>	<b>3,069,577</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>1,378,108</b>	<b>1,857,558</b>	<b>3,235,666</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 1,364,503</b>	<b>\$ 4,940,740</b>	<b>\$ 6,305,243</b>
<b>FINANCIAL STATEMENT PRESENTATION:</b>			
Cash and investments	\$ 1,364,503	\$ 4,105,429	\$ 5,469,932
Cash with fiscal agents	-	835,311	835,311
<b>Total</b>	<b>\$ 1,364,503</b>	<b>\$ 4,940,740</b>	<b>\$ 6,305,243</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ (8,428)	\$ 638,033	\$ 629,605
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	195,291	195,291
Changes in assets and liabilities:			
Accounts receivable	(34,210)	(71,225)	(105,435)
Accounts payable	19,925	43,072	62,997
<b>Total adjustments</b>	<b>(14,285)</b>	<b>167,138</b>	<b>152,853</b>
<b>Net cash provided by operating activities</b>	<b>\$ (22,713)</b>	<b>\$ 805,171</b>	<b>\$ 782,458</b>

See accompanying Notes to Basic Financial Statements.

## FIDUCIARY FUND FINANCIAL STATEMENTS

### Private Purpose Trust Funds

*Successor Agency Trust to the Redevelopment Agency Private-Purpose Trust Fund* accounts for the accumulation of resources held and administered under trust for the benefit of others. As discussed in Note 14, all California Redevelopment Agencies were dissolved pursuant to the Dissolution Act. In January 2012, the City elected to serve as the Successor Agency (SA) of the former Redevelopment Agency. The SA is responsible for winding down the affairs of the former agency. This fund accounts for receipts and payments related to the Enforceable Obligation Schedule; and the disposition of assets and property of the former Redevelopment Agency for the benefit of taxing agencies. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

**City of East Palo Alto**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	Successor Agency Trust Fund
	<u>                    </u>
<b>ASSETS</b>	
Current assets	
Cash and investments	\$ 2,538,415
Receivables:	
Interest receivable	4,781
Total current assets	<u>2,543,196</u>
Noncurrent assets	
Prepaid expense	134,784
Total noncurrent assets	<u>134,784</u>
<b>Total assets</b>	<u>2,677,980</u>
<b>LIABILITIES</b>	
<b>Liabilities:</b>	
Current liabilities	
Accounts payable	280
Other accrued liabilities	180,037
Bonds payable - due in one year	795,000
Total current liabilities	<u>975,317</u>
Noncurrent liabilities	
Loans payable to City of East Palo Alto	11,866,125
Bonds payable - due in more than one year	19,518,998
Total noncurrent liabilities	<u>31,385,123</u>
<b>Total liabilities</b>	<u>32,360,440</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred gain on refunding	<u>467,906</u>
<b>NET POSITION</b>	
Held in trust for dissolution of RDA	<u>(30,150,366)</u>
<b>Total net position</b>	<u>\$ (30,150,366)</u>

See accompanying Notes to Basic Financial Statements.

**City of East Palo Alto**  
**Statement of Changes in Fiduciary Net Position**  
**All Fiduciary Funds - Private Purpose Trust Funds**  
**For the year ended June 30, 2016**

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	Successor Agency Trust Fund
	<u>                    </u>
<b>ADDITIONS:</b>	
RDA property tax trust fund distribution	\$ 2,082,158
Use of money and property	513,296
<b>Total additions</b>	<u>2,595,454</u>
<b>DEDUCTIONS:</b>	
Community development	265,524
Transfer of property to the City of East Palo Alto	3,246,461
Interest expense	1,767,284
<b>Total Deductions</b>	<u>5,279,269</u>
<b>Change in net position</b>	(2,683,815)
<b>NET POSITION:</b>	
Beginning of year	<u>(27,466,551)</u>
End of year	<u>\$ (30,150,366)</u>

See accompanying Notes to Basic Financial Statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. *Financial Reporting Entity***

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

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

The East Palo Alto Public Financing Authority - The East Palo Alto Public Financing Authority (Authority) was organized in October 1999 under a joint exercise of power agreement to provide financing for public improvements for the City and the former East Palo Alto Redevelopment Agency (former Agency). The Authority and the City have a financial and operational relationship, which requires that the Authority's financial statements be blended into the City's financial statements. The Authority's Board consists exclusively of all members of the City Council. Certain activity of the Authority is blended with the Successor Agency of the former Agency as the Authority facilitated long-term debt financing of the former Agency. Separate financial statements of the Authority are not prepared.

**B. *Basis of Accounting and Measurement Focus***

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

**Government-Wide Financial Statements**

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liabilities are incurred.

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

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

Certain eliminations have been made related to inter-fund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

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

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements**

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

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

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

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

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

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

Public Improvements in Lieu Special Revenue Fund accounts for development fee revenues and capital expenditures for related public improvement assets.

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

Capital Improvements Capital Projects Fund accounts for capital project improvement revenues and expenditures financed by various sources, primarily Federal and State grants, General Fund transfers, and capital-related community benefit receipts.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

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

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

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

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

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

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

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

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

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

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

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

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

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

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

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

**Proprietary Fund Financial Statements**

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

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

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

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

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

Water Service Fund accounts for the certain activities related to water lease and capital surcharge revenues utilized to improve and expand the City’s water system infrastructure.

**Fiduciary Fund Financial Statements**

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Fiduciary Fund Financial Statements, Continued**

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

*Successor Agency Private Purpose Trust Fund* – accounts for assets and liabilities held by the City pursuant to California Redevelopment Dissolution Law whereby the City elected to serve as the Successor Agency of the former Agency effective February 1, 2012. The Successor Agency serves as custodian for the assets of, and winding down affairs related to, the former Agency. The Successor Agency is allocated revenues necessary to pay enforceable obligations of the former Agency. The activities of the fund include blended component unit activity of the East Palo Alto Public Finance Authority (the Authority), and such activities are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary fund financial statements.

**C. Cash, Cash Equivalents and Investments**

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

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

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

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Cash, Cash Equivalents and Investments, Continued**

significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

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

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

The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**D. Restricted Cash and Investments**

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

**E. Prepayments**

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

**F. Capital Assets**

Capital assets used in governmental fund operations, including infrastructure assets (i.e. roads, curbs, gutters, bridges, sidewalks, drainage systems, lighting systems, and other assets) are reflected in the government-wide financial statements, along with related depreciation. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated life in excess of one 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.



**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*F. Capital Assets, Continued*

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

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

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

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

*G. Unearned revenue*

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

*H. Long-Term Debt*

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

Bond premiums and discounts are amortized over the life of the bonds using straight line method. Bonds payable is reported net of the applicable bond premium or discount.

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

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

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Property Taxes**

State Constitution Article XIII A provides for a maximum general property tax rate statewide of \$1.00 per \$100, or one-percent (1%) of assessed value unless an additional override tax rate is levied to pay voter-approved indebtedness. At the time of transfer of ownership, assessed value is calculated at 100% of market value as defined by Article XIII A; otherwise assessed value is applied to the adjusted 1975-76 value of the property plus new construction value added after the 1975-76 valuation. Taxable values on properties can rise or be adjusted at the lesser 2% per year or the inflation rate as determined by the Board of Equalization California Consumer Price Index. The State Legislature has determined the method of distribution of receipts from a \$1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities, school districts and other special districts, may levy such additional tax rate as is necessary to provide for voter-approved debt.

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

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

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Government-wide statements reflect deferred outflows relating to pension liability activity. These deferred outflows are the comprised of pension contributions made after the pension liability measurement period, which are expensed in the following year, and adjustments due to the difference between actual pension contributions made and the proportionate share of the cost sharing multiple-employer risk pool contributions and due to change in employer's proportion.

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

The government reports two items in this category, unavailable revenue and amounts related to changes in the City's net pension liability that are deferred and amortized over a stated period. Unavailable revenue arises only under a modified accrual basis of accounting and accordingly is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: grant revenues. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available. Certain changes in the City's net

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

pension liability are required to be deferred and reflected in pension expense over a closed amortization period. The City reported the unamortized net difference between the projected and actual earnings, changes in assumptions, and differences between actual and expected experience on pension plans as deferred inflows of resources in the government-wide and enterprise funds' statements of net position.

**K. Net Position**

**Government-Wide Financial Statements**

In the Government-wide Financial Statements, net position is classified in the following categories:

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

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

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

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

**L. Fund Balances**

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

**Nonspendable Fund Balances**

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

**Restricted Fund Balances**

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Fund Balances, Continued*

**Committed Fund Balances**

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

**Assigned Fund Balances**

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. This category includes encumbrances and Nonspendable balance, when it is the City's intent to use proceeds or collections for a specific purpose. The City Council is the only entity that has authority to make assignments of fund balance. The City Council has not delegated the authority to make assignments of fund balance.

**Unassigned Fund Balance**

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

**Hierarchy of Expenditures to Classify Fund Balance Amounts**

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

**Minimum Fund Balance Policies**

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

On June 30, 2016, the General Fund reported \$3,000,000 in reserve which meets the City's minimum 15% requirement level of \$2,660,181. The General Fund reserve fund balance is \$339,819 above this requirement.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**M. *Compensated Leave Payable***

Compensated absences are primarily comprised of unpaid vacation leave which is accrued as earned. All full-time, regular employees are entitled to earn a minimum of 80-hours of vacation per year. The accrual rate increases as length of related service exceeds five years. Maximum accrual of vacation ranges from 288 hours to 320 hours depending on length of related service. For governmental funds, compensated leave payable is recorded as current and noncurrent liabilities and as expenses only on the Government-wide Financial Statements. Compensated absences are reported in governmental funds only if they have matured.

**N. *Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**O. *Use of Estimates***

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

**P. *New Pronouncements***

In 2016, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*- This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact on beginning net position as part of implementation of this accounting standard.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*- The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*P. New Pronouncements, continued*

effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact on beginning net position as part of implementation of this accounting standard.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*– The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact on beginning net position as part of implementation of this accounting standard
  
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. There was no impact on beginning net position as part of implementation of this accounting standard.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**2. CASH AND INVESTMENTS**

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

**A. Summary of Cash and Investments**

The following is a summary of cash and investments at June 30, 2016:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments	\$ 40,107,402	\$ 5,469,932	\$ 2,538,415	\$ 48,115,749
Restricted cash and investments	1,210,005	835,311	-	2,045,316
<b>Total cash and investments</b>	<b>\$ 41,317,407</b>	<b>\$ 6,305,243</b>	<b>\$ 2,538,415</b>	<b>\$ 50,161,065</b>

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 10,400
Deposits with financial institution	1,390,038
<b>Total cash on hand and deposits</b>	<b>1,400,438</b>
Local Agency Investment funds	10,765,540
San Mateo County Pool	35,949,771
<b>Total investments</b>	<b>46,715,311</b>
<b>Total City Treasury</b>	<b>48,115,749</b>
Cash with fiscal agent	2,045,316
<b>Total cash and investments</b>	<b>\$ 50,161,065</b>

**B. Deposits**

The carrying amount of the City's cash deposit was \$1,390,038 at June 30, 2016. Bank balances before reconciling items were a positive amount of \$3,422,750 at June 30, 2016. The City has waived the collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**2. CASH AND INVESTMENTS, Continued**

**B. Deposits, Continued**

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

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

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**C. Authorized Investments by the City**

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
U.S. Government Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Demand Deposits	2 years	None	None
Money Market/Mutual Funds	2 years	20%	None
Repurchase Agreements	92 days	None	None
Passbook Savings Accounts	2 years	None	None
Negotiable Certificates of Deposit	2 years	30%	None
State Local Agency Investment Fund (LAIF)	2 years	\$50 million	None
San Mateo County Pooled Investment Funds	3 years	None	None
Guaranteed Investment Contracts	2 years	None	None
Medium Term Notes	5 years	30%	None

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



**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**2. CASH AND INVESTMENTS, Continued**

*C. Investments*

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

Interest income	\$ 257,741
Unrealized gain in changes in fair value of investments	116,354
<b>Total investment income</b>	<b>\$ 374,095</b>

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2016, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

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

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

As of June 30, 2016, the City had \$10,765,540 invested in LAIF, which had invested 2.81% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 2.08% in the previous year. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investments in LAIF.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County. The City reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The fair value factor of 1.00306 was used to calculate the fair value of the investments in the County Pool.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**2. CASH AND INVESTMENTS, Continued**

**D. Risk Disclosures**

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

Investments held in the City Treasury grouped by maturity date at June 30, 2016, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years
City Local Agency Investment Fund	\$ 10,765,540	\$ 10,765,540	\$ -	\$ -	\$ -	\$ -
San Mateo County Pool	35,949,771	35,949,771	-	-	-	-
<b>Total</b>	<b>\$ 46,715,311</b>	<b>\$ 46,715,311</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Credit Risk:* Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2016 for each investment type:

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

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

**E. Investment Valuation**

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment fair value measurements at June 30, 2016 are described on the following page.

Investments included in restricted cash and investments included money market accounts and guaranteed investment contracts are not subject to fair value measurement.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**B. CASH AND INVESTMENTS, Continued**

*E. Investment Valuation, Continued*

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Local Agency Investment Fund	\$ 10,765,540	\$ -	\$ 10,765,540	\$ -
San Mateo County Pool	35,949,771	-	35,949,771	-
Total investments subject to fair value	46,715,311	\$ -	\$ 46,715,311	\$ -

The City's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) and the San Mateo County Investment Pool (SMCIP) is based on the fair market value factors provided by LAIF and SMCIP that are calculated based on the total fair market value of the pool.

LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices derived principally from, or corroborated by, observable market data by correlation to other means.

SMCIP includes investments in LAIF, Treasury securities, Federal Agency securities, U.S. Instrumentalities, floating rate securities, and corporate bonds. SMCIP utilizes a pricing service that applies valuation techniques utilizing observable market inputs such as yield curves and market indices derived principally from, or corroborated by, observable market data by corroborated by observable market data by correlation to other means. The City categorized its investments in LAIF and in the SMCIP based on the lowest significant input used to determine the fair market value of the total pool.

**3. INTERFUND TRANSACTIONS**

*A. Due To/From Other Funds*

At June 30, 2016, the City had the following due to/from other funds:

Fund	Due From Other Funds	Due To Other Funds
Capital Project Fund	\$ 324,296	\$ -
Non-Major Governmental Funds	-	324,296
Total	\$ 324,296	\$ 324,296

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**3. INTERFUND TRANSACTIONS, Continued**

**B. Transfers**

At June 30, 2016, the City had the following transfers in/out which arise in the normal course of operations.

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Non-Major Governmental Funds</u>	<u>Enterprise Fund Water Fund</u>	
Major Funds					
General Fund	\$ -	\$ 1,171,981	\$ 34,761	\$ 2,262,000	\$ 3,468,742
Public Improvements in-lieu	-	24,377	-	-	24,377
Non-major Govtl Funds	5,668	-	-	-	5,668
Total	\$ 5,668	\$ 1,196,358	\$ 34,761	\$ 2,262,000	\$ 3,498,787

Transfers to the General Fund from non-major funds were made for maintenance of park expenditures. Transfers from the General fund were made to: 1) the Capital Improvements Fund to fund various capital improvement projects, and 2) to Water Fund for ground water capital projects and as approved under the budget.

**4. LOANS AND NOTES RECEIVABLE**

Loans receivable as of June 30, 2016, composed of the following, were held by the City:

	<u>June 30, 2016</u>
Nairobi Housing Associates Loan	\$ 5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	410,000
First Time Home Buyer Assistance Loans	350,867
University Senior Apts	700,000
Subtotal	<u>8,060,867</u>
Loans to Successor Agency	11,866,125
<b>Total:</b>	<u><u>\$ 19,926,992</u></u>

**A. Nairobi Housing Associates Loan**

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

**B. Nugent Square Partners**

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

**C. Bay Road Housing Loan**

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

**D. First Time Home Buyer Assistance Loans**

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

**E. University Senior Apartments Loan**

On November 25, 2015, the Council entered into a loan agreement in the amount of \$700,000 with University Senior Apartments, L.P. to develop a multi-family housing project consisting of forty one units to be made available and affordable to low- and moderate-income senior households. The loan bears a 3% per annum, commencing after receiving a certificate of completion or certificate of occupancy for the project and is payable in fifty seven years. As of June 30, 2016, the outstanding loan balance was \$700,000.

**F. Loans to Successor Agency**

At June 30, 2016, the outstanding balance of \$11,866,125 is comprised of two advances to the former Agency which were assumed by the Successor Agency on February 1, 2012. Repayment of the loans receivable are conditional upon, and subject to, approval as enforceable obligations of the Successor Agency under California Dissolution Law. In April 2016, the Department of Finance approved the loans as enforceable obligations. The repayment amounts are subject to annual limits in available property tax increment:

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

*F. Loans to Successor Agency, Continued*

- a. *Ravenswood Repayment Agreement (\$5,452,395)* – provided for the ongoing assistance and services in connection with the implementation of the redevelopment plan for the Ravenswood Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement to provide for a repayment schedule to ensure full repayment of the outstanding balance. Interest on the outstanding principal is calculated utilizing LAIF rates as dictated under Dissolution Law.
  
- b. *Gateway/101Purchase and Sale Agreement (\$6,413,730)* – provided for the sale of the Ravenswood High School Site to the former Redevelopment Agency. This property was developed into a retail shopping center in the Gateway 101 Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement and the Purchase and Sale Agreement to specify the repayment terms for the purchase price of the property. There is no interest provision.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**5. CAPITAL ASSETS**

Changes in capital assets during the year ended June 30, 2016, are comprised of the following:

	June 30, 2015 (as restated)	Additions	Deletions	Balance at June 30, 2016
<b>Government activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,224,830	\$ 833,894	\$ -	\$ 4,058,724
Construction in progress	7,054,715	1,460,931	(4,491,534)	4,024,112
Total capital assets not being depreciated	<u>10,279,545</u>	<u>2,294,825</u>	<u>(4,491,534)</u>	<u>8,082,836</u>
Capital assets being depreciated:				
Infrastructure				
Streets and roadways	45,021,154	1,000,505	-	46,021,659
Storm drain system	4,089,492	-	-	4,089,492
Buildings and Improvements	5,288,781	2,897,155	-	8,185,936
Improvements other than buildings	6,962,126	2,365,317	-	9,327,443
Furniture, Fixtures, and Equipment	2,044,565	67,903	(133,581)	1,978,887
Vehicles	1,664,914	122,956	-	1,787,870
Total capital assets being depreciated	<u>65,071,032</u>	<u>6,453,836</u>	<u>(133,581)</u>	<u>71,391,287</u>
Less accumulated depreciation for:				
Infrastructure				
Streets and roadways	(28,643,350)	(698,243)	-	(29,341,593)
Storm drain system	(2,306,615)	(37,074)	-	(2,343,689)
Buildings and Improvements	(2,248,188)	(210,059)	-	(2,458,247)
Improvements other than building	(1,204,763)	(283,574)	-	(1,488,337)
Furniture, Fixtures and Equipment	(1,692,967)	(46,494)	133,581	(1,605,880)
Vehicles	(928,195)	(163,866)	-	(1,092,061)
Total accumulated depreciation	<u>(37,024,078)</u>	<u>(1,439,310)</u>	<u>133,581</u>	<u>(38,329,807)</u>
Total capital assets, being depreciated, net	<u>28,046,954</u>	<u>5,014,526</u>	<u>-</u>	<u>33,061,480</u>
Government activities capital assets, net	<u>\$ 38,326,499</u>	<u>\$ 7,309,351</u>	<u>\$ (4,491,534)</u>	<u>\$ 41,144,316</u>

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**5. CAPITAL ASSETS, Continued**

	Balance as of June 30, 2015	Additions	Transfers	Balance at June 30, 2016
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 206,750	\$ -	\$ -	\$ 206,750
Total capital assets not being depreciated	206,750	-	-	206,750
Capital assets being depreciated:				
Buildings and Improvements	43,790	-	-	43,790
Improvements other than buildings	7,057,659	-	-	7,057,659
Furniture, Fixtures, and Equipment	63,943	-	-	63,943
Vehicles	89,890	-	-	89,890
Total capital assets being depreciated	7,255,282	-	-	7,255,282
Less accumulated depreciation for:				
Buildings and Improvements	(43,790)	-	-	(43,790)
Improvements other than building	(3,716,106)	(195,291)	-	(3,911,397)
Furniture, Fixtures and Equipment	(63,943)	-	-	(63,943)
Vehicles	(89,890)	-	-	(89,890)
Total accumulated depreciation	(3,913,729)	(195,291)	-	(4,109,020)
Total capital assets, being depreciated, net	3,341,553	(195,291)	-	3,146,262
Business-type activities capital assets, net	\$ 3,548,303	\$ (195,291)	\$ -	\$ 3,353,012

**A. Capital Asset Contributions**

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



**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**5. CAPITAL ASSETS, Continued**

**B. Depreciation Allocation**

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

<b>Governmental Activities:</b>	
General Government	\$ 15,274
Public Safety	266,594
Culture and Recreation	158,354
Public Works	773,223
Community Development	225,865
<b>Total Governmental Activities</b>	<b>\$ 1,439,310</b>
<b>Business-Type Activities:</b>	
Water Service	\$ 195,291
<b>Total Business-Type Activities</b>	<b>\$ 195,291</b>

**C. Capital Project Commitments**

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

Project	Project Authorization	Expended through June 30, 2016	Committed
Safe Routes to School Cycle 3	\$ 41,950	\$ 40,809	\$ 1,141
Bay Road Phase II Improvements	1,254,200	893,013	361,187
Highway 101 Pedestrian-Bicycle Overcrossing	989,750	605,000	384,750
University Avenue Interchange	994,979	508,467	486,512
Cooley Landing Park	5,115,000	5,002,805	112,195
Gloria Way Well Retrofit	755,598	526,635	228,963
Runnymede Storm Drain Project: Phase II	2,187,829	1,400,167	787,662
San Fransisquito Creek Flood Control Project	800,000	300,000	500,000
General Plan and Zoning Update	1,550,000	1,294,563	255,437
Second Ground Water Well	1,156,000	438,427	717,573
	<b>\$ 14,845,306</b>	<b>\$ 11,009,886</b>	<b>\$ 3,835,420</b>

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**6. LONG-TERM DEBT**

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

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
2013 Capital Lease - 5 Police Vehicles 3.25% due 2/1/17	\$ 53,826	\$ -	\$ 31,921	\$ 21,905	\$ 21,905
2015 Capital Lease - 2 Police Vehicles 3.25% due 12/23/18	107,307	-	29,426	77,881	30,397
<b>Total</b>	<b>\$ 161,133</b>	<b>\$ -</b>	<b>\$ 61,347</b>	<b>\$ 99,786</b>	<b>\$ 52,302</b>

***2013 Capital Lease - 5 Police Vehicles***

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

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

Future capital lease payments at June 30, 2016 are as follows:

For the Year Ending Balance June 30, 2016	Police Vehicle Capital Lease		
	Principal	Interest	Total
2017	\$ 21,905	267	\$ 22,172
Total Payments Due	\$ 21,905	\$ 267	\$ 22,172

***2015 Capital Lease - 2 Police Vehicles***

On December 23, 2014, the City of East Palo Alto purchased two 2016 Police Interceptor Utility AWD vehicles with installed emergency equipment for the police department and entered into an equipment lease purchase agreement with PNC Equipment Finance, LLC, in an amount not to exceed \$121,666 with an interest rate of 3.25% and due on December 23, 2018. Principal and interest is payable on the first day of every month and commencing on January 23, 2015.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**6. LONG-TERM DEBT, Continued**

*2015 Capital Lease - 2 Police Vehicles, Continued*

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

Future capital lease payments at June 30, 2016 are as follows:

For the Year Ending Balance June 30, 2016	Police Interceptor Utility AWD Capital Lease		
	Principal	Interest	Total
2017	\$ 30,397	\$ 2,080	\$ 32,477
2018	31,399	1,080	32,479
2019	16,085	153	16,238
Total Payments Due	<u>\$ 77,881</u>	<u>\$ 3,313</u>	<u>\$ 81,194</u>

**7. OPERATING LEASE**

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$553,292 for governmental activities and \$13,885 for business-type activities for the fiscal year ended June 30, 2016. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2017	\$ 583,312
2018	592,320
2019	604,816
2020	621,256
2021	625,087
	<u>\$ 3,026,791</u>

**8. COMPENSATED ABSENCES**

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

	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016	Due Within One Year
<b>Governmental Activities</b>					
Compensated Leave Payable	<u>\$ 463,958</u>	<u>\$ 951,131</u>	<u>\$ (709,443)</u>	<u>\$ 705,646</u>	<u>\$ 353,770</u>

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**9. FUND BALANCES**

Detailed classifications of the City's Fund Balances, as of June 30, 2016, are below:

	Major Governmental Funds						Total
	General Fund	Low and Moderate Income Housing Successor Special Revenue Fund	Public Improvements in Lieu Special Revenue Fund	Housing in-lieu Special Revenue Fund	Capital Improvements Capital Projects Fund	Other Government Funds	
<b>Fund Balances</b>							
<b>Nonspendable fund balance:</b>							
Loans to Successor Agency	\$ 11,866,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,866,125
Deposits and prepayments	66,350	-	-	-	-	-	66,350
	<u>11,932,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,932,475</u>
<b>Restricted fund balance for:</b>							
Low and Moderate							
Income Housing	-	7,701,888	-	-	-	-	7,701,888
Gas Tax	-	-	-	-	-	2,293,458	2,293,458
NPDES Fees	-	-	-	-	-	81,700	81,700
Federal and State							
Law Enforcement	-	-	-	-	-	81,832	81,832
Park in Lieu	-	-	-	-	-	1,120,082	1,120,082
Rent Stabilization	-	-	-	-	-	539,102	539,102
Housing in Lieu	-	-	-	8,477,921	-	-	8,477,921
Housing Assistance	-	-	-	-	-	392,470	392,470
Public Improvement in Lieu Measure A	-	-	-	-	-	1,789,158	1,789,158
CYSFF Children/Youth/ Seniors/Family	-	-	-	-	-	641,916	641,916
Lighting District	-	-	-	-	-	1,587,806	1,587,806
Drainage District	-	-	-	-	-	64,412	64,412
Measure C	-	-	-	-	-	1,405,053	1,405,053
Capital projects	-	-	279,184	-	-	-	279,184
Other Purposes	-	-	-	-	-	81,419	81,419
	<u>-</u>	<u>7,701,888</u>	<u>279,184</u>	<u>8,477,921</u>	<u>-</u>	<u>10,078,408</u>	<u>26,537,401</u>
<b>Assigned fund balance for:</b>							
Capital projects	-	-	-	-	4,858,773	-	4,858,773
Other Purposes	383,658	-	-	-	-	-	383,658
	<u>383,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,858,773</u>	<u>-</u>	<u>5,242,431</u>
<b>Unassigned fund balance</b>							
Minimum fund balance reserve	3,000,000	-	-	-	-	-	3,000,000
Community benefits reserve	200,000	-	-	-	-	-	200,000
Information Technology Reserve	1,098,894	-	-	-	-	-	1,098,894
Vehicles and Equipment Reserve	725,715	-	-	-	-	-	725,715
Self Insurance Reserve	1,570,210	-	-	-	-	-	1,570,210
Other	9,698,834	-	-	-	-	(197,068)	9,501,766
	<u>16,293,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(197,068)</u>	<u>16,096,585</u>
<b>Total Fund Balances</b>	<b>\$ 28,609,786</b>	<b>\$ 7,701,888</b>	<b>\$ 279,184</b>	<b>\$ 8,477,921</b>	<b>\$ 4,858,773</b>	<b>\$ 9,881,340</b>	<b>\$ 59,808,892</b>

**City of East Palo Alto**  
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**9. FUND BALANCES, Continued**

Encumbrance balances by major funds and non-major funds as of June 30, 2016 are:

	Major Funds				Non-Major Funds	TOTAL
	General Fund	Capital Improvement Fund	Housing in Lieu Fund	Public Improvements In Lieu		
Construction	\$ -	\$ 803,172	\$ -	\$ -	\$146,979	\$ 950,151
Materials and Equipment	45,017	-	-	-	-	45,017
Services	338,641	-	49,403	77,088	13,632	478,764
	<u>\$383,658</u>	<u>\$ 803,172</u>	<u>\$ 49,403</u>	<u>\$ 77,088</u>	<u>\$160,611</u>	<u>\$1,473,932</u>

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

The US EPA and Local Grants Special Revenue Fund had fund balance deficits of \$191,656, and \$5,412 respectively at June 30, 2016. The deficit is expected to be eliminated with the receipt of grant awards and future revenues.

The following funds had expenditures in excess of appropriations:

Fund	Excess
<b>Special Revenue Fund:</b>	
Park in Lieu	\$ 19,255
Rent Stabilization	\$ 500
Drainage District	\$ 18,473
Housing Assistance	\$ 4,211

**11. RETIREMENT BENEFITS**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous risk pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
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**11. RETIREMENT PLANS, Continued**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), *Continued***

available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The rate plan provisions and benefits in effect at June 30, 2016 are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit Formula	3.0% @ 55	2.5% @ 55
Benefit payment	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4 - 3%	2 - 2.5%
Required employee contribution rates	9.00%	8.000%
Required employer contribution rates	15.627%	9.067%
	<u>Safety</u>	<u>Miscellaneous</u>
Hire Date	On or after January 1, 2013	On or after January 1, 2013
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	57	62
Monthly benefits, as a % of annual salary	2.70%	2.00%
Required employee contribution rates	11.500%	6.250%
Required employer contribution rates	11.153%	6.237%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability was \$333,448 and \$174,001 for safety and miscellaneous respectively, in fiscal year 2016.

**Contributions** - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**11. RETIREMENT PLANS, Continued**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), Continued**

determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contribution to the plan was \$1,371,578.

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$8,112,375.

The City's net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plans is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportionate of the net pension liability was based on the City's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 were as follows:

Proportion - June 30, 2014	0.126260%
Proportion - June 30, 2015	<u>0.118189%</u>
Change - Increase (Decrease)	<u>-0.008071%</u>

For the year ended June 30, 2016, the City recognized pension expense of \$(94,960). At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 1,371,578	\$ -
Change in proportion	1,439,326	345,373
Changes in employer's proportion and differences between the employer's contribution and the employer's proportionate share of contributions	1,016,612	-
Changes in assumption	-	891,375
Differences between expected and actual experience	-	63,468
Net differences between projected and actual earnings on plan investments	-	449,539
Total	<u>\$ 3,827,516</u>	<u>\$ 1,749,755</u>

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**11. RETIREMENT PLANS, Continued**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), Continued**

Pension contributions subsequent to the measurement date in the amount of \$1,371,578 and reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2017	\$ 97,721
2018	85,306
2019	(38,931)
2020	562,086

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	(1) 7.65%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.



**City of East Palo Alto**  
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**11. RETIREMENT PLANS, Continued**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), Continued**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
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**11. RETIREMENT PLANS, Continued**

**A. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), Continued**

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 12,085,813
Current Discount Rate	7.65%
Net Pension Liability	\$ 8,112,375
1% Increase	8.65%
Net Pension Liability	\$ 4,844,743

*Pension Plan Fiduciary Net Position* – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2016 the City reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**B. Deferred Compensation Plan**

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

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**12. RISK MANAGEMENT**

**A. Insurance Coverage**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City participates in the ABAG Plan Corporation (ABAG PLAN), a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG PLAN covers general liability claims in an amount up to \$5 million, and property liability claims up to \$100,000 per occurrence. The City has a deductible or uninsured liability of up to \$100,000 per liability claim and \$5,000 per property claim. Once the City's deductible is met, ABAG becomes responsible for payment of all claims up to the limit. ABAG PLAN also purchases excess insurance policies over ABAG PLAN limits up to \$20,000,000 in general liability coverage and provides for replacement cost of property claims, subject to terms of the policies.

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

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

**B. Liability for Uninsured Claims**

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

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2015 and 2016:

	2015	2016
Beginning balance of claims payable	\$ 91,836	\$ 22,203
Increase/Decrease in estimated claims liability	(42,651)	182,348
Claims paid	(26,982)	(159,551)
Ending balance of claims payable	<u>\$ 22,203</u>	<u>\$ 45,000</u>
Current Portion	<u>\$ 3,330</u>	<u>\$ 6,750</u>

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

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
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**13. 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 the City commenced on March 1, 2000. The SBWMA was formed in 1982 to provide cost-effective waste reduction, recycling, and solid waste programs to member agencies in order to meet and sustain a minimum 50% diversion of waste from landfill as mandated by California State Law, AB939. SBWMA owns the Shoreway Environmental Center which serves as a regional solid waste and recycling facility and is operated by South Bay Recycling (SBR) on behalf of the SBWMA. The City has no equity interest in SBWMA. Through the operation of franchise agreements with each member, RECOLOGY collects fees charged for the use of the facilities and remits them to the SBWMA. Pursuant to an Operations Agreement with the SBWMA, RECOLOGY is compensated 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.

**C. *City/County Association of Governments of San Mateo County (C/CAG)***

The City/County Association of Governments of San Mateo County is a joint powers agency formed in 1990 between the various cities and transportation agencies in San Mateo County to prepare, adopt, monitor and enforce state mandated plans related to transportation, airport land use, storm water pollution prevention, and climate protection. The City's contribution to C/CAG was \$82,006 for the year ended June 30, 2016. An annual report may be obtained at 555 County Center 5<sup>th</sup> Floor, Redwood City, CA 94063.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**14. CONTINGENT LIABILITIES AND COMMITMENTS**

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

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

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

As of June 30, 2016, the City has capitalized \$3,146,261 for the Water system and services related capital assets. For the year ended June 30, 2016, the Company paid lease payments and franchise fees to the City in the amount of \$297,714 and \$248,095 respectively.

**B. *Contingent Liabilities***

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

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

**C. *California State Water Resourced Control Board Corrective Action Plan***

On April 21, 2015 the City, along with several other regional water system (RWS) customers of the San Francisco Public Utilities Commission (SFPUC), was cited by the State Water Resources Control Board (SWRCB) for not providing multi-barrier treatment to raw surface water. This citation was due to an incident occurring in March of 2015, whereby untreated water was inadvertently allowed to flow into the RWS. The incident did not result in any adverse effects; however, the SWRCB citation directed that the City prepare a Corrective Action Plan. The CAP includes a number of corrective actions developed to prevent another similar incident.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**14. CONTINGENT LIABILITIES AND COMMITMENTS, Continued**

*C. California State Water Resourced Control Board Corrective Action Plan, Continued*

On August 15, 2015 the SWRCB acknowledged the City's Corrective Action Plan (CAP) whereby the City will take steps to ensure the water supply and/or storage of water is safe and sustainable in the event that SFPUC water becomes unavailable. The critical elements of the CAP are the drilling of new groundwater wells, the construction of water system interties, and the construction of storage tanks over an estimated period of seven (7) years. However, the CAP recognizes that the timing for the construction of the storage tanks is less certain due to the prioritization of the groundwater wells, staffing limitations and complexities securing site control. The highest priority water system improvements have estimated costs of roughly \$15.5 million. Recently, the City enacted a capital improvement surcharge, contributed general and community benefit funds to the water system, and has secured grant funding for the ground water wells. As of June 30, 2016, the City has capital water reserves of approximately \$3.9 million and Federal and State grant commitments of approximately \$2.9 million toward these and other water-related capital projects.

*D. California State Department of Parks and Recreation - 2006 Parks Bond Act Grant*

In September 2015, the California State Department of Parks and Recreation notified the City that grant-related project deliverables on Cooley Landing Park had not been completed. The City has until June of 2019 to complete the deliverables, or the State will not reimburse a minimum of 20% of the \$5,000,000 in 2006 Parks Bond Act grant funds approved for the project. As of June 30, 2016, the State is retaining approximately \$850,000 in approved project costs pending the City's completion of project deliverables.

The remaining project deliverables have a roughly estimated cost of approximately \$800,000. The City currently has set-aside approximately \$1,000,000 in non-committed capital funds in the Capital Improvement Fund pending settlement of the project deliverables and determination of funding requirements to complete the project. City management fully expects the City will complete the project deliverables in a timely manner.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**

**A. *Redevelopment Dissolution***

On June 28, 2011 the State of California adopted ABx1 26 (AB 26) which, in Late December 2011, was upheld by the California Supreme Court to be largely constitutional. This action, together with AB 1484 enacted on June 27, 2012, are referred to as "Dissolution Law" as related to former redevelopment agencies. Under the existing Dissolution Laws, California redevelopment agencies were dissolved as of February 1, 2012 and cannot enter into new projects, obligations or commitments. Beginning in February 2012, Successor Agencies, together with other designated entities, initiated the process under AB 26 to unwind the affairs of the dissolved agencies. This action impacted the reporting entity of the City of East Palo Alto in that the City had previously reported a redevelopment agency (former Agency) as a blended component unit of the City.

On January 10, 2012, the City Council elected to serve as the Successor Agency to the former Agency whereby the Successor Agency holds assets, reports obligations, and otherwise oversees the wind-down of the affairs of the former Agency as dictated by the Dissolution Laws and subject to control and approval of an established Oversight Board and the California Department of Finance.

Furthermore, on January 10, 2012, the City also elected to serve as the former Agency's Housing Successor and retain the housing assets of the former Agency. On February 1, 2012 certain housing assets were transferred to the City's Housing Successor Special Revenue Fund.

Since February 1, 2012, the Successor Agency has complied with existing Dissolution Laws, including completing a due diligence review, obtaining a finding of completion, obtaining approval of the long-range property management plan, completing timely reporting of recognized obligation schedules. The Successor Agency continues to conduct the fiduciary activities of the Dissolution Laws until such time the affairs and obligations of the former Agency are complete.

Cash and investments of the Successor Agency as of June 30, 2016 are discussed in Note 2. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2016.

**B. *Capital Assets***

Pursuant to existing Dissolution Law, the California Department of Finance completed its review of the Successor Agency's Long-Range Property Management Plan (Plan). Under the terms of the Plan, the Successor Agency implemented a wind-down and transfer of capital assets whereby the assets were transferred to the City for restricted municipal purposes.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,**  
**Continued**

**B. Capital Assets, Continued**

Capital assets recorded at June 30 comprise:

	Balance as of June 30, 2015	Reclassifications	Additions	Deletions	Balance at June 30, 2016
<b>Successor Agency</b>					
Capital assets not being depreciated:					
Land	\$ 833,895	\$ -	\$ -	\$ (833,895)	\$ -
Construction in progress	561,970	-	-	(561,970)	-
Total capital assets not being depreciated	<u>1,395,865</u>	<u>-</u>	<u>-</u>	<u>(1,395,865)</u>	<u>-</u>
Capital assets being depreciated:					
Improvements other than buildings	2,046,206	-	-	(2,046,206)	-
Total capital assets being depreciated	<u>2,046,206</u>	<u>-</u>	<u>-</u>	<u>(2,046,206)</u>	<u>-</u>
Less accumulated depreciation for:					
Improvements other than buildings	(195,610)	-	-	195,610	-
Total accumulated depreciation	<u>(195,610)</u>	<u>-</u>	<u>-</u>	<u>195,610</u>	<u>-</u>
Total capital assets, being deing depreciated, net	<u>1,850,596</u>	<u>-</u>	<u>-</u>	<u>(1,850,596)</u>	<u>-</u>
Successor Agency capital assets, net	<u>\$ 3,246,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,246,461)</u>	<u>\$ -</u>

During the year ended June 30, 2016, the Successor Agency transferred its assets to the City, pursuant to the approval of its long range property management plan by the Department of Finance and its Oversight Board.



**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,**  
**Continued**

**C. Long-Term Debt**

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

	Issue Amount	Balance June 30, 2015	Additions	Retirements	Premium Amortization	Balance at June 30, 2016	Current Portion
<b>Successor Agency</b>							
2015 Tax Allocation Refunding Bonds							
Series A							
3.625%-4% due 10/1/2032	\$ 16,950,000	\$ -	\$ 17,940,100	\$ -	\$ (120,108)	\$ 17,819,992	\$ -
2015 Tax Allocation Refunding Bonds							
Series B							
1.25%-2% due 10/1/2018	2,500,000	-	2,490,634	-	3,371	2,494,005	795,000
<b>Former Redevelopment Agency</b>							
1999 Tax Allocation Bonds							
4.20-6.625% due 10/1/2032	22,785,000	13,286,084	-	(13,286,084)	-	-	-
2003 Tax Allocation Refunding Bonds							
Series A							
4.00-5.00% due 10/1/2032	5,155,000	4,906,787	-	(4,906,787)	-	-	-
2003 Tax Allocation Refunding Bonds							
Series B							
4.12-6.45% due 10/1/2032	3,600,000	2,825,000	-	(2,825,000)	-	-	-
<b>Public Financing Authority</b>							
2005 Revenue Bonds, Series A							
3.40-5.00% due 10/1/2029	17,995,000	15,896,335	-	(15,896,335)	-	-	-
Total		<u>\$ 36,914,206</u>	<u>\$ 20,430,734</u>	<u>\$ (36,914,206)</u>	<u>\$ (116,737)</u>	<u>\$ 20,313,997</u>	<u>\$ 795,000</u>

**2015 Tax Allocation Refunding Bonds**

On September 1, 2015, the Successor Agency issued \$16,950,000 Tax Allocation Refunding Bonds, Series 2015A and \$2,500,000 Taxable Tax Allocation Refunding Bonds, Series 2015B. The bonds were issued to refund the 1999 Tax Allocation Bonds, the 2003 Series A Bonds, and the 2003 Series B Bonds. Certain proceeds of the refunding bonds were subsequently used to call the East Palo Alto Public Financing Authority 2005 Revenue Bonds on October 1, 2015. The economic gain on refunding of these bonds was \$2,560,798.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,**  
**Continued**

*C. Long-Term Debt. Continued*

Series 2015A Refunding Bonds

The 2015A Refunding Bonds mature annually starting October 1, 2018 through 2032, with installments ranging from \$45,000 to \$1,515,000. The interest on the 2015A Refunding Bonds is payable semi-annually on each April 1 and October 1, with coupon rates ranging from 3.00% to 5.00%. The 2015A Refunding Bonds are subject to early redemption.

The annual debt service requirements of the Series 2015A bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 679,350	\$ 679,350
2018	-	679,350	679,350
2019	45,000	678,450	723,450
2020	900,000	659,550	1,559,550
2021	935,000	618,175	1,553,175
2022-2026	5,425,000	2,323,375	7,748,375
2027-2031	6,665,000	1,019,276	7,684,276
2032	2,980,000	108,932	3,088,932
Subtotal	16,950,000	<u>\$ 6,766,458</u>	<u>\$ 23,716,458</u>
Bond Premium	869,992		
<b>Total</b>	<u>\$ 17,819,992</u>		

Series 2015B Refunding Bonds

The 2015B Refunding Bonds mature annually starting October 1, 2016 through 2018, with installments ranging from \$795,000 to \$860,000. The interest on the 2015B Refunding Bonds is payable semi-annually on each April 1 and October 1, with coupon rates ranging from 1.250% to 2.00%. The 2015B Refunding Bonds are not subject to early redemption.

The annual debt service requirements of the Series 2015B bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 795,000	\$ 35,825	\$ 830,825
2018	865,000	23,838	888,838
2019	840,000	8,400	848,400
Subtotal	2,500,000	<u>\$ 68,063</u>	<u>\$ 2,568,063</u>
Bond Discount	(5,995)		
<b>Total</b>	<u>\$ 2,494,005</u>		

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,**  
**Continued**

*C. Long-Term Debt. Continued*

Pledged Revenues

The 2015 Tax Allocation Refunding Bonds of the Successor Agency are payable solely from and secured by tax revenues deposited into Redevelopment Property Tax Trust Fund. Principal and interest on the Series 2015A bonds are guaranteed under an insurance policy.

**1999 Tax Allocation Bonds**

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

The 1999 Tax Allocation Bonds were refunded during the fiscal year ended June 30, 2016 by the Successor Agency to the Redevelopment Agency of the City of East Palo Alto Tax Allocation Refunding Bonds, Series 2015A and 2015B.

**2003 Tax Allocation Bonds**

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

The 2003 Tax Allocation Bonds were refunded during the fiscal year ended June 30, 2016 by the Successor Agency to the Redevelopment Agency of the City of East Palo Alto Tax Allocation Refunding Bonds, Series 2015A and 2015B.

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**15. REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES,**  
**Continued**

*C. Long-Term Debt, Continued*

**2005 East Palo Alto Public Financing Authority Bonds**

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

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

The Authority's 2005 bonds were refunded during the fiscal year ended June 30, 2016 by the Successor Agency to the Redevelopment Agency of the City of East Palo Alto Tax Allocation Refunding Bonds, Series 2015A and 2015B.

*D. Deferred Inflows of Resources*

The Successor Agency recorded the following item as deferred inflows of resources as of June 30, 2016.

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
2003 Refunding Tax Allocation				
Bonds Deferred Gain on Refunding	\$ 310,443	\$ -	\$ (310,443)	\$ -
2015 Tax Allocation Refunding Bonds		536,560	(68,654)	467,906
Total	<u>\$ 310,443</u>	<u>\$ 536,560</u>	<u>\$ (379,097)</u>	<u>\$ 467,906</u>

**City of East Palo Alto**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2016**

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**16. PRIOR PERIOD ADJUSTMENT**

The City recorded prior period adjustments to write off a loan receivable and the accrued interest which was forgiven in prior year and to correct the fund balance due to a reclassification of the land held for resale to capital assets.

Government-wide Statements

	Net Position, as Previously Reported	Prior Period Adjustment Loan Receivable	Net Position, as Restated
Government-Wide Statements Governmental Activities	\$ 81,393,589	\$ (300,000)	\$ 81,093,589

Fund Statements

	Fund Balance, as Previously Reported	Prior Period Adjustment			Fund Balance, as Restated
		Loan Receivable	Unavailable Revenue	Land held for Resale	
Low and Moderate Income Housing Successor Agency Special Revenue Fund	\$ 10,770,090	\$ (300,000)	\$ (169,685)	\$ (2,603,736)	\$ 7,696,669

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**City of East Palo Alto**  
**Required Supplementary Information**  
**For the year ended June 30, 2016**

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**BUDGETS AND BUDGETARY ACCOUNTING**

*A. Budgeting Procedures*

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

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

*B. Encumbrances*

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



**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

**1. BUDGETS AND BUDGETARY ACCOUNTING, Continued**

**C. Budgetary Comparison Schedules**

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

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 9,540,000	\$ 10,025,000	\$ 10,858,874	\$ 833,874
Sales taxes	3,680,000	3,680,000	4,364,562	684,562
Transient occupancy tax	2,220,000	2,220,000	2,247,301	27,301
Utility users tax	1,510,000	1,510,000	1,516,104	6,104
Other taxes	-	11,800	11,756	(44)
Licenses, fees and permits	990,000	1,090,000	1,355,765	265,765
Charges for services	1,354,060	1,784,060	1,972,144	188,084
Fines and forfeitures	293,000	435,000	532,143	97,143
Use of money and property	55,000	55,000	319,581	264,581
Grants and intergovernmental	113,500	242,640	267,493	24,853
Miscellaneous	17,000	1,171,700	1,182,682	10,982
<b>Total revenues</b>	<b>19,772,560</b>	<b>22,225,200</b>	<b>24,628,405</b>	<b>2,403,205</b>
<b>EXPENDITURES:</b>				
Current:				
General government	4,709,715	4,281,865	3,467,286	814,579
Public safety	10,446,650	10,610,035	9,726,008	884,027
Public works	2,420,580	2,622,640	2,364,514	258,126
Culture and recreation	351,265	377,420	304,319	73,101
Community development	1,554,690	1,865,870	1,661,624	204,246
Capital Outlay	-	204,910	145,120	59,790
Debt service:				
Principal	61,350	61,350	61,347	3
Interest, and fiscal charges	4,350	4,350	4,325	25
<b>Total expenditures</b>	<b>19,548,600</b>	<b>20,028,440</b>	<b>17,734,543</b>	<b>2,293,897</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>223,960</b>	<b>2,196,760</b>	<b>6,893,862</b>	<b>4,697,102</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	5,668	(5,668)
Transfers out	(1,296,760)	(3,468,742)	(3,468,742)	-
<b>Total other financing sources (uses)</b>	<b>(1,296,760)</b>	<b>(3,468,742)</b>	<b>(3,463,074)</b>	<b>(5,668)</b>
<b>Net change in fund balance</b>	<b>\$ (1,072,800)</b>	<b>\$ (1,271,982)</b>	<b>3,430,788</b>	<b>\$ 4,702,770</b>
<b>FUND BALANCE:</b>				
Beginning of year			25,178,998	
End of year			\$ 28,609,786	

**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

**1. BUDGETS AND BUDGETARY ACCOUNTING, Continued**

*C. Budgetary Comparison Schedules, Continued*

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

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 84,500	\$ 84,500	\$ 6,857	\$ (77,643)
<b>Total revenues</b>	<u>84,500</u>	<u>84,500</u>	<u>6,857</u>	<u>(77,643)</u>
<b>EXPENDITURES:</b>				
Community development	60,000	60,000	1,638	58,362
<b>Total expenditures</b>	<u>60,000</u>	<u>60,000</u>	<u>1,638</u>	<u>58,362</u>
<b>REVENUES OVER (UNDER) EXPENDITURE</b>	<u>24,500</u>	<u>24,500</u>	<u>5,219</u>	<u>(19,281)</u>
<b>Net change in fund balance</b>	<u>\$ 24,500</u>	<u>\$ 24,500</u>	5,219	<u>\$ (19,281)</u>
<b>FUND BALANCE:</b>				
Beginning of year, as restated			<u>7,696,669</u>	
End of year			<u>\$ 7,701,888</u>	

**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

**1. BUDGETS AND BUDGETARY ACCOUNTING, Continued**

*C. Budgetary Comparison Schedules, Continued*

Budgetary Comparison Schedule, Public Improvements in Lieu Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses, fees and permits	\$ -	\$ -	\$ 48,140	\$ 48,140
Charges for services	15,000	15,000	58,138	43,138
Use of money and property	-	-	5,117	5,117
<b>Total revenues</b>	<b>15,000</b>	<b>15,000</b>	<b>111,395</b>	<b>96,395</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	15,000	96,140	11,767	84,373
Capital outlay	-	820,985	(15,289)	836,274
<b>Total expenditures</b>	<b>15,000</b>	<b>917,125</b>	<b>(3,522)</b>	<b>920,647</b>
<b>REVENUES OVER (UNDER) EXPENDITURE</b>	<b>-</b>	<b>(902,125)</b>	<b>114,917</b>	<b>1,017,042</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(24,377)	(24,377)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(24,377)</b>	<b>(24,377)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ (902,125)</b>	<b>90,540</b>	<b>\$ 992,665</b>
<b>FUND BALANCE:</b>				
Beginning of year			188,644	
End of year			\$ 279,184	

**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

**1. BUDGETS AND BUDGETARY ACCOUNTING, Continued**

*C. Budgetary Comparison Schedules, Continued*

Budgetary Comparison Schedule, Housing in Lieu Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Transient occupancy tax	\$ 269,800	\$ 269,800	\$ 280,913	\$ 11,113
Use of money and property	8,200	8,200	44,684	36,484
Licenses, fees and permits	-	-	5,795,438	5,795,438
Miscellaneous	4,000	4,000	-	(4,000)
<b>Total revenues</b>	<u>282,000</u>	<u>282,000</u>	<u>6,121,035</u>	<u>5,839,035</u>
<b>EXPENDITURES:</b>				
Current:				
General government	29,570	729,570	26,831	702,739
Community development	25,000	89,305	10,327	78,978
<b>Total expenditures</b>	<u>54,570</u>	<u>818,875</u>	<u>37,158</u>	<u>781,717</u>
<b>REVENUES OVER (UNDER) EXPENDITURE</b>	<u>227,430</u>	<u>(536,875)</u>	<u>6,083,877</u>	<u>6,620,752</u>
<b>Net change in fund balance</b>	<u>\$ 227,430</u>	<u>\$ (536,875)</u>	6,083,877	<u>\$ 6,620,752</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>2,394,044</u>	
End of year			<u>\$ 8,477,921</u>	

**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

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**2. DEFINED BENEFIT PENSION PLAN**

*A. Schedule of the City's Proportionate Share of the Net Pension Liability - Last 10 Years\**

	<u>6/30/2016</u>		<u>6/30/2015</u>
Measurement date	6/30/2015		6/30/2014
Proportion of the net pension liability	0.11819%		0.12626%
Proportionate share of the net pension liability	\$ 8,112,375	\$	7,856,469
Covered - employee payroll	\$ 9,257,333	\$	8,008,699
Proportionate Share of the net pension liability as percentage of covered-employee payroll	87.63%		98.10%
Plan fiduciary net position as a percentage of the total pension liability	78.40%		79.82%

\* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**City of East Palo Alto**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2016**

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**B. Schedule of Contributions - Last 10 Years\***

	<u>6/30/2016</u>	<u>6/30/2015</u>
Contractually required contribution (actuarially determined)	\$ 1,371,578	\$ 1,477,383
Contribution in relation to the actuarially determined contributions	<u>(1,371,578)</u>	<u>(1,477,383)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,247,532	\$ 9,257,333
Contributions as a percentage of covered-employee payroll	14.83%	15.96%

\* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown

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# SUPPLEMENTARY INFORMATION

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## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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



## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS (CONTINUED)

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

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

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

**City of East Palo Alto**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2016**

	Special Revenue				
	NPDES	Gas Tax	Federal and	Park in	Rent
	Fees		State Law	Lieu	Stabilization
			Enforcement		Fund
<b>ASSETS</b>					
Cash and investments	\$ 81,962	\$ 2,323,510	\$ 71,116	\$ 1,120,401	\$ 592,191
Restricted cash and investments	-	-	-	1,853	-
Receivables:					
Accrued interest	59	4,603	94	2,252	1,284
Taxes	-	-	-	-	-
Intergovernmental	-	-	20,697	-	-
Accounts receivable	-	-	-	-	64,306
Deposits and prepayments	-	-	-	-	-
Loans and notes receivable	-	-	-	-	-
<b>Total assets</b>	<b>\$ 82,021</b>	<b>\$ 2,328,113</b>	<b>\$ 91,907</b>	<b>\$ 1,124,506</b>	<b>\$ 657,781</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 321	\$ 34,655	\$ 10,075	\$ 2,571	\$ 21,202
Retentions payable	-	-	-	-	-
Unearned revenue	-	-	-	1,853	97,477
Due to other funds	-	-	-	-	-
<b>Total liabilities</b>	<b>321</b>	<b>34,655</b>	<b>10,075</b>	<b>4,424</b>	<b>118,679</b>
<b>Deferred inflows of resources:</b>					
Unavailable revenue - grants	-	-	-	-	-
<b>Fund Balances:</b>					
Restricted	81,700	2,293,458	81,832	1,120,082	539,102
Unassigned	-	-	-	-	-
<b>Total fund balances</b>	<b>81,700</b>	<b>2,293,458</b>	<b>81,832</b>	<b>1,120,082</b>	<b>539,102</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 82,021</b>	<b>\$ 2,328,113</b>	<b>\$ 91,907</b>	<b>\$ 1,124,506</b>	<b>\$ 657,781</b>

Special Revenue

Federal and State Grants	US EPA	Housing Assistance	Measure A	CYSFF Child/ Family	Lighting District
\$ 69,735	\$ -	\$ 142,005	\$ 1,863,254	\$ 645,532	\$ 1,598,887
-	-	-	-	-	-
-	-	-	3,821	1,410	3,103
-	-	-	-	27,435	-
22,105	330,339	-	-	-	-
-	-	4,002	47,599	-	-
-	-	-	2,665	-	-
-	-	246,821	-	-	-
<u>\$ 91,840</u>	<u>\$ 330,339</u>	<u>\$ 392,828</u>	<u>\$ 1,917,339</u>	<u>\$ 674,377</u>	<u>\$ 1,601,990</u>
\$ 5,285	\$ 26,646	\$ 358	\$ 55,539	\$ 32,461	\$ 14,184
-	-	-	72,642	-	-
-	-	-	-	-	-
-	303,692	-	-	-	-
<u>5,285</u>	<u>330,338</u>	<u>358</u>	<u>128,181</u>	<u>32,461</u>	<u>14,184</u>
<u>5,136</u>	<u>191,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
81,419	-	392,470	1,789,158	641,916	1,587,806
-	(191,656)	-	-	-	-
<u>81,419</u>	<u>(191,656)</u>	<u>392,470</u>	<u>1,789,158</u>	<u>641,916</u>	<u>1,587,806</u>
<u>\$ 91,840</u>	<u>\$ 330,339</u>	<u>\$ 392,828</u>	<u>\$ 1,917,339</u>	<u>\$ 674,377</u>	<u>\$ 1,601,990</u>

**City of East Palo Alto**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2016**

	Special Revenue			Total
	Drainage District	Measure C	Local Grants	Non-Major Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 67,388	\$ 1,429,452	\$ 53	\$ 10,005,486
Restricted cash and investments	-	-	-	1,853
Receivables:				
Accrued interest	131	2,894	-	19,651
Taxes	-	-	-	27,435
Intergovernmental	-	-	209,819	582,960
Accounts receivable	-	-	-	115,907
Deposits and prepayments	-	-	-	2,665
Loans and notes receivable	-	-	-	246,821
<b>Total assets</b>	<b>\$ 67,519</b>	<b>\$ 1,432,346</b>	<b>\$ 209,872</b>	<b>\$ 11,002,778</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 3,107	\$ 27,293	\$ 27,784	\$ 261,481
Retentions payable	-	-	-	72,642
Unearned revenue	-	-	-	99,330
Due to other funds	-	-	20,604	324,296
<b>Total liabilities</b>	<b>3,107</b>	<b>27,293</b>	<b>48,388</b>	<b>757,749</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue - grants	-	-	166,896	363,689
<b>Fund Balances:</b>				
Restricted	64,412	1,405,053	-	10,078,408
Unassigned	-	-	(5,412)	(197,068)
<b>Total fund balances</b>	<b>64,412</b>	<b>1,405,053</b>	<b>(5,412)</b>	<b>9,881,340</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 67,519</b>	<b>\$ 1,432,346</b>	<b>\$ 209,872</b>	<b>\$ 11,002,778</b>

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**City of East Palo Alto**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the year ended June 30, 2016**

	Special Revenue				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization Fund
<b>REVENUES:</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Transient occupancy tax	-	-	-	-	-
Other taxes	-	651,365	-	-	-
Licenses, fees and permits	-	-	-	1,026,196	-
Charges for services	133,653	-	-	-	614,063
Use of money and property	170	21,913	327	8,576	5,780
Grants and intergovernmental	-	-	203,668	-	-
Miscellaneous	-	30,049	-	-	-
<b>Total revenues</b>	<b>133,823</b>	<b>703,327</b>	<b>203,995</b>	<b>1,034,772</b>	<b>619,843</b>
<b>EXPENDITURES:</b>					
Current:					
General government	14,760	193,543	-	-	218,060
Public safety	-	-	151,816	-	-
Public works	69,420	383,407	-	-	-
Culture and recreation	-	-	-	-	-
Community development	-	3,000	-	37,000	321,904
Capital outlay	-	-	-	32,750	-
<b>Total expenditures</b>	<b>84,180</b>	<b>579,950</b>	<b>151,816</b>	<b>69,750</b>	<b>539,964</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>49,643</b>	<b>123,377</b>	<b>52,179</b>	<b>965,022</b>	<b>79,879</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	34,761	-	-	-	-
Transfers out	-	-	-	(5,668)	-
<b>Total other financing sources (uses)</b>	<b>34,761</b>	<b>-</b>	<b>-</b>	<b>(5,668)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>84,404</b>	<b>123,377</b>	<b>52,179</b>	<b>959,354</b>	<b>79,879</b>
<b>FUND BALANCES:</b>					
Beginning of the year	(2,704)	2,170,081	29,653	160,728	459,223
End of year	<u>\$ 81,700</u>	<u>\$ 2,293,458</u>	<u>\$ 81,832</u>	<u>\$ 1,120,082</u>	<u>\$ 539,102</u>

Special Revenue

Federal and State Grants	US EPA	Housing Assistance	Measure A	CYSFF Child/ Family	Lighting District
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,756
-	-	-	569,334	-	-
-	-	-	-	280,913	-
-	-	-	-	-	-
-	-	295	-	-	-
45	-	7,100	18,698	6,621	14,182
53,967	138,682	-	-	-	-
-	-	-	-	-	-
<u>54,012</u>	<u>138,682</u>	<u>7,395</u>	<u>588,032</u>	<u>287,534</u>	<u>464,938</u>
-	-	-	12,982	16,930	64,701
-	-	-	-	-	-
-	-	-	-	-	153,847
46,081	-	-	-	217,560	-
-	-	4,211	58,714	-	-
-	129,500	-	588,668	-	34,622
<u>46,081</u>	<u>129,500</u>	<u>4,211</u>	<u>660,364</u>	<u>234,490</u>	<u>253,170</u>
<u>7,931</u>	<u>9,182</u>	<u>3,184</u>	<u>(72,332)</u>	<u>53,044</u>	<u>211,768</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,931</u>	<u>9,182</u>	<u>3,184</u>	<u>(72,332)</u>	<u>53,044</u>	<u>211,768</u>
<u>73,488</u>	<u>(200,838)</u>	<u>389,286</u>	<u>1,861,490</u>	<u>588,872</u>	<u>1,376,038</u>
<u>\$ 81,419</u>	<u>\$ (191,656)</u>	<u>\$ 392,470</u>	<u>\$ 1,789,158</u>	<u>\$ 641,916</u>	<u>\$ 1,587,806</u>

**City of East Palo Alto**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the year ended June 30, 2016**

	Special Revenue			Total Non-Major Governmental Funds
	Drainage District	Measure C	Local Grants	
<b>REVENUES:</b>				
Property taxes	\$ 81,131	\$ -	\$ -	\$ 531,887
Sales taxes	-	-	-	569,334
Transient occupancy tax	-	-	-	280,913
Other taxes	-	702,175	-	1,353,540
Licenses, fees and permits	-	-	-	1,026,196
Charges for services	-	-	-	748,011
Use of money and property	813	14,107	53	98,385
Grants and intergovernmental	-	-	214,153	610,470
Miscellaneous	-	-	-	30,049
<b>Total revenues</b>	<b>81,944</b>	<b>716,282</b>	<b>214,206</b>	<b>5,248,785</b>
<b>EXPENDITURES:</b>				
Current:				
General government	12,909	8,139	874	542,898
Public safety	-	298,938	23,356	474,110
Public works	135,354	-	-	742,028
Culture and recreation	-	468,612	-	732,253
Community development	-	-	165,574	590,403
Capital outlay	-	-	-	785,540
<b>Total expenditures</b>	<b>148,263</b>	<b>775,689</b>	<b>189,804</b>	<b>3,867,232</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(66,319)</b>	<b>(59,407)</b>	<b>24,402</b>	<b>1,381,553</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	34,761
Transfers out	-	-	-	(5,668)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,093</b>
<b>Net change in fund balances</b>	<b>(66,319)</b>	<b>(59,407)</b>	<b>24,402</b>	<b>1,410,646</b>
<b>FUND BALANCES:</b>				
Beginning of the year, as restated	130,731	1,464,460	(29,814)	8,470,694
End of year	\$ 64,412	\$ 1,405,053	\$ (5,412)	\$ 9,881,340



# City of East Palo Alto

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

### NPDES Fees Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 131,400	\$ 132,120	\$ 133,653	\$ 1,533
Use of money and property	-	-	170	170
<b>Total revenues</b>	<b>131,400</b>	<b>132,120</b>	<b>133,823</b>	<b>1,703</b>
<b>EXPENDITURES:</b>				
Current:				
General government	14,820	14,820	14,760	60
Public works	79,800	80,520	69,420	11,100
Community development	71,540	71,540	-	71,540
<b>Total expenditures</b>	<b>166,160</b>	<b>166,880</b>	<b>84,180</b>	<b>82,700</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(34,760)</b>	<b>(34,760)</b>	<b>49,643</b>	<b>84,403</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	34,760	34,760	34,761	1
<b>Total other financing sources (uses)</b>	<b>34,760</b>	<b>34,760</b>	<b>34,761</b>	<b>1</b>
<b>Net change in fund balance</b>	<b>\$ (34,760)</b>	<b>\$ (34,760)</b>	<b>84,404</b>	<b>\$ 84,404</b>
<b>FUND BALANCE:</b>				
Beginning of year			(2,704)	
End of year			\$ 81,700	

# City of East Palo Alto

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

### Gas Tax Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Other taxes	\$ 714,770	\$ 717,500	\$ 651,365	\$ (66,135)
Use of money and property	8,020	8,020	21,913	13,893
Miscellaneous	-	-	30,049	30,049
<b>Total revenues</b>	<b>722,790</b>	<b>725,520</b>	<b>703,327</b>	<b>(22,193)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	180,730	193,545	193,543	2
Public works	426,990	416,905	383,407	33,498
Community development	-	-	3,000	(3,000)
Capital outlay	500,000	630,000	-	630,000
<b>Total expenditures</b>	<b>1,107,720</b>	<b>1,240,450</b>	<b>579,950</b>	<b>660,500</b>
<b>Net change in fund balance</b>	<b>\$ (384,930)</b>	<b>\$ (514,930)</b>	<b>123,377</b>	<b>\$ 638,307</b>
<b>FUND BALANCE:</b>				
Beginning of year			2,170,081	
End of year			<u>\$ 2,293,458</u>	

# City of East Palo Alto

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

### Federal and State Law Enforcement Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 327	\$ 327
Grants and intergovernmental	183,330	183,330	203,668	20,338
<b>Total revenues</b>	<b>183,330</b>	<b>183,330</b>	<b>203,995</b>	<b>20,665</b>
<b>EXPENDITURES:</b>				
Current:				
Public safety	183,330	183,330	151,816	31,514
<b>Total expenditures</b>	<b>183,330</b>	<b>183,330</b>	<b>151,816</b>	<b>31,514</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>52,179</b>	<b>\$ 52,179</b>
<b>FUND BALANCE:</b>				
Beginning of year			29,653	
End of year			\$ 81,832	

# City of East Palo Alto

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

### Park in Lieu Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses, fees and permits	\$ -	\$ 1,030,215	\$ 1,026,196	\$ (4,019)
Use of money and property	600	600	8,576	7,976
<b>Total revenues</b>	<b>600</b>	<b>1,030,815</b>	<b>1,034,772</b>	<b>3,957</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	-	17,745	37,000	(19,255)
Capital outlay	-	39,375	32,750	6,625
<b>Total expenditures</b>	<b>-</b>	<b>57,120</b>	<b>69,750</b>	<b>(12,630)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>600</b>	<b>973,695</b>	<b>965,022</b>	<b>(8,673)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer out	-	-	(5,668)	(5,668)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(5,668)</b>	<b>(5,668)</b>
<b>Net change in fund balance</b>	<b>\$ 600</b>	<b>\$ 973,695</b>	<b>959,354</b>	<b>\$ (14,341)</b>
<b>FUND BALANCE:</b>				
Beginning of year			160,728	
End of year			\$ 1,120,082	

# City of East Palo Alto

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

### Rent Stabilization Fund Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ 555,000	\$ 559,480	\$ 614,063	\$ 54,583
Use of money and property	1,000	1,000	5,780	4,780
<b>Total revenues</b>	<b>556,000</b>	<b>560,480</b>	<b>619,843</b>	<b>59,363</b>
<b>EXPENDITURES:</b>				
Current:				
General government	212,310	217,560	218,060	(500)
Community development	430,770	430,000	321,904	108,096
<b>Total expenditures</b>	<b>643,080</b>	<b>647,560</b>	<b>539,964</b>	<b>107,596</b>
<b>Net change in fund balance</b>	<b>\$ (87,080)</b>	<b>\$ (87,080)</b>	<b>79,879</b>	<b>\$ 166,959</b>
<b>FUND BALANCE:</b>				
Beginning of year			459,223	
End of year			\$ 539,102	

# City of East Palo Alto

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

### Federal and State Grants Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 45	\$ 45
Grants and intergovernmental	47,000	751,933	53,967	(697,966)
<b>Total revenues</b>	<b>47,000</b>	<b>751,933</b>	<b>54,012</b>	<b>(697,921)</b>
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	47,000	51,933	46,081	5,852
Capital outlay	-	700,000	-	700,000
<b>Total expenditures</b>	<b>47,000</b>	<b>751,933</b>	<b>46,081</b>	<b>705,852</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>7,931</b>	<b>\$ 7,931</b>
<b>FUND BALANCE:</b>				
Beginning of year			73,488	
End of year			\$ 81,419	

**City of East Palo Alto**

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

**US EPA Special Revenue Fund**

**For the year ended June 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and intergovernmental	\$ -	\$ 720,360	\$ 138,682	\$ (581,678)
<b>Total revenues</b>	<b>-</b>	<b>720,360</b>	<b>138,682</b>	<b>(581,678)</b>
<b>EXPENDITURES:</b>				
Capital outlay	-	514,255	129,500	384,755
<b>Total expenditures</b>	<b>-</b>	<b>514,255</b>	<b>129,500</b>	<b>384,755</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ 206,105</b>	<b>9,182</b>	<b>\$ (196,923)</b>
<b>FUND BALANCE:</b>				
Beginning of year			(200,838)	
End of year			<u>\$ (191,656)</u>	

**City of East Palo Alto**

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

**Housing Assistance Special Revenue Fund**

**For the year ended June 30, 2016**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Charges for services	\$ -	\$ -	\$ 295	\$ 295
Use of money and property	5,500	5,500	7,100	1,600
<b>Total revenues</b>	<b>5,500</b>	<b>5,500</b>	<b>7,395</b>	<b>1,895</b>
<b>EXPENDITURES:</b>				
Current:				
Community development	-	-	4,211	(4,211)
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>4,211</b>	<b>(4,211)</b>
<b>Net change in fund balance</b>	<b>\$ 5,500</b>	<b>\$ 5,500</b>	<b>3,184</b>	<b>\$ (2,316)</b>
<b>FUND BALANCE:</b>				
Beginning of year			389,286	
End of year			\$ 392,470	



# City of East Palo Alto

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

### Measure A Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Sales taxes	\$ 563,100	\$ 563,100	\$ 569,334	\$ 6,234
Use of money and property	7,900	7,900	18,698	10,798
<b>Total revenues</b>	<b>571,000</b>	<b>571,000</b>	<b>588,032</b>	<b>17,032</b>
<b>EXPENDITURES:</b>				
Current:				
General government	12,990	12,990	12,982	8
Community development	136,800	136,800	58,714	78,086
Capital outlay	-	923,825	588,668	335,157
<b>Total expenditures</b>	<b>149,790</b>	<b>1,073,615</b>	<b>660,364</b>	<b>413,251</b>
<b>Net change in fund balance</b>	<b>\$ 421,210</b>	<b>\$ (502,615)</b>	<b>(72,332)</b>	<b>\$ 430,283</b>
<b>FUND BALANCE:</b>				
Beginning of year			1,861,490	
End of year			<b>\$ 1,789,158</b>	

# City of East Palo Alto

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

### CYSFF Child/Family Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Transient occupancy tax	\$ 269,800	\$ 269,800	\$ 280,913	\$ 11,113
Use of money and property	1,200	1,200	6,621	5,421
<b>Total revenues</b>	<b>271,000</b>	<b>271,000</b>	<b>287,534</b>	<b>16,534</b>
<b>EXPENDITURES:</b>				
Current:				
General government	16,930	16,930	16,930	-
Culture and recreation	254,070	254,070	217,560	36,510
<b>Total expenditures</b>	<b>271,000</b>	<b>271,000</b>	<b>234,490</b>	<b>36,510</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>53,044</b>	<b>\$ 53,044</b>
<b>FUND BALANCE:</b>				
Beginning of year			588,872	
End of year			<b>\$ 641,916</b>	

# City of East Palo Alto

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

### Lighting District Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 341,050	\$ 344,015	\$ 450,756	\$ 106,741
Use of money and property	4,900	4,900	14,182	9,282
<b>Total revenues</b>	<b>345,950</b>	<b>348,915</b>	<b>464,938</b>	<b>116,023</b>
<b>EXPENDITURES:</b>				
Current:				
General government	64,660	64,660	64,701	(41)
Public works	239,880	242,845	153,847	88,998
Community development	1,200	1,200	-	1,200
Capital outlay	200,000	232,800	34,622	198,178
<b>Total expenditures</b>	<b>505,740</b>	<b>541,505</b>	<b>253,170</b>	<b>288,335</b>
<b>Net change in fund balance</b>	<b>\$ (159,790)</b>	<b>\$ (192,590)</b>	<b>211,768</b>	<b>\$ 404,358</b>
<b>FUND BALANCE:</b>				
Beginning of year			1,376,038	
End of year			<b>\$ 1,587,806</b>	

# City of East Palo Alto

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

### Drainage District Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 75,820	\$ 76,390	\$ 81,131	\$ 4,741
Use of money and property	750	750	813	63
<b>Total revenues</b>	<b>76,570</b>	<b>77,140</b>	<b>81,944</b>	<b>4,804</b>
<b>EXPENDITURES:</b>				
Current:				
General government	12,850	12,850	12,909	(59)
Public works	116,370	116,940	135,354	(18,414)
<b>Total expenditures</b>	<b>129,220</b>	<b>129,790</b>	<b>148,263</b>	<b>(18,473)</b>
<b>Net change in fund balance</b>	<b>\$ (52,650)</b>	<b>\$ (52,650)</b>	<b>(66,319)</b>	<b>\$ (13,669)</b>
<b>FUND BALANCE:</b>				
Beginning of year			130,731	
End of year			\$ 64,412	

# City of East Palo Alto

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

### Measure C Special Revenue Fund

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Other taxes	\$ 700,000	\$ 700,000	\$ 702,175	\$ 2,175
Use of money and property	-	3,165	14,107	10,942
<b>Total revenues</b>	<b>700,000</b>	<b>703,165</b>	<b>716,282</b>	<b>13,117</b>
<b>EXPENDITURES:</b>				
Current:				
General government	8,050	8,050	8,139	(89)
Public safety	321,360	324,525	298,938	25,587
Culture and recreation	797,120	809,870	468,612	341,258
<b>Total expenditures</b>	<b>1,126,530</b>	<b>1,142,445</b>	<b>775,689</b>	<b>366,756</b>
<b>Net change in fund balance</b>	<b>\$ (426,530)</b>	<b>\$ (439,280)</b>	<b>(59,407)</b>	<b>\$ 379,873</b>
<b>FUND BALANCE:</b>				
Beginning of year			1,464,460	
End of year			\$ 1,405,053	

# City of East Palo Alto

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

### Local Grants

For the year ended June 30, 2016

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 53	\$ 53
Grants and intergovernmental	245,000	267,000	214,153	(52,847)
<b>Total revenues</b>	<b>245,000</b>	<b>267,000</b>	<b>214,206</b>	<b>(52,794)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	874	(874)
Public safety	\$ -	\$ 22,000	\$ 23,356	\$ (1,356)
Community development	245,000	245,000	165,574	79,426
<b>Total expenditures</b>	<b>245,000</b>	<b>267,000</b>	<b>189,804</b>	<b>77,196</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>24,402</b>	<b>\$ 24,402</b>
<b>FUND BALANCE:</b>				
Beginning of year			(29,814)	
End of year			<b>\$ (5,412)</b>	

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# STATISTICAL SECTION

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

## ***Financial Trends***

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

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

## ***Revenue Capacity***

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

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

## ***Debt Capacity***

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

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

## ***Demographic and Economic Information***

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

1. Demographic and Economic Statistics
2. Principal Employers

## ***Operating Information***

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

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

## ***Operating Information***

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

**City of East Palo Alto**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Government activities</b>										
Net investment in capital assets	21,298,218	24,175,266	24,877,257	25,163,127	28,011,307	28,412,193	29,816,204	31,132,522	35,561,630	41,044,530
Restricted For:										
Debt Service	-	19,881,567	20,744,394	4,421,602	2,034,560	-	-	-	-	-
Low and moderate income housing	9,616,232	10,937,302	11,546,134	12,383,908	10,997,923	-	-	-	-	-
Public Safety	97,796	460,293	-	-	-	-	-	-	-	-
Highway and Street Projects	3,372,600	3,725,541	4,152,124	4,234,053	2,851,472	2,771,433	3,017,783	4,971,963	5,538,340	5,816,534
Parks and Recreation	1,304,783	1,379,246	1,147,341	940,572	703,171	713,964	368,473	496,583	550,014	1,120,082
Housing Programs	-	-	-	-	1,342,896	1,517,432	2,088,380	13,108,951	14,012,643	17,325,494
Special Programs	-	-	-	-	-	-	-	726,772	954,220	1,168,856
Capital projects	-	-	-	-	-	-	-	209,247	188,644	279,184
Measure C programs	-	-	-	-	-	1,350,227	1,505,044	1,483,198	1,464,460	1,405,053
Total restricted	14,391,411	36,383,949	38,924,340	23,200,043	19,088,514	6,353,056	6,969,680	20,996,714	22,708,321	27,115,203
Unrestricted	(20,401,483)	(29,124,597)	(27,641,786)	(13,680,807)	(8,749,180)	33,078,872	37,447,102	26,832,636	23,123,638	28,798,504
<b>Total governmental activities net assets</b>	<b>15,288,146</b>	<b>31,434,618</b>	<b>36,159,811</b>	<b>34,682,363</b>	<b>38,350,641</b>	<b>67,844,121</b>	<b>74,232,986</b>	<b>78,961,872</b>	<b>81,393,589</b>	<b>96,958,237</b>
<b>Business-type activities</b>										
Net investment in capital assets	5,381,783	5,100,616	4,867,912	4,503,722	4,319,814	4,134,175	3,938,884	3,743,594	3,548,303	3,353,012
Restricted For:										
Capital Projects	-	-	-	834,095	834,286	834,470	836,720	834,882	835,114	3,899,058
Total restricted	-	-	-	834,095	834,286	834,470	836,720	834,882	835,114	3,899,058
Unrestricted	1,738,594	2,459,697	2,360,001	1,483,820	1,055,762	1,037,305	1,453,874	1,685,818	1,889,840	1,946,951
<b>Total business-type activities net assets</b>	<b>7,120,377</b>	<b>7,560,313</b>	<b>7,227,913</b>	<b>6,821,637</b>	<b>6,209,862</b>	<b>6,005,950</b>	<b>6,229,478</b>	<b>6,264,294</b>	<b>6,273,257</b>	<b>9,199,021</b>
<b>Primary Government</b>										
Net investment in capital assets	26,680,001	29,275,882	29,745,169	29,666,849	32,331,121	32,546,368	33,755,088	34,876,116	39,109,933	44,397,542
Restricted	14,391,411	36,383,949	38,924,340	24,034,138	19,922,800	7,187,526	7,806,400	21,831,596	23,543,435	31,014,261
Unrestricted	(18,662,889)	(26,664,900)	(25,281,785)	(12,196,987)	(7,693,418)	34,116,177	38,900,976	28,518,454	25,013,478	30,745,455
<b>Total primary government net assets</b>	<b>22,408,523</b>	<b>38,994,931</b>	<b>43,387,724</b>	<b>41,504,000</b>	<b>44,560,503</b>	<b>73,850,071</b>	<b>80,462,464</b>	<b>85,226,166</b>	<b>87,666,846</b>	<b>106,157,258</b>

Note: Prior to the dissolution of the Former Redevelopment Agency on 2/1/2012, the capital debt financing and Low/Moderate Income Housing balances had been reported in the Government Activities. All assets and liabilities of the former Agency were transferred whereby the debt financing activity is reported in the Successor Agency Trust Fund and the housing activity was transferred to the City as successor for the program.



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

	Fiscal Year Ending June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
<b>Governmental Activities:</b>										
General government	3,170,200	3,932,553	3,859,589	5,119,297	4,700,459	4,634,178	4,396,506	4,055,087	3,660,815	3,490,986
Public safety	9,220,203	8,935,880	10,309,298	11,005,614	10,972,657	10,374,212	10,408,814	10,806,440	10,303,086	10,590,305
Public works	2,964,223	3,063,920	459,853	4,036,926	3,055,334	3,028,589	3,521,107	3,371,899	4,622,878	4,608,966
Culture and recreation	798,679	700,497	4,076,009	1,228,036	1,333,904	1,525,961	513,923	775,115	786,238	1,196,143
Community Development	3,131,545	3,603,493	5,920,364	7,230,567	5,333,924	3,340,428	2,608,543	3,147,112	2,419,345	2,501,949
Interest on long-term debt	2,744,481	2,618,397	3,067,294	2,882,117	2,291,283	1,295,832	1,306	3,281	4,180	4,325
Total governmental activities	22,029,331	22,854,740	27,692,407	31,502,557	27,687,561	24,199,200	21,450,199	22,158,934	21,796,542	22,392,674
<b>Business-type activities</b>										
Water Service	440,589	524,709	460,887	619,277	439,826	326,502	340,916	402,914	357,769	342,263
Garbage collection	1,765,870	1,895,331	1,708,893	1,616,967	2,602,083	2,583,098	2,174,074	2,353,590	2,420,314	2,490,862
Total business-type activities	2,206,459	2,420,040	2,169,780	2,236,244	3,041,909	2,909,600	2,514,990	2,756,504	2,778,083	2,833,125
Total primary government expenses	24,235,790	25,274,780	29,862,187	33,738,801	30,729,470	27,108,800	23,965,189	24,915,438	24,574,625	25,225,799
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
Charges for Service:										
General government	41,641	3,481	19,249	2,536	18,101	4,744	5,153	6,549	11,512	22,278
Public safety	99,012	186,210	173,177	207,305	249,676	248,855	242,704	283,271	392,781	574,595
Public works	178,202	121,665	104,772	47,852	169,034	79,138	114,107	337,426	129,437	221,994
Culture and recreation	7,696	11,808	43,638	11,411	91,961	311,158	11,429	-	-	-
Community Development	966,262	1,211,953	765,015	455,586	1,049,045	1,203,310	1,427,453	1,440,886	1,660,988	2,088,395
Operating Grants and Contributions	4,419,015	3,214,779	4,162,714	4,896,638	3,621,393	3,799,544	4,616,972	2,794,311	3,353,230	2,643,028
Capital Grants and Contributions	435,188	3,416,868	1,614,942	178,073	1,266,486	703,817	1,414,317	2,767,803	4,289,620	8,348,064
Total governmental activities program revenues	6,147,016	8,166,764	6,883,507	5,799,401	6,465,696	6,350,566	7,832,135	7,630,246	9,837,568	13,898,354
<b>Business-type activities</b>										
Charges for Service:										
Water Service	329,539	885,986	199,816	1,74,743	243,750	223,037	259,353	258,045	275,339	980,296
Garbage collection	2,059,546	1,895,698	1,679,492	1,642,054	2,163,837	2,462,700	2,465,513	2,523,718	2,498,723	2,482,434
Total business-type activities program revenues	2,389,085	2,781,684	1,879,308	1,816,797	2,407,587	2,685,737	2,724,866	2,781,763	2,774,062	3,462,730
Total primary government revenues	8,536,101	10,948,448	8,762,815	7,616,198	8,873,283	9,036,303	10,557,001	10,412,009	12,611,630	17,361,084
<b>Net Revenue (Expenses):</b>										
<b>Governmental Activities</b>	(15,882,315)	(14,687,976)	(20,808,900)	(25,703,156)	(21,221,865)	(17,848,634)	(13,618,064)	(14,528,688)	(11,958,974)	(8,494,320)
<b>Business-type Activities</b>	182,626	361,644	(290,472)	(419,447)	(634,322)	(223,863)	209,876	25,259	(4,021)	629,605
Total Net Revenue (Expenses)	(15,699,689)	(14,326,332)	(21,099,372)	(26,122,603)	(21,856,187)	(18,072,497)	(13,408,188)	(14,503,429)	(11,962,995)	(7,864,715)

**General Revenues and Other Changes in Net Position**

<b>Governmental activities</b>										
<b>Taxes</b>										
Property Taxes	16,143,870	16,230,210	17,193,291	15,934,214	15,291,232	12,338,184	10,752,244	9,411,575	10,260,689	11,428,331
Utility Users Tax	1,585,722	1,582,042	1,647,057	1,591,204	1,502,939	1,418,457	1,434,208	1,464,049	1,513,088	1,516,104
Parcel Tax	-	702,840	710,500	717,549	704,164	717,528	702,084	719,704	711,619	713,931
Sales Tax	2,481,442	2,524,797	2,424,013	2,301,318	2,870,854	3,003,836	3,022,310	3,113,705	3,798,237	4,364,562
Transient occupancy tax	1,586,173	1,959,798	1,610,286	1,720,233	2,269,128	1,886,852	2,145,044	2,452,951	2,803,542	2,809,127
Franchise and business Tax	201,344	139,173	94,542	97,979	177,344	1,264,674	1,407,440	1,470,410	1,698,507	1,510,308
Investment earnings	1,638,500	2,131,569	1,138,926	1,442,654	1,388,987	1,260,104	240,412	194,682	232,001	312,707
Miscellaneous	89,974	-	715,478	420,557	692,898	395,396	303,188	430,498	493,864	719,437
Transfers	-	-	-	-	(7,403)	-	-	-	-	-
Extraordinary items	-	-	-	-	-	25,057,083	-	-	-	3,246,461
<b>Total Governmental activities</b>	<b>23,727,025</b>	<b>25,270,429</b>	<b>25,534,093</b>	<b>24,225,708</b>	<b>24,890,143</b>	<b>47,342,114</b>	<b>20,006,930</b>	<b>19,257,574</b>	<b>21,511,547</b>	<b>26,620,968</b>
<b>Business-type activities:</b>										
Investment earnings	93,672	78,292	(41,928)	13,171	15,144	19,951	13,652	9,557	12,984	34,159
Transfers	-	-	-	-	7,403	-	-	-	-	-
<b>Total Business-type activities</b>	<b>93,672</b>	<b>78,292</b>	<b>(41,928)</b>	<b>13,171</b>	<b>22,547</b>	<b>19,951</b>	<b>13,652</b>	<b>9,557</b>	<b>12,984</b>	<b>34,159</b>
<b>Total primary government</b>										
	<b>23,820,697</b>	<b>25,348,721</b>	<b>25,492,165</b>	<b>24,238,879</b>	<b>24,912,690</b>	<b>47,362,065</b>	<b>20,020,582</b>	<b>19,267,131</b>	<b>21,524,531</b>	<b>26,655,127</b>
<b>Changes in net Assets</b>										
Governmental Activities	7,844,710	10,582,453	4,725,193	(1,477,448)	3,668,278	29,493,480	6,388,866	4,728,886	9,552,573	18,126,648
Business-type Activities	276,298	439,936	(332,400)	(406,276)	(611,775)	(203,912)	223,528	34,816	8,963	663,764
<b>Changes in Net Assets</b>	<b>8,121,008</b>	<b>11,022,389</b>	<b>4,392,793</b>	<b>(1,883,724)</b>	<b>3,056,503</b>	<b>29,289,568</b>	<b>6,612,394</b>	<b>4,763,702</b>	<b>9,561,536</b>	<b>18,790,412</b>

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

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Fund</b>										
Reserved	11,379,597	12,676,253	13,597,260	13,710,502						
Unreserved	3,154,308	5,406,886	6,976,500	6,575,765						
Nonspendable					12,760,896	11,662,202	11,760,041	11,776,028	11,769,991	11,932,475
Restricted										
Assigned					248,259	2,117,679	2,187,004	77,915	187,141	383,658
Unassigned					6,612,069	6,822,196	9,114,594	12,305,114	13,221,866	16,293,653
Total General Fund	14,533,905	18,083,139	20,573,760	20,286,267	19,621,224	20,602,077	23,061,639	24,159,057	25,178,998	28,609,786
<b>All Other Governmental Funds</b>										
Reserved	28,930,206	29,665,723	30,755,524	17,220,741						
Unreserved, reported in:										
Special revenue funds	3,016,232	10,947,512	10,728,072	8,390,162						
Capital projects funds	(9,330,371)	(8,279,431)	(8,556,368)	(12,293,874)						
Permanent funds	6,464,873									
Restricted					40,241,982	18,085,109	19,093,787	21,304,289	22,684,977	26,537,401
Nonspendable							57,051			
Assigned					4,213,590	1,309,475	1,449,121	703,226	1,913,459	4,803,773
Unassigned					(12,935,810)	(205,168)	(242,822)	(340,922)	(233,356)	(197,068)
Total all other governmental funds	29,080,940	32,333,804	32,927,228	13,317,029	31,519,762	19,189,416	20,357,137	21,666,593	24,365,080	31,144,106
<b>Total all governmental funds</b>	<b>43,614,845</b>	<b>50,416,943</b>	<b>53,500,988</b>	<b>33,603,296</b>	<b>51,140,986</b>	<b>39,791,493</b>	<b>43,418,776</b>	<b>45,825,650</b>	<b>49,544,078</b>	<b>59,753,892</b>

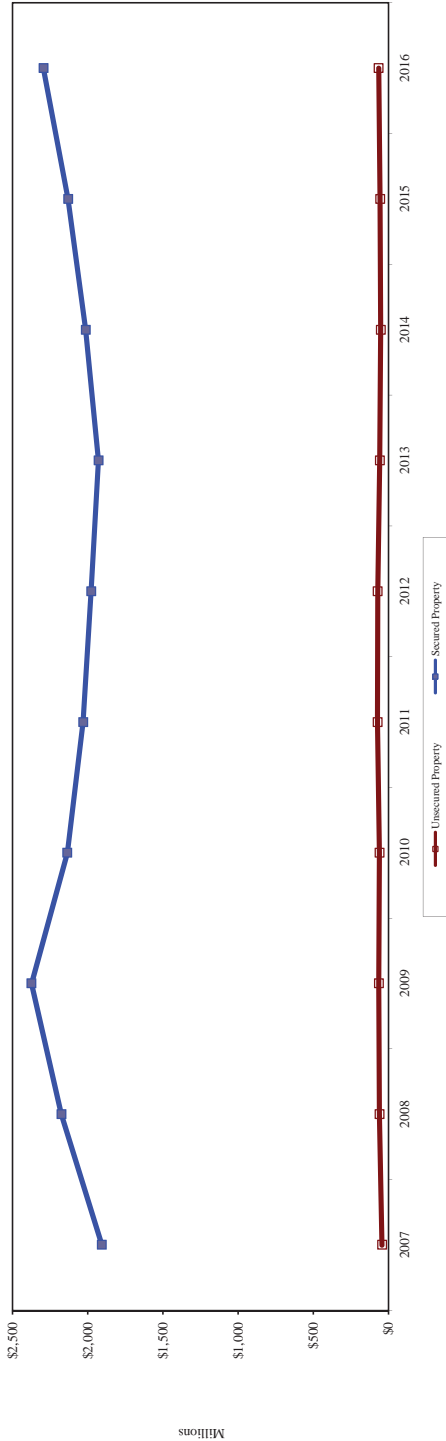
Note:  
In Fiscal Year 2010-11, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Government Fund Type Definitions". The fund balance classifications changed in accordance with implementation of GASB 54.

**City of East Palo Alto**  
**Changes in Fund Balances-Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)

	Fiscal Year Ending June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>										
Taxes	20,480,740	22,093,509	23,285,450	21,854,984	22,046,785	19,849,192	18,545,522	18,700,903	20,271,896	22,015,184
Licenses, fees, and permits	741,979	695,105	684,903	758,510	1,451,605	1,474,305	1,637,444	927,194	932,302	8,225,539
Charges for services	1,757,569	1,960,341	1,565,339	1,188,851	1,094,850	1,398,072	1,345,024	2,110,075	2,638,045	2,778,293
Fines and forfeitures					239,233	239,475	225,680	261,440	368,621	532,143
Use of money and property	2,112,772	2,793,335	535,836	644,080	4,308,643	1,299,287	189,795	207,461	245,602	474,624
Contributions and donations (a)	2,047,965	1,218,408	-	-	-	-	-	-	-	-
Grants and intergovernmental	2,862,795	2,230,043	5,169,616	4,319,092	4,286,769	3,882,039	4,091,814	3,181,804	4,941,401	3,589,152
Miscellaneous	89,974	376,924	253,140	222,793	1,173,265	407,755	372,686	607,906	609,570	1,212,731
<b>Total revenues</b>	<b>30,093,794</b>	<b>31,367,665</b>	<b>31,494,284</b>	<b>28,988,310</b>	<b>34,601,150</b>	<b>28,550,125</b>	<b>28,407,965</b>	<b>25,996,783</b>	<b>30,007,437</b>	<b>38,827,666</b>
<b>Expenditures</b>										
<b>Current</b>										
General Government	3,550,877	4,168,820	3,842,178	5,009,536	4,817,557	4,601,057	4,361,346	4,050,248	3,804,928	4,037,015
Public Safety	9,317,197	8,862,537	10,278,800	11,301,946	10,767,107	10,205,449	10,089,238	10,673,461	10,237,181	10,200,118
Public Works	2,447,594	2,563,643	3,206,456	3,989,167	3,359,333	2,853,818	3,338,504	2,421,820	2,698,224	3,106,375
Culture and recreation	605,279	693,526	830,598	1,351,058	714,746	709,236	509,561	774,662	789,369	1,036,572
Community Development	3,004,489	3,361,924	4,963,224	6,999,593	5,080,138	3,069,120	2,486,567	3,969,143	2,263,113	2,257,570
Outside Services										
Capital Outlay	867,633	1,430,536	1,564,730	872,973	3,568,500	3,300,116	2,124,427	1,668,320	6,877,626	2,524,109
Debt Service (b)										
Principal repayment	1,156,063	420,000	445,000	16,120,000	1,075,000	1,120,000	9,718	29,914	45,254	61,347
Interest & fiscal charges	2,890,750	3,054,581	3,269,253	3,241,729	3,323,676	1,611,102	1,306	3,281	4,180	4,325
<b>Total expenditures</b>	<b>23,839,882</b>	<b>24,575,567</b>	<b>28,400,239</b>	<b>48,886,002</b>	<b>32,706,057</b>	<b>27,469,898</b>	<b>22,920,667</b>	<b>23,590,849</b>	<b>26,719,875</b>	<b>23,227,431</b>
<b>Excess of revenues over (under) expenditures</b>	<b>6,253,912</b>	<b>6,792,098</b>	<b>3,094,045</b>	<b>(19,897,692)</b>	<b>1,895,093</b>	<b>1,080,227</b>	<b>3,487,298</b>	<b>2,405,934</b>	<b>3,287,562</b>	<b>15,600,235</b>
<b>Other financing sources (uses)</b>										
Transfers in										
Transfers (out)	2,826,543	2,866,768	3,794,238	3,739,006	10,827,081	9,710,054	795,353	1,225,985	4,024,730	1,236,787
Contributed capital assets	(2,826,543)	(2,866,768)	(3,794,238)	(3,739,006)	(10,834,484)	(9,710,054)	(795,353)	(1,225,985)	(4,024,730)	(3,498,787)
Capital leases	-	-	-	-	-	224,805	-	-	-	-
Total other financing sources(uses)	-	-	-	-	(7,403)	224,805	124,353	-	121,666	(2,262,000)
Special item and extraordinary item	-	-	-	-	15,650,000	(12,654,525)	-	-	-	-
Net change in fund balances	6,253,912	6,792,098	3,094,045	(19,897,692)	17,537,690	(11,349,493)	3,611,651	2,405,934	3,409,228	13,338,235
<b>Total Debt Service</b>	<b>4,046,813</b>	<b>3,474,561</b>	<b>3,714,253</b>	<b>19,361,729</b>	<b>4,398,676</b>	<b>2,731,102</b>	<b>11,024</b>	<b>33,195</b>	<b>49,434</b>	<b>65,672</b>
Total Expenditures	23,839,882	24,575,567	28,400,239	48,886,002	32,706,057	27,469,898	22,920,667	23,590,849	26,719,875	23,227,431
Less: Debt Service	(4,046,813)	(3,474,561)	(3,714,253)	(19,361,729)	(4,398,676)	(2,731,102)	(11,024)	(33,195)	(49,434)	(65,672)
Less: Capital Outlay	(867,633)	(1,430,536)	(1,564,730)	(872,973)	(3,568,500)	(3,300,116)	(2,124,427)	(1,668,320)	(6,877,626)	(2,524,109)
<b>Noncapital expenditures</b>	<b>18,925,436</b>	<b>19,670,450</b>	<b>23,121,256</b>	<b>28,651,300</b>	<b>24,738,881</b>	<b>21,438,680</b>	<b>20,785,216</b>	<b>21,889,334</b>	<b>19,792,815</b>	<b>20,637,650</b>
Debt service as a percentage of noncapital expenditures	21.4%	17.7%	16.1%	67.6%	17.8%	12.7%	0.1%	0.2%	0.2%	0.3%

(a) Contributions and donations beginning fiscal year 2008-09 were included in Intergovernmental or Miscellaneous revenues, as appropriate  
(b) Prior to the dissolution of the Former Redevelopment Agency in FY 2012; related capital debt financing had been reported.  
During FY 2011-12, debt service activity related to liabilities of the Former Agency were transferred and are reported in a Successor Agency Trust Fund.

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



Fiscal Year	Secured Property			Unsecured Property			Total Assessed (1)	Estimated Actual Value (2)	Total Direct Tax Rate (3)
	City	Gateway 101 Corridor	University Circle	Ravenswood	Gateway 101 Corridor	University Circle			
2007	1,144,127,598	297,541,707	348,165,460	73,562,973	5,095,167	9,849,847	24,836,342	1,906,606,095	1%
2008	1,348,476,067	306,561,634	372,177,677	88,893,136	5,414,795	10,104,010	40,495,044	2,175,501,028	1%
2009	1,510,291,931	327,844,925	379,621,229	92,952,830	5,604,572	13,006,019	42,195,488	2,374,758,605	1%
2010	1,283,832,450	315,872,778	379,888,089	96,422,143	4,686,491	8,807,463	43,695,337	2,136,075,564	1%
2011	1,188,412,331	305,966,439	379,147,248	84,571,225	7,363,881	20,146,922	41,919,469	2,030,719,472	1%
2012	1,135,889,305	308,388,843	380,672,649	81,727,775	7,509,043	19,268,455	41,047,879	1,978,176,923	1%
2013	1,104,501,164	317,394,502	369,327,260	79,254,165	6,898,342	19,933,559	28,078,757	1,928,669,749	1%
2014	1,173,993,111	330,429,999	376,804,050	81,596,056	6,125,013	18,274,858	22,893,647	2,013,487,648	1%
2015	1,272,051,647	341,894,816	378,514,734	83,231,935	6,198,106	18,472,810	25,681,636	2,130,647,020	1%
2016	1,387,303,962	366,869,951	386,077,451	89,606,753	5,895,578	21,087,072	32,434,814	2,294,583,572	1%

Source: San Mateo County Assessors, MuniServices, LLC

(1) Total Assessed Value is net of all exemptions, including homeowners' exemption.

(2) The State Constitution requires property to be assessed at 100% of the most recent purchase price (plus certain improvements), plus an increment of no more than two percent annually, plus any local over-rides. These values are considered full market values.

(3) 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 to all the taxing entities within a tax rate area.

# City of East Palo Alto

## Direct and Overlapping Property Tax Rates Last Ten Fiscal Years

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Basic County-wide Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Override Assessments										
Ravenswood School District	0.0335	0.0316	0.0299	0.0364	0.0364	0.0397	0.0417	0.0415	0.0360	0.0304
Sequoia Union High School District	0.0208	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356	0.0313	0.0433	0.0434
San Mateo Community College District	0.0184	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194	0.0190	0.0250
Midpeninsula Regional Open Space District	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0008
TOTAL	0.0727	0.0692	0.0746	0.0823	0.0868	0.0954	0.0967	0.0922	0.0983	0.0996
<b>TOTAL TAX RATE</b>	<b>1.0727</b>	<b>1.0692</b>	<b>1.0746</b>	<b>1.0823</b>	<b>1.0868</b>	<b>1.0954</b>	<b>1.0967</b>	<b>1.0922</b>	<b>1.0983</b>	<b>1.0996</b>

Source: San Mateo County Controller, MuniServices, LLC  
Tax Rate as represented by TRA 021-000

## City of East Palo Alto

### Top Ten Property Tax Payers Current Year and Ten Years Ago

Taxpayer	2015-16			2005-06		
	Taxable Value (\$)	Rank	Percent of Total City Taxable Value (%)	Taxable Value (\$)	Rank	Percent of Total City Taxable Value (%)
Wells Reit LLC University Circle	333,161,508	1	14.52%			
EQR Woodland Park	159,788,973	2	6.96%			
Ikea Property Inc.	85,985,187	3	3.75%	73,918,770	2	4.92%
Shr Palo Alto LLC	52,069,011	4	2.27%			
Gateway 101 LLC	26,465,708	5	1.15%			
HD Development of Maryland Inc.	20,043,605	6	0.87%	38,185,129	3	2.54%
Nairobi Housing Inc. Housing A	13,906,755	7	0.61%	11,368,781	7	0.76%
RFHC Bay Pulgas Landowner Inc.	12,747,728	8	0.56%			
Avery H Smith Co	12,621,496	9	0.55%			
East Palo Alto At 101 LLC	10,979,849	10	0.48%			
University Circle Investors LLC				101,626,274	1	6.77%
Romic Environmental Tech Corp				17,964,862	4	1.20%
Ld Riviera LLC				13,351,390	5	0.89%
Westpark LLC				13,306,825	6	0.89%
Windriver Investments				10,953,468	8	0.73%
Nugent Square Partners LP				10,067,543	9	0.67%
1751 East Bayshore Investors L				9,356,233	10	0.62%
<b>Total Top 15 Taxpayers</b>	<b>727,769,820</b>		<b>31.72%</b>	<b>300,099,275</b>		<b>19.99%</b>
<b>Total Taxable Value</b>	<b>2,294,583,572</b>		<b>100.00%</b>	<b>1,501,085,059</b>		<b>100.00%</b>

Source: San Mateo County Assessor, MuniServices, LLC

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

Fiscal Year Ended June 30	Total Tax Levied for Fiscal Year (1)	Collected Within the Fiscal Year of the Levy			Total Collections To Date		
		Current Tax Collections (2)	Percentage of Levy	Delinquent Tax Collections (3)	Total Tax Collections	Percentage of Levy	
2007	13,701,921	12,884,456	94.0%		12,884,456	94.0%	
2008	13,778,302	12,927,420	93.8%		12,927,420	93.8%	
2009	14,628,038	13,892,862	95.0%		13,892,862	95.0%	
2010	13,439,564	13,051,893	97.1%		13,051,893	97.1%	
2011	12,975,746	12,551,184	96.7%		12,551,184	96.7%	
2012	12,537,014	8,512,395	67.9%		8,512,395	67.9%	
2013	4,661,146	4,403,745	94.5%		4,403,745	94.5%	
2014	4,915,330	4,668,248	95.0%		4,668,248	95.0%	
2015	5,326,772	5,195,167	97.5%		5,195,167	97.5%	
2016	5,751,125	5,512,547	95.9%		5,512,547	95.9%	

Source: San Mateo County Controller, City General Ledger

Notes:

- (1) Beginning in 1993, Current Tax Collections are reduced by a mandatory tax allocation imposed by the State of California (Educational Revenue Augmentation Fund (ERAF)).  
 Prior to the dissolution of the former Redevelopment Agency, the table data included secured and unsecured tax levies for the City, certain districts, and the former Redevelopment Agency. Beginning in FY 2012-13, the amounts levied are related to the City and certain districts only.
- (2) City of East Palo Alto General Ledger. Prior to dissolution of the former Redevelopment Agency, amounts collected include secured, unsecured, HOPTR, unitary, excess ERAF received, and tax increments related to the City and the former Redevelopment Agency. During FY 2011-12, as a result of the dissolution of the former Agency, the City collected one-half of the total amount levied for the former Agency accounting for the low percentage of amount collected in that year. Beginning in FY 2012-13, the amounts presented include only the City's general secured and unsecured property tax collections.
- (3) The County of San Mateo collects and allocates property taxes under the Teeter Plan whereby the City receives property tax revenues based on the total amount assessed, but not collected; therefore, the City has no direct delinquent tax collections.



**City of East Palo Alto**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year End	Capitalized Lease Debt 1	Redevelopment Tax Allocation Bonds 2	Revenue Bonds 2	Less: Restricted Bonds Held 3	Total Primary Government Debt 3	Percentage of Personal Income 5	Outstanding Debt Per Capita 6	Outstanding Debt to Taxable Assessed Value
2007	-	25,220,000	17,995,000	(16,040,000)	27,175,000	4.43%	\$838	1.43%
2008	-	24,800,000	17,995,000	(16,040,000)	26,755,000	4.18%	816	1.23%
2009	-	24,355,000	17,995,000	(16,040,000)	26,310,000	4.32%	793	1.11%
2010	-	23,700,500	17,995,000	(15,650,000)	26,045,500	4.33%	777	1.22%
2011	-	23,390,000	17,415,000	(15,240,000) (4)	25,565,000	4.92%	903	1.26%
2012	-	-	-	-	-	0.00%	0	0.00%
2013	114,635	-	-	-	114,635	0.02%	4	0.01%
2014	84,721	-	-	-	84,721	0.01%	3	0.00%
2015	161,133	-	-	-	161,133	0.03%	6	0.01%
2016	99,786	-	-	-	99,786	0.02%	3	0.00%

Source: City of East Palo Alto

Notes:

- 1 Capitalized Lease Debt due to Police Vehicle purchased in 2013 and 2015.
- 2 Tax Allocation Bonds and Revenue Bonds related to financing Redevelopment Agency projects and activities
- 3 Bond proceeds invested and, in October of 2010, used as part of a purchase in lieu of redemption structure. In 2009 the Public Finance Authority proceeds were used to purchase, and hold as investment, the 1999 Tax Allocation Bonds
- 4 During FY 2011-12, the former Redevelopment Agency was dissolved and all debts transferred to a Successor Trust
- 5 Population Projections prepared by State of California Department of Finance, Personal Income Data by MuniServices LLC
- 6 State of California Department of Finance, population.

**CITY OF EAST PALO ALTO  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
JUNE 30, 2016**

2015-16 ASSESSED VALUATION

\$2,294,583,572

	Total Debt 6/30/2016	(1) Percentage Applicable	City's Share of Debt 6/30/2016
<b>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</b>			
2015A Refunding Tax Allocation Bonds	\$16,950,000	100%	\$16,950,000
2015B Refunding Tax Allocation Bonds (Taxable)	2,500,000	100	2,500,000
<b>TOTAL OVERLAPPING TAX INCREMENT DEBT</b>			<b>\$19,450,000</b>

Ratios to Redevelopment Successor Agency Incremental Valuation (\$841,729,776):

Overlapping Tax Increment Debt..... 2.31%

	Total Debt 6/30/2016	Percentage Applicable	City's Share of Debt 6/30/2016
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
San Mateo Community College District	\$644,384,027	1.295%	\$8,344,773
Sequoia Union High School District	419,320,000	3.085	12,936,022
Ravenswood School District	7,410,000	56.225	4,166,273
<b>City of East Palo Alto</b>	<b>99,786</b>	<b>100</b>	<b>99,786</b>
Midpeninsula Regional Open Space District	45,000,000	1.024	460,800
California Statewide Communities Development Authority 1915 Act Bonds	2,961,875	100	2,961,875
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$28,969,529</b>

**DIRECT AND OVERLAPPING TAX, ASSESSMENT AND TAX INCREMENT DEBT** **\$48,419,529**

	Total Debt 6/30/2016	Percentage Applicable	City's Share of Debt 6/30/2016
<b>OVERLAPPING GENERAL FUND DEBT:</b>			
San Mateo County General Fund Obligations	\$432,359,816	1.295%	\$5,599,060
San Mateo County Board of Education Certificates of Participation	9,890,000	1.295	128,076
Menlo Park Fire Protection District Certificates of Participation	11,015,000	8.084	890,453
Midpeninsula Regional Open Space District General Fund Obligations	122,305,886	1.024	1,252,412
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b>\$7,870,001</b>

**TOTAL DIRECT DEBT** **\$0**

**COMBINED TOTAL DEBT** **\$56,289,530 (2)**

Notes:

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

**Ratios to 2015-16 Assessed Valuation:**

Direct Debt	0.00%
Direct and Overlapping Tax and Assessment Debt	1.26%
Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.11%

**Ratios to 2015-16 Assessed Valuation:**

Total Direct Debt	0.00%
Combined Total Debt	2.45%

Source: MuniServices, LLC

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

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Gross Assessed Valuation	1,149,222,765	1,353,890,862	1,515,896,503	1,288,518,941	1,195,776,212
Conversion Percentage	25%	25%	25%	25%	25%
<b>Adjusted Assessed Valuation</b>	<b>287,305,691</b>	<b>338,472,716</b>	<b>378,974,126</b>	<b>322,129,735</b>	<b>298,944,053</b>
Debt service limit percentage	15%	15%	15%	15%	15%
<b>Debt service limit percentage</b>	<b>43,095,854</b>	<b>50,770,907</b>	<b>56,846,119</b>	<b>48,319,460</b>	<b>44,841,608</b>

***Debt Applicable to Limit:***

Less: Outstanding General Obligations	0	0	0	0	0
<b>Legal debt service margin</b>	<b>43,095,854</b>	<b>50,770,907</b>	<b>56,846,119</b>	<b>48,319,460</b>	<b>44,841,608</b>

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Gross Assessed Valuation	1,143,398,348	1,111,399,506	1,180,118,124	1,278,249,753	1,393,199,540
Conversion Percentage	25%	25%	25%	25%	25%
<b>Adjusted Assessed Valuation</b>	<b>285,849,587</b>	<b>277,849,877</b>	<b>295,029,531</b>	<b>319,562,438</b>	<b>348,299,885</b>
Debt service limit percentage	15%	15%	15%	15%	15%
<b>Debt service limit percentage</b>	<b>42,877,438</b>	<b>41,677,481</b>	<b>44,254,430</b>	<b>47,934,366</b>	<b>52,244,983</b>

***Debt Applicable to Limit:***

Less: Outstanding General Obligations	0	0	0	0	0
<b>Legal debt service margin</b>	<b>42,877,438</b>	<b>41,677,481</b>	<b>44,254,430</b>	<b>47,934,366</b>	<b>52,244,983</b>

Source: MuniServices, LLC and San Mateo County Assessors Office

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

**City of East Palo Alto**  
**Bonded Debt Pledged-Revenue Coverage**  
**Successor Agency (Including Former Redevelopment and Authority Bonds)**

Last Ten Fiscal Years

Fiscal Year	RDA Tax Allocation (Refunding) Bonds				Public Financing Authority Revenue Bonds				
	Increment (Gross RPTTF)	Debt Service (1)		Coverage	Payments from 1999 TABS**	Capitalized Interest Acct	Debt Service (2)		Coverage
		Principal	Interest				Principal	Interest	
2007	7,996,776	400,000	1,772,923	3.7	-	846,644	-	846,644	100%
2008	7,857,564	420,000	1,752,425	3.6	-	846,644	-	846,644	100%
2009	7,996,776	445,000	1,730,325	3.7	-	846,644	-	846,644	100%
2010	7,891,237	470,000	1,706,055	3.6	-	846,644	-	846,644	100%
2011	7,625,928	495,000	1,455,833	3.9	1,416,784	-	580,000	836,784	100%
2012 *	7,376,396	520,000	1,425,525	3.8	1,418,570	-	600,000	818,570	100%
2013	7,376,779	550,000	1,394,064	3.8	1,416,938	-	620,000	796,938	100%
2014	7,601,754	585,000	1,360,764	3.9	1,415,438	-	645,000	770,438	100%
2015	7,635,260	620,000	1,325,004	3.9	1,415,138	-	670,000	745,138	100%
2016	7,937,084	655,000	1,037,717	4.7	15,242,245	-	14,880,000	362,245	100%

**NOTE:** The tables above reflect the 1999, 2003A, and 2003B Tax Allocation Bonds (TABs). Note that the bond proceeds from the 2005 East Palo Alto Public Financing Authority revenue bonds were used to purchase the outstanding 1999 Tax Allocation bonds on October 01, 2009. The 1999 TABS were held with a fiscal agent and recorded as an asset in the Public Financing Authority (PFA); a blended component unit of the City. Effective September 1, 2015 the 2015 Refunding Bonds were issued and the proceeds were utilized to defease the 1999, 2003A, and 2003B TABS resulting in the subsequent call and defeasance of the 2005 PFA Revenue Bonds on October 1, 2015.

\* Tax Increment Revenues are no longer allocated to (former) Redevelopment Agencies. Amounts reflected subsequent to FY 2010-11 reflect Gross Redevelopment Property Tax Trust Funds related to the former Redevelopment project areas and are useful for assessing debt service coverage; but are only available to the Successor Agency to the extent of the underlying debt.

\*\* Any Gross RPTTF available after payment of debt and other obligations is distributed to taxing agencies. In FY 2015-16, payments from 1999 TABS includes proceeds from 2015 Refunding Bonds paid to PFA.

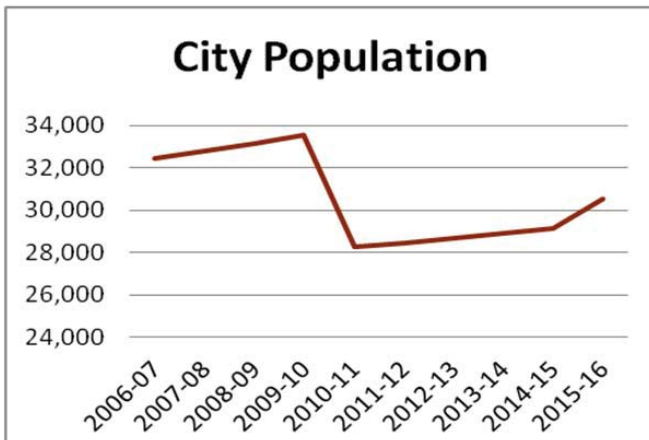
**SOURCES:** 1) Tax Allocation bonds 1999, 2003A, 2003B, 2015A, 2015B

2) PFA Revenue bonds 2005A. Defeased effective 10/1/2015.

# City of East Palo Alto

## Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population (1)	City Unemployment Rate (2)	Per Capita Personal Income (3)	County Unemployment Rate (2)	County Per Capita Personal Income	Public School Enrollment (4)
2006-07	32,413	9.40%	18,943	3.80%	71,753	4,607
2007-08	32,800	11.60%	19,493	4.70%	73,839	4,936
2008-09	33,164	19.80%	18,364	8.60%	69,562	4,554
2009-10	33,524	16.80%	17,942	7.10%	67,964	4,385
2010-11	28,300	20.00%	18,368	8.30%	69,577	4,290
2011-12	28,467	16.80%	19,690	7.10%	74,582	4,296
2012-13	28,675	13.20%	19,978	5.50%	75,674	4,077
2013-14	28,934	11.20%	20,302	4.60%	76,901	4,030
2014-15	29,137	5.10%	20,438	3.20%	77,414	4,216
2015-16	30,545	5.40%	20,785	3.40%	78,728	4,058



Source: MuniServices, LLC

Source: 2013-14 and prior, previously published CAFR Report

The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark.

(-) Indicates data unavailable.

1.) Population Projections are provided by the California Department of Finance Projections.

2) Unemployment Data are provided by the EDD's Bureau of Labor Statistics Department.

3) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey.

4) Student Enrollment reflects the total number of students enrolled in the Ravenswood Unified School District.

# City of East Palo Alto

## Principal Employers Last Fiscal Year and Three Years ago

Business Name	2015-16		2013-14	
	Number of Employees	Percent of Total Employment (%)	Number of Employees	Percent of Total Employment (%)
Ravenswood City School District	586	3.91%	538	3.90%
Ikea*	328	2.19%	343	2.49%
Four Seasons Hotel - Silicon Valley	310	2.07%	285	2.07%
Ravenswood Family Health Center*	213	1.42%	163	1.18%
DLA Piper LLP	176	1.17%		
Home Depot	159	1.06%	175	1.27%
US Post Office	150	1.00%	150	1.09%
City of East Palo Alto*	110	0.73%	102	0.74%
NTT Group	80	0.53%	120	0.87%
Nordstrom Rack	70	0.47%	77	0.56%
Ropes and Gray Law Firm	60	0.40%	63	0.46%
Total Top Employers	2,242	14.95%	2,016	14.61%
Total City Employment (1)	15,000		13,800	

Source: MuniServices, LLC

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

\*Includes full and part time.

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

**City of East Palo Alto**  
**Number of Positions - City Government by Function**  
**Last Ten Fiscal Years**

Function	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>General Government</b>	17.8	21.0	22.0	22.5	22.0	24.6	24.6	27.6	25.1	21.0
<b>Public Safety</b>										
Police	42.0	43.0	43.0	44.0	41.0	40.0	38.0	38.0	36.0	36.0
Officers	9.8	9.8	7.0	7.0	7.0	7.5	9.5	9.5	8.0	9.5
Civilians										
<b>Community Development</b>										
Administration	-	-	2.0	2.0	2.0	5.5	5.5	7.0	8.0	4.0
Economic Development/Redevelopment Agency	6.0	6.0	6.0	6.0	6.0	5.0	5.0	2.0	-	-
Planning and Housing Division	4.0	5.0	5.0	5.0	5.0	3.0	3.0	4.0	3.0	3.0
Building Services Division	4.0	5.0	5.0	5.0	5.0	3.0	3.0	4.0	5.0	6.0
Rent Stabilization Division (From Gen Government FY15-16)	-	-	-	-	-	-	-	-	-	2.0
Engineering Services (To Public Works FY2015-16)	-	-	-	-	-	5.0	5.0	6.0	6.0	-
Maintenance Division (To Public Works FY2015-16)	-	-	-	-	-	11.0	11.0	11.0	12.0	-
<b>Public Works (Restored in 2015-16)</b>										
Administration Division	2.0	2.0	2.0	2.0	2.0	-	-	-	-	2.0
Engineering Services Division	5.0	6.0	6.0	6.0	6.0	-	-	-	-	5.0
Maintenance Division	12.0	12.0	12.0	12.0	12.0	-	-	-	-	12.0
<b>Culture &amp; Recreation (Restored in 2015)</b>										
Administration (From Gen Government FY15-16)	2.0	2.0	2.0	2.0	2.0	-	-	-	-	1.8
Recreation (From Gen Government FY15-16)	1.0	1.0	1.0	2.0	2.0	-	-	-	-	1.0
Senior Services (From Gen Government FY15-16)	1.4	1.4	1.4	1.6	1.4	-	-	-	-	1.6
<b>Housing Services &amp; Rent Stabilization Eliminated 2011</b>										
	4.0	4.0	4.0	5.0	5.0	-	-	-	-	-
<b>Total</b>	110.9	118.1	118.4	122.1	118.4	104.6	104.6	109.1	105.1	104.9

**Source:** City of East Palo Alto Government Budget.

## City of East Palo Alto

### Operating Indicators by Function Last Eight Fiscal Years

Function	Fiscal Year 2008-2009	Fiscal Year 2009-2010	Fiscal Year 2010-2011	Fiscal Year 2011-2012	Fiscal Year 2012-2013	Fiscal Year 2013-2014	Fiscal Year 2014-2015	Fiscal Year 2015-2016
<b>Police</b>								
Calls for Service	37,385	35,736	35,337	31,277	28,443	29,123	28,253	31,312
Number of serious crimes *	630	551	440	475	572	510	387	174
Number of burglaries	347	424	399	213	285	180	180	93
Number of assaults	482	385	316	350	460	436	306	284
Number of auto thefts reported	256	213	194	123	134	174	132	393
Number of homicides	8	9	2	10	8	4	6	4
Number of robberies	121	137	104	102	87	60	65	77
Number of physical arrests	713	1,172	1,385	612	635	640	965	1,462
<b>Community Development</b>								
<b>Transportation</b>								
<b>Shuttle Passengers</b>								
Caltrain/Commuter Shuttle	21,433	32,872	46,894	65,770	72,878	76,879	85,259	28,901
*** Shopper Shuttle (now Redwood City #4)	7,055	5,186	7,666	8,734	4,197	4,076	-	-
*** Youth Shuttle (now MidTown #3)	12,835	18,471	13,233	14,557	7,185	4,539	-	-
*** Weekend Shuttle	14,321	17,783	13,509	15,382	12,865	23,582	-	-
<b>Streets</b>								
Street Resurfacing (lane miles)	1.30	1.30	4.40	1.6	-	2.5	0.8	-
Potholes repaired	12	67	20	42	29	16	61	94
<b>Engineering</b>								
Encroachment permits	76	44	42	55	41	49	57	109
<b>Culture &amp; recreation</b>								
Facility Rentals	25	27	21	25	35	74	24	41
Lunches Served to Seniors	8,188	9,225	8,437	7,331	6,842	5,784	3,471	6,662
Transportation trips provided to Seniors	3,457	3,375	3,234	3,580	2,743	2,183	3,012	3,020
Community Event participants	1,899	2,600	1,800	2,450	5,200	4,900	3,300	2,600
Program Registration participants(Fit Zone)	115	206	150	122	10,074	5,436	6,300	1,116
<b>Building Permits Issued:</b>								
Residential - Count	650	425	373	577	408	324	297	391
Commercial Count	27	22	22	52	36	126	49	43
<b>Water **</b>								
Hydrant Breaks	13	7	7	8	9	9	8	12
Water main breaks	18	6	12	16	21	5	18	19
Average daily consumption per family (in gallons)	227	332	224	229	385	239	201	200

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  
 \*\*\* Shuttle services were eliminated in fiscal year 2014-15

Data prior to 2008-09 is not available



**City of East Palo Alto**  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

FUNCTION	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Government owned buildings</b>										
Public Works & Comm Development Building	1	1	1	1	1	1	1	1	1	1
Housing (Water Enterprise Fund)	1	1	1	1	1	1	1	1	1	1
<b>Highways &amp; Streets</b>										
Streets (miles)	38	38	38	38	38	38	38	38	38	38
Streetlights	827	827	827	827	827	827	827	827	827	846
Traffic Signals	14	14	14	14	14	14	14	14	14	14
<b>Culture &amp; recreation</b>										
Parks (number of parks)	6	6	6	6	6	6	6	6	6	6
Parks acreage (acres)	16	16	16	16	16	16	25.38	25.38	25.38	25.38
Senior Center	1	1	1	1	1	1	1	1	1	1
Cooley Landing Learning Center	-	-	-	-	-	-	-	-	-	1
<b>Water *</b>										
Water pipelines (miles)	39.2	39.2	39.2	39.2	39.2	38.6	38.6	38.6	38.6	38.6
Fire hydrants	230	230	230	230	282	283	283	283	283	290
Maximum daily capacity (millions of gallons per day)	1.9	1.9	1.9	1.9	1.9	1.9	2.07	2.02	1.96	1.96

**Source:** Various city departments

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