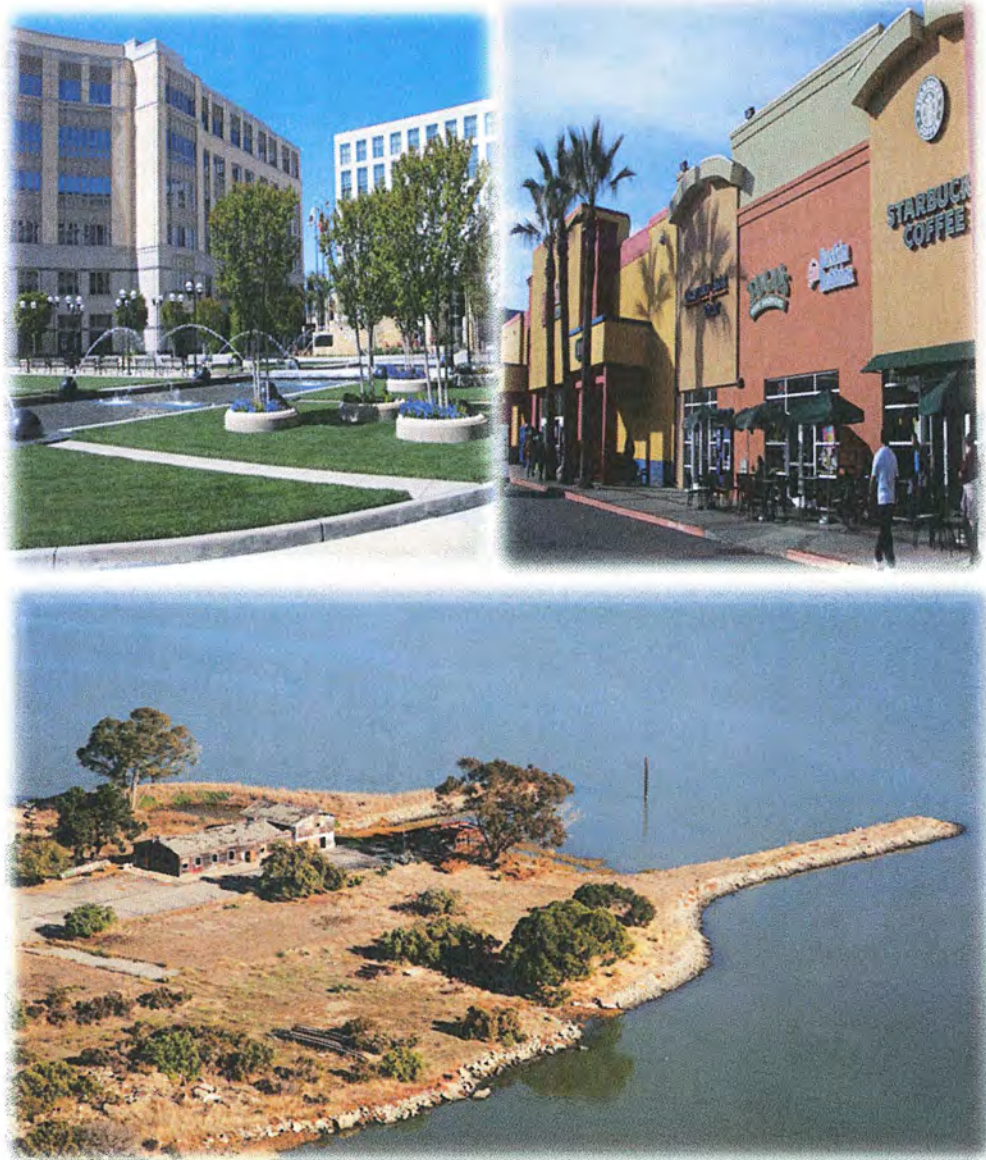


Comprehensive Annual Financial Report For the Year Ended June 30, 2011



Mission Statement

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

CITY OF EAST PALO ALTO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

Prepared by
FINANCE DEPARTMENT

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CITY OF EAST PALO ALTO

Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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City of East Palo Alto

September 16, 2011

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

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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of East Palo Alto for the fiscal year ended June 30, 2011. It is the policy of the City of East Palo Alto to annually publish financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. The CAFR report is published to fulfill that requirement for the fiscal year ending June 30, 2011.

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. 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. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Maze & Associates, a firm of Certified Public Accountants licensed to practice in the State of California. The auditors expressed an opinion that the City's financial statements for the year ended June 30, 2011 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is most commonly known as an "unqualified" or "clean" opinion. The independent auditor's report includes an explanatory paragraph discussing the changes to California Redevelopment Law and the potential impact on the East Palo Alto Redevelopment Agency, including conditions that raise doubts about the ability of the Agency to continue as a going concern. The independent auditor's report is located in the Financial Section of this report.

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

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

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 Bay Area. It is in a desirable setting, with enviable weather, and well situated among three major metropolitan cities: San Jose, Oakland, and San Francisco. The City borders Menlo Park to the north, Palo Alto to the west and south, and the San Francisco Bay to the east. East Palo Alto currently occupies 2.5 square miles and has a population of approximately 28,000.

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

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

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

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

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

ECONOMIC CONDITION AND FISCAL OUTLOOK

The nation continues a protracted and fitful emergence from the late-2000's recession. While U.S. economic activity led to cautious optimism through the spring of 2011, the European sovereign debt crises and a slow-down in Chinese manufacturing weighed on global economic activity and dampened optimism for achieving historical economic growth patterns in the U.S.

The lingering effect of the recession on the local economy is most prevalent in local unemployment rates and continuing declines in property values. According to the latest figures, the City's unemployment rate has remained stubbornly high at approximately 20% in June 2011. This figure is 2.4 times the San Mateo County unemployment rate of 8.3%. Additionally, while property values have stabilized throughout the County, the City continues to experience the highest rate of year-over-year declines in County property tax assessments resulting in an overall decrease of property tax revenues of approximately 4% from the previous fiscal year. The City also has an unprecedented number of property tax appeals pending, and resolution of these cases is likely to continue to erode assessed property values within the City. The impact of commercial reassessments and high-levels of home foreclosures will have a lasting, long-term negative impact on City property tax revenues.

Conversely, the City is experiencing interesting and positive trends relative to indirect effects of the proximity to Silicon Valley, and the current boom in social media companies. These effects resulted in the robust recovery, and remarkable increase of 25% in the City's sales tax revenues over the previous year. Also, transient occupancy taxes continue to recover rapidly with a 20% year-over-year growth in total taxes collected. A renewed interest in development activity resulted in slight improvements in building-related permits and fees. These fees are expected to expand significantly in the next year or two, as the City's first major building development in several years breaks ground in 2012, and as the City implements a fully-revised master fee schedule in February of 2012.

The City's overall positive results in level of revenue sources was encouraging, but in the end remained insufficient to cover the recent and near-term level of expenditures, particularly in the City General Fund. The City tackled this reality aggressively during the fiscal year. In April of 2011, Council and City management held sessions discussing the City's historical, current and projected financial condition. The City implemented a significant restructuring of City

departments whereby departmental services are more closely aligned with the needs of the citizens and the policies of the City Council. The restructure resulted in the elimination of two departments and the consolidation of several divisions. The City also began a concerted focus to achieve a reduction of the current and projected General Fund deficit. Efforts to reduce the deficit include revenue strategies, temporary union concessions, and cost-saving strategies.

These efforts resulted in positive improvements in the City's projected General Fund operating results. While the City continues to face challenges with respect to expenditures outpacing revenues, the focus to improve revenue opportunities will make these challenges significantly more manageable.

Status of the East Palo Alto Redevelopment Agency

On June 29, 2011 Governor Brown signed two budget-related trailer bills that significantly modify existing Redevelopment law and fundamentally alter the future of California Redevelopment. The first bill, ABx1 26 (the Dissolution Act), immediately suspended all new redevelopment activities, including incurring indebtedness, and called for the dissolution of redevelopment agencies effective October 1, 2011. The second bill, ABx1 27 (the Voluntary Program Act), allows agencies to avoid dissolution by opting into an alternative voluntary redevelopment program whereby agencies are required to pay substantial contributions to local schools and special districts.

On July 19, 2011 the Agency adopted an un-codified ordinance to elect and implement participation by the City of East Palo Alto and the Agency in the Voluntary Redevelopment Law. Under the Voluntary Program Act, the Agency will pay approximately \$2.0M in the first year; with a continuing base payment of approximately \$426,000 in subsequent years. Since the Agency made this election, the California Redevelopment Association and the League of California Cities filed a lawsuit against the State challenging the constitutionality of the bills and requesting a stay of both bills pending the outcome of the litigation. The Supreme Court issued a partial stay of AB1x 26 and 27 with the intention to issue a ruling on the case by January of 2012.

Until that decision is issued, the Agency will operate under an adopted enforceable obligations payment schedule and is prohibited from making payments other than for those obligations listed on the payment schedule

LONG TERM FINANCIAL PLANNING

As part of a strategic budget planning process, management annually presents a multi-year financial plan to City Council. This document is intended to provide the Council with the opportunity to plan for the management of financial resources and to address forecasted financial challenges. The plan calls for the City to exercise financial "best practices," including achieving a minimum General Fund contingency reserve of 15% of budgeted operating expenditures. As of June 30, 2011, the Council established a minimum reserve of \$2.0M, representing approximately 12% of budgeted General Fund expenditures. The purpose of the

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

As the City looks beyond the current budget cycle in order to continue meeting economic challenges and opportunities, the following plans are considered:

- Expand fiscal planning beyond the current budgeted contingency reserve to include Council-approved goals and policies to establish funding plans and reserves for capital infrastructure and equipment replacement, risk management, and pension liabilities.
- Initiate studies for City facilities planning and improvement; including consideration of leasing versus ownership of facilities.
- Focus on opportunities for revenue enhancement; and also, continue to increase operational efficiency to manage expenditure growth trends.

FINANCIAL POLICIES AND INFORMATION

Budgetary Controls

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

Single Audit

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

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

Major Initiatives

Major initiatives for the year were developed through both the budget planning process and with the guidance of the City Council as articulated through its Strategic Planning process. As discussed, this past year has been challenging as the City tackled continuing and projected General Fund deficits, as well as, strategizing and planning for significant changes to, or elimination of, redevelopment agencies. Notwithstanding the challenges, the City continues to

make great strides in accomplishing the City Council priorities articulated in the Strategic Plan, as follows:

Enhance Public Safety and Emergency Preparedness: This set of initiative includes goals for enhancing city traffic conditions, exploring the re-establishment of a public safety commission, securing access to potable water and future water storage, and enhancing advanced community policing techniques.

Enhance Economic Vitality: This set of initiatives includes goals to complete the Ravenswood Business District and Four Corners specific plan and EIR, develop strategies for promoting local business, and, through the capital plan, initiate design of Bay Road Phase II and storm water infrastructure projects in the Ravenswood Business District. In addition, management also initiated a comprehensive cost allocation plan and master fee study. Implementation of the Master Fee study will provide an increase of General Fund revenues.

Increase Organizational Effectiveness and Efficiency: The foremost objective of restructuring the organization was accomplished in May 2011. Other objectives include, hiring appropriate staff in a timely manner, updating City policies and procedures, and automating licensing, permitting, and form processing.

Improve Public Facilities and Infrastructure: These goals and objectives pertain to capital improvement planning and execution. The City made great strides in this priority when Council adopted the Five Year Capital Improvement Plan Budget in September 2011. The City completed approximately \$4.0 million in capital improvement projects – the largest investment in City-sponsored infrastructure improvements in well over a decade.

Improve Communication and Enhance Community Engagement: This set of objectives includes goals to enhance and improve the City website with multilingual options, develop community communication protocols, and continue public safety beat meetings.

Create a Safe and Healthy Community: This set of objectives includes goals to develop a comprehensive Healthy Community Plan, increase youth recreational programs, and re-establish the Police Activities League.

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, 2010. This was the second year the City applied for and received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, in conformance with program standards. Such report must satisfy generally accepted accounting principles as well as all applicable legal requirements

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

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

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

Respectfully submitted,



fol

Brenda Olwin
Interim Finance Director



ML Gordon
City Manager



CITY OF EAST PALO ALTO

DIRECTORY OF OFFICIALS

City Council

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

Administration

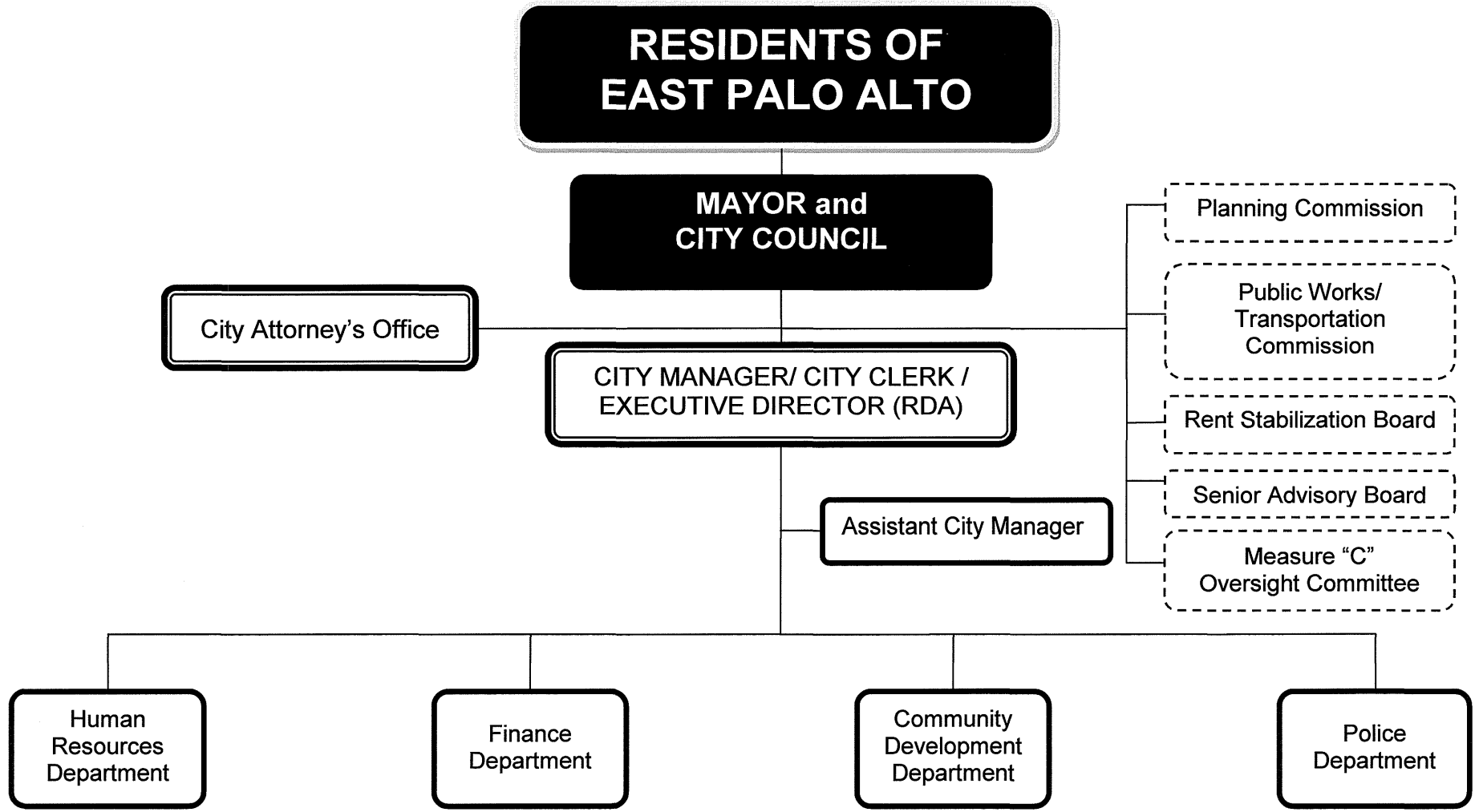
ML GordonCity Manager/Executive Director RDA
Stephanie OsazeAssistant City Manager
Valerie Armento City Attorney
Brenda OlwinInterim Finance Director
Ronald L. Davis Police Chief
Carlos MartinezInterim Community Development Director



CITY OF EAST PALO ALTO

MASTER ORGANIZATIONAL CHART 2010-2011

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Regional Map



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of East Palo Alto
California

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

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



A stylized, handwritten signature in black ink.

President

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

Executive Director

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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

ACCOUNTANCY CORPORATION

3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

To the City Council
City of East Palo Alto, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto at June 30, 2011 and the results of its operations and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As disclosed in Note 15, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the ability of the Redevelopment Agency of the 6/30/2011 Audit East Palo Alto City of East Palo Alto, a component unit of the City, to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Redevelopment Agency of the City of East Palo Alto will continue as a going concern. The activities of the Redevelopment Agency of the City of East Palo Alto are included in the Redevelopment Agency Capital Projects Fund and Low and Moderate Income Housing Fund of the accompanying financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Mare & Associates

September 16, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis is designed to provide, for the fiscal year ending June 30, 2011, (a) an overview of the City's financial activities, (b) highlights of significant financial issues, (c) challenges facing the City's financial position in future years, and (d) identification of any material deviations from the approved budget.

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

FINANCIAL HIGHLIGHTS

- At June 30, 2011, government-wide net assets totaled \$44.6 million, an increase of \$3.1 million during the fiscal year. Of these net assets, \$32.3 million is invested in capital assets and \$19.9 million are restricted for specific uses, leaving an unrestricted deficit in the amount of \$7.7 million. Although an analysis of the statement of net assets shows that the City is able to meet current obligations, long-term financial obligations must be paid through continued annual funding from operations.
- Total government-wide revenues, including program and general revenues were \$33.8 million and total expenses were \$30.7 million in fiscal year 2010-11. This compares to total revenues of \$31.8 million and expenses of \$33.7 million in fiscal year 2009-10
- Governmental program revenues were \$6.5 million in fiscal year 2010-11 compared to \$5.8 million in fiscal year 2009-10. Business-type program revenues were \$2.4 million compared to \$1.8 million in fiscal year 2009-10.
- Governmental general revenues were \$24.9 million in fiscal year 2010-11 compared to \$24.2 million in fiscal year 2009-10. Business-type general revenues were \$22 thousand compared to \$13 thousand in fiscal year 2009-10.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Reporting the City's Major Funds

The analysis of the City's major funds begins on page 10. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes (like the Capital Project Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Federal Government). The City's two types of funds - governmental and proprietary - use different accounting approaches.

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

Notes to the Financial Statements

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

Government-wide Financial Analysis

The City provides comparative information in its Management Discussion & Analysis by presenting two years of financial information in the GASB Statement No. 34 format and a comparative analysis of government-wide data. Net assets serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by approximately \$44.6 million. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$94.1 million total assets; only \$61.7 million has short or long term liquidity. The remaining assets are capital assets such as roadways, storm drains, lighting, water system and other infrastructures owned by the City.

Analysis of Net Assets

Government-wide assets exceeded liabilities by \$44.6 million at the end of the current fiscal year. The following table is a summary of the government-wide net assets for the governmental and business-type activities:

STATEMENT OF NET ASSETS (DEFICIT)

(Dollars in thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current & other assets	58,715	59,424	3,028	2,758	61,743	62,182
Capital assets	28,011	25,163	4,320	4,504	32,331	29,667
Total assets	<u>86,726</u>	<u>84,587</u>	<u>7,348</u>	<u>7,262</u>	<u>94,074</u>	<u>91,849</u>
Liabilities:						
Current and other liabilities	7,551	7,272	1,138	440	8,689	7,712
Noncurrent liabilities	40,825	42,633	-	-	40,825	42,633
Total liabilities	<u>48,376</u>	<u>49,905</u>	<u>1,138</u>	<u>440</u>	<u>49,514</u>	<u>50,345</u>
Net Assets:						
Investment in capital, net of debt	28,011	25,163	4,320	4,504	32,331	29,667
Restricted	19,089	24,877	834	834	19,923	25,711
Unrestricted	(8,749)	(13,681)	1,056	1,484	(7,693)	(12,197)
Total Net Assets (Deficit)	<u>38,351</u>	<u>36,359</u>	<u>6,210</u>	<u>6,822</u>	<u>44,561</u>	<u>43,181</u>

Numbers may not add due to rounding

Governmental Activity

Total assets of \$86.7 million consist of current and other assets of \$58.7 million and capital assets of \$28.0 million. The \$2.1 million increase from the prior year is primarily due to an increase in capital assets acquired during the year.

Total liabilities of \$48.3 million consist of \$7.5 million of current liabilities and \$40.8 million of long-term debt. Total liabilities decreased by \$1.5 million, primarily as a result of retirement of long-term debt.

Net assets are comprised of 1) \$28.0 million investment in capital assets (e.g. land building, improvements, infrastructure, etc.) less any outstanding debt used to acquire those assets. The City utilizes capital assets to provide services to citizens. These assets, however, are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities; 2) \$19.1 million represents resources that are subject to external restrictions on how they may be expended; and, 3) a remaining deficit of \$8.7 million. The \$8.7 million deficit is comprised of long-term obligations secured by future tax increments and liabilities for claims and judgments and compensated absences. The City intends to liquidate those liabilities as the payments become due with funding from continued operations.

Business-type Activity

The City's business-type activities include \$4.3 million in capital assets, consisting primarily of municipal water-service assets and infrastructure. Approximately, \$1.1 million of unrestricted net assets are available at year-end to pay current and future obligations.

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

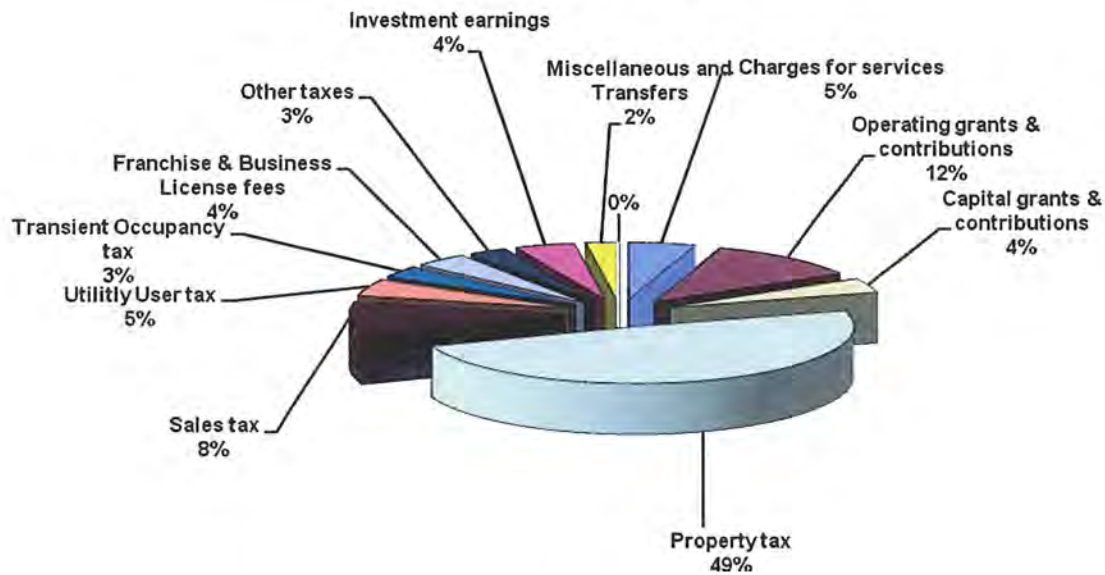
STATEMENT OF ACTIVITIES

(Dollars in thousands)

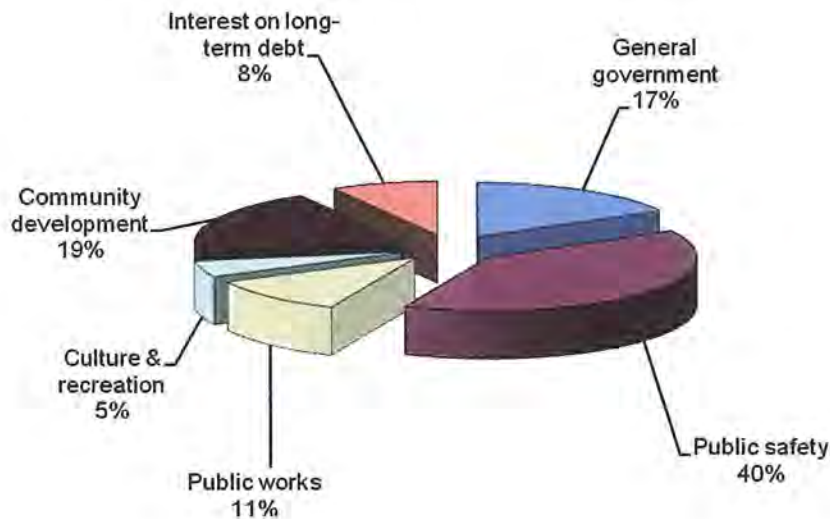
	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for Services	1,578	725	2,408	1,817	3,986	2,542
Operating Grants and Contributions	3,621	4,897	-	-	3,621	4,897
Capital Grants and Contributions	1,266	178	-	-	1,266	178
General revenues:						
Property taxes	15,291	15,934	-	-	15,291	15,934
Sales taxes	2,871	2,301	-	-	2,871	2,301
Utility User taxes	1,503	1,591	-	-	1,503	1,591
Transient Occupancy taxes	1,015	500	-	-	1,015	500
Franchise & Business taxes	1,247	1,220	-	-	1,247	1,220
Other taxes	881	815	-	-	881	815
Investment earnings	1,389	1,442	15	13	1,404	1,455
Miscellaneous and Transfers	693	421	7	-	700	421
Total revenues	<u>31,355</u>	<u>30,024</u>	<u>2,430</u>	<u>1,830</u>	<u>33,785</u>	<u>31,854</u>
Expenses						
Program expenses:						
General government	4,700	5,119	-	-	4,700	5,119
Public safety	10,973	11,006	-	-	10,973	11,006
Public works	3,055	4,036	-	-	3,055	4,036
Culture and recreation	1,334	1,228	-	-	1,334	1,228
Community development	5,334	7,231	-	-	5,334	7,231
Water Services	-	-	440	619	440	619
Garbage Collection	-	-	2,602	1,617	2,602	1,617
Interest on long-term debt	2,291	2,882	-	-	2,291	2,882
Total expenses	<u>27,687</u>	<u>31,502</u>	<u>3,042</u>	<u>2,236</u>	<u>30,729</u>	<u>33,738</u>
Increase (decrease) in net assets	3,668	(1,478)	(612)	(406)	3,056	(1,884)
Beginning net assets	34,682	36,159	6,822	7,228	41,504	43,387
Ending net assets	<u>38,350</u>	<u>34,681</u>	<u>6,210</u>	<u>6,822</u>	<u>44,560</u>	<u>41,503</u>

Government-wide net assets increased by approximately \$3.06 million as noted in the table above as governmental activities revenues exceeded expenses by \$3.67 million while business-type activities expenses exceeded revenues by \$612,000. A further depiction of governmental type revenues and expenditures are illustrated in the charts below:

Governmental Activities Revenues by Source



Governmental Activities Expenditures by Type



Governmental activities

- Overall total revenues were \$31.3 million; an increase of \$1.3 million or 4% from the prior year. Much of the increase was in general revenue, where gains were registered in sales tax of \$570,000, transient occupancy tax of \$515,000, and investment earnings of \$272,000.
- Overall, total expenses were \$27.7 million, a decrease of \$3.8 million or 13.8% from the prior year. This is primarily due a \$2.59 million reduction in payment to the Supplemental Education Revenue Augmentation Fund (SERAF) by the Redevelopment Agency. The SERAF payment resulted from the adoption of AB26 4X by the State of California in July 2009, which directed a portion of the incremental property taxes received by redevelopment agencies to be paid to the County.

Business-type activities

- Net assets declined by \$612,000 resulted in a decline in Water net assets of \$190,319 and also a decline in Garbage net assets of \$421,456 in the current fiscal year.
- Total revenues increased by \$600,000 from \$1.8 million to \$2.4 million while expenses increased from \$2.2 million to \$3.0 million.
- Water revenues increased by \$69,700 from the previous year as water connection fees rose by \$23,500 and water lease revenues gained by \$19,500. Water expenses decrease by \$179,000 largely related to a decrease in depreciation expense for improvements other than buildings.
- Garbage operating revenues improved by \$522,000 primarily as a result of a combination of increases in collection and street sweeping fees. Operating expenses increased by \$985,000 largely due to a cost increase of \$160,000 with a new garbage provider and a \$558,000 of accrual of expenses due to the former service provider.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds. In the prior fiscal year, both the East Palo Alto Public Financing Authority activities and the East Palo Alto Redevelopment Agency debt service activities were reported in the Debt Service Fund. In order to provide a clearer representation of the East Palo Alto Public Finance Authority activities, as of July 1, 2010, such activities, including its 2005 Revenue Bonds and its purchase in lieu of redemption investment in the East Palo Alto Redevelopment Agency's 1999 Tax Allocation Bonds are now segregated in a separate Debt Service Fund. Additional information can be found in Note 1M and Note 7D.

At June 30, 2011, the City's governmental funds reported a combined ending fund balance of \$51.1 million.

- Governmental revenues were \$34.6 million and expenditures totaled \$32.7 million. This was largely due to a \$853,000 increase in charges for services, a \$570,000 increase in sales tax, a \$515,000 increase in transient occupancy tax, a \$380,000 increase in investment earnings, and a \$643,000 decrease in property tax due to declining property values in the city.

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 were \$17.9 million; an increase of \$3.5 million or 24.6% over prior year. The increase is primarily due to a \$2.63 million RDA loan repayment to the City, a \$570,000 increase in sales tax, and a \$300,000 increase in General Fund transient occupancy tax.

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The provisions of this statement affect the classification of fund balances reported in the financial statements. Additional information can be found in Note 9B to the financial statements. On June 30, 2011, fund balance was \$19.6 million, a decrease of \$665,000 or 3.0% from the prior year. Of the total fund balance approximately \$6.6 million is unassigned, which is essentially unchanged from the prior year, and is available for spending at the City's discretion. The \$6.6 million unassigned fund balance represents 40.2% (down from 42.7% in the prior year) of the current year total fund expenditures of \$16.43 million. The City has available funds for unanticipated emergencies based on its adopted financial plan policy, which recommends a minimum reserve set aside of 10% percent of operating costs. Although the General Fund maintained an unassigned fund balance in the current year, being able to meet such level of reserves annually will be a challenge for the City, as the cost of services may continue to increase while overall revenue sources decline or remain stable. Management intends to continue meeting these challenges through careful financial planning, monitoring of budget expenditures, and by identifying ways to reduce costs and/or generate greater revenues for the City.

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

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

The Redevelopment Agency Capital Project Fund's revenues were \$6.5 million in the current year, a decrease of approximately \$126,000 from the previous year as tax increment revenues declined. Operating expenditures declined by \$2.5 million primarily as a result of a \$2.59 million reduction in SERAF payment.

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

Total tax increment revenues received in the current year were approximately \$1.5 million, a portion of which were used to repay low and moderate housing related debt.

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

At the end of the fiscal year, the unrestricted net assets for the Water and Garbage Funds were \$441,000 and \$615,000 respectively. The combined decrease in net assets for both funds was \$612,000 compared to prior year. Discussions of these funds have been previously made in the City's government-wide business-type activities section.

General Fund Budgetary Highlights

Differences between the original FY 2010-11 General Fund budget and the final amended budget resulted in an approximate \$6.2M increase in budgeted revenues (including transfers in) and a \$4.0M increase in expenditure appropriations (including transfers out). Following are the main components of the changes in revenues and expenditure appropriations.

- The fiscal year 2010-11 adopted revenues equaled \$13.79 million (including transfers in) and the final amended revenue was \$19.98 million (including transfers in); an increase of approximately \$6.2 million from the original budget. When the adopted budget was approved, the City anticipated revenues would remain low; however, revisions were made upwards to account for pockets of improvements in tax revenues as well as the City Council's authorization to repay \$2.63 million off loan advance due from the Redevelopment Agency. The actual 2010-11 appropriations totaled \$20.30 million. This was \$372,500 below the final budgeted appropriation of \$20.67 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$32.3 million (net of accumulated depreciation). Capital assets include land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the City's capital assets for the fiscal year was approximately 9% or \$2.7 million.

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

Government- Wide Capital Assets

June 30, 2011

(Dollars in thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	902	902	207	207	1,109	1,109
Buildings and Improvements	5,127	4,869	44	44	5,171	4,913
Improvements Other than Bldgs.	3,712	3,665	7,058	7,058	10,770	10,723
Construction in Progress	1,585	2,214			1,585	2,214
Furnishings & Equipment	1,829	1,570	64	64	1,893	1,634
Vehicles	1,577	1,477	89	89	1,666	1,566
Street and Roadways	41,583	37,945			41,583	37,945
Storm Drain System	4,089	3,761			4,089	3,761
Less: Accumulated Depreciation	(32,393)	(31,240)	(3,142)	(2,958)	(35,535)	(34,198)
Total	28,011	25,163	4,320	4,504	32,331	29,667

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

Governmental Activities:

- Capital assets increased \$2.8 million, net of current year depreciation of \$1.15 million. The increase is primarily due to an increase in assets capitalized from the City's Capital Improvement Program (CIP) of \$3.63 million during the year. These projects included Safe Route to School, Cooley Landing improvements, and street resurfacing. In addition, \$258,000 in capital assets was added during the year related to City Hall Improvements Phase 2, Youth Center tenant improvements at the YMCA building, an upgrade of playground equipments at the Jack Farrell and Martin Luther King parks, police vehicles, and computer equipment.

Business-Type Activities:

- Garbage and Water Services' capital assets were not added during the year. Net Capital assets decreased \$184,000 due to depreciation of existing capital assets.

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

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

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

Debt Administration

At year-end, the City had \$41.9 million in long term debt related to governmental activities. There was no debt related to the business-type activities. Net debt outstanding at year-end decreased by \$1.0 million or 2.3% from the prior year. Below is a chart of long term debt outstanding as of June 30, 2011 with a comparison to prior year.

Debt Outstanding (Long Term)
June 30, 2011
(Dollars in thousands)

	<u>As of</u> <u>June 30, 2011</u>	<u>As of</u> <u>June 30, 2010</u>	<u>Net</u> <u>Change</u>
Government Activity			
Tax Allocation Bonds	23,390	23,885	(495)
Public Financing Revenue Bonds	17,415	17,995	(580)
Amortized Bond Premiums	684	723	(39)
Total Government Activity Debt	41,489	42,603	(1,114)
Business-Type Activity Debt	-	-	-
Total Government-Wide Debt	41,489	42,603	(1,114)

Additional information about the City's debt can be found in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

According figures from the US Census Bureau, the City's growth projections reflected a slight decrease in population with the 2010 population estimate at 28,300. According to the State of CA Employment Development Department statistics, the City unemployment rate slightly decreased from 21.0% in June 2010 to 20.0% in June 2011. Historically, the City's unemployment rates have been higher than the rates of San Mateo County and the State of California. In June 2011, the State and County unemployment rates were 11.7% and 8.3%, respectively. Compared to June 2010, the State and County unemployment rates were 12.2% and 9.2% respectively. Overall, the State of CA, County of San Mateo, and local economies are in the midst of an uneven economic recovery. Some sectors of the economy are doing well but overall economic conditions are still plagued by a weak real estate market and consumer confidence remains weak.

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

- Overall property taxes for the City are expected to remain flat or decline as property values declined in 2011 and overall economic conditions continue to reflect an uneven recovery. Appeals to the County Tax Assessor for reductions in property values may continue. It is uncertain when property taxes will stabilize and rise; valuations will be tested in future years as a recovery from the recession in the State of California continues to lag the nation.
- The outcome of the Supreme Court's ruling on ABx1 26 and ABx1 27 is expected to have a significant impact on the City's Redevelopment Agency as well as City's finances and operations.

Some of these factors were considered in preparing the City's operating budget for fiscal year 2011-12. Others occurred after the City had finalized its budget and will be taken under consideration for its fiscal year 2011-12 budget amendments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF EAST PALO ALTO

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

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

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

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

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

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

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

CITY OF EAST PALO ALTO
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for operations (Note 3)	\$25,286,385	\$2,130,043	\$27,416,428
Restricted cash and investments (Note 3)	20,123,832	834,286	20,958,118
Receivables:			
Accounts	64,276	63,916	128,192
Accrued interest	130,956		130,956
Taxes	459,004		459,004
Intergovernmental	927,640		927,640
Loans and notes (Note 5)	7,251,631		7,251,631
Deposits and prepayments	115,471		115,471
Property held for resale (Note 1I)	3,141,165		3,141,165
Deferred charges	1,214,607		1,214,607
Capital assets (Note 6):			
Non-depreciable	2,486,779	206,750	2,693,529
Depreciable, net of accumulated depreciation	25,524,528	4,113,064	29,637,592
Total Assets	86,726,274	7,348,059	94,074,333
LIABILITIES			
Accounts payable	2,087,975	526,575	2,614,550
Accrued liabilities	1,094,399	558,000	1,652,399
Interest payable	315,270		315,270
Retentions payable	151,053		151,053
Deposits payable	485,928	53,622	539,550
Deferred revenue	1,798,623		1,798,623
Advance from developers	131,338		131,338
Compensated absences (Note 1F):			
Due within one year	400,000		400,000
Due in more than one year	344,839		344,839
Claims payable (Note 1I)			
Due within one year	5,200		5,200
Due in more than one year	71,460		71,460
Long-term debt (Note 7):			
Due within one year	1,081,486		1,081,486
Due in more than one year	40,408,062		40,408,062
Total Liabilities	48,375,633	1,138,197	49,513,830
NET ASSETS (Note 9)			
Invested in capital assets	28,011,307	4,319,814	32,331,121
Restricted for:			
Debt service	2,034,560		2,034,560
Highway and streets projects	2,851,472		2,851,472
Low and moderate income housing	10,997,923		10,997,923
Parks and recreation	703,171		703,171
Measure C programs	1,158,492		1,158,492
Housing programs	1,342,896		1,342,896
Capital projects		834,286	834,286
Unrestricted	(8,749,180)	1,055,762	(7,693,418)
Total Net Assets	\$38,350,641	\$6,209,862	\$44,560,503

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$4,700,459	\$18,101	\$49,307	\$204,447	(\$4,428,604)		(\$4,428,604)
Public safety	10,972,657	249,676	815,985		(9,906,996)		(9,906,996)
Public works	3,055,334	169,034	2,327,324		(558,976)		(558,976)
Culture and recreation	1,333,904	91,961		216,618	(1,025,325)		(1,025,325)
Community development	5,333,924	1,049,045	428,777	845,421	(3,010,681)		(3,010,681)
Interest on long-term debt	2,291,283				(2,291,283)		(2,291,283)
Total Governmental Activities	27,687,561	1,577,817	3,621,393	1,266,486	(21,221,865)		(21,221,865)
Business-type Activities:							
Garbage collection	2,602,083	2,163,837				(\$438,246)	(438,246)
Water service	439,826	243,750				(196,076)	(196,076)
Total Business-type Activities	3,041,909	2,407,587				(634,322)	(634,322)
Total	\$30,729,470	\$3,985,404	\$3,621,393	\$1,266,486	(\$21,221,865)	(\$634,322)	(\$21,856,187)
General revenues:							
Taxes:							
Property taxes					\$15,291,232		\$15,291,232
Sales taxes					2,870,854		2,870,854
Utility users tax					1,502,939		1,502,939
Transient occupancy tax					1,014,608		1,014,608
Other taxes					881,508		881,508
Franchise and business tax					1,247,117		1,247,117
Investment earnings					1,388,987	\$15,144	1,404,131
Miscellaneous					700,301		700,301
Transfers (Note 4)					(7,403)	7,403	
Total general revenues					24,890,143	22,547	24,912,690
Change in Net Assets					3,668,278	(611,775)	3,056,503
Net Assets-Beginning					34,682,363	6,821,637	41,504,000
Net Assets-Ending					\$38,350,641	\$6,209,862	\$44,560,503

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

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

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2011. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

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

LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND

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

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

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

CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND

To account for capital project improvement revenues and expenditures financed by various sources such as Federal and State grants, Measure A money, and Park in-lieu funds.

REDEVELOPMENT AGENCY DEBT SERVICE FUND

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

PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND

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

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General Fund	Low and Moderate Income Housing Special Revenue Fund	Capital Projects Funds	
			Redevelopment Agency	Capital Improvements
ASSETS				
Cash and investments (Note 3)	\$8,066,786	\$3,874,284	\$1,841,083	\$4,259,039
Restricted cash and investments (Note 3)			78	
Receivables:				
Accrued interest		130,956		
Taxes	459,004			
Intergovernmental	87,381			313,245
Accounts receivable	49,315		11,967	
Deposits and prepayments	58,420	15,000		
Due from other funds (Note 4A)	98,365			53,549
Advances to other funds (Note 4B)	12,760,896			
Property held for resale (Note 1I)				3,141,165
Loans and notes receivable (Note 5)		6,977,683		
Total Assets	\$21,580,167	\$10,997,923	\$1,853,128	\$7,766,998
LIABILITIES				
Accounts payable	\$404,879		\$1,280,012	\$10,538
Retentions payable				88,460
Deposits payable	480,928		5,000	
Other accrued liabilities	1,071,961			
Due to other funds (Note 4A)				
Deferred revenue				313,245
Advances from developers	1,175		130,163	
Advances from other funds			12,760,896	
Total Liabilities	1,958,943		14,176,071	412,243
FUND BALANCES (NOTE 9)				
Nonspendable	12,760,896			
Restricted		\$10,997,923	546,702	3,141,165
Assigned	248,259			4,213,590
Unassigned	6,612,069		(12,869,645)	
Total Fund Balances	19,621,224	10,997,923	(12,322,943)	7,354,755
Total Liabilities and Fund Balances	\$21,580,167	\$10,997,923	\$1,853,128	\$7,766,998

See accompanying notes to financial statements

Debt Service Funds			
Redevelopment Agency	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
\$1,504		\$7,243,689	\$25,286,385
2,033,056	\$15,330,385	2,760,313	20,123,832
			130,956
			459,004
		527,014	927,640
		2,994	64,276
		42,051	115,471
		6,784	158,698
			12,760,896
			3,141,165
		273,948	7,251,631
<u>\$2,034,560</u>	<u>\$15,330,385</u>	<u>\$10,856,793</u>	<u>\$70,419,954</u>
		\$392,546	\$2,087,975
		62,593	151,053
			485,928
		22,438	1,094,399
		158,698	158,698
		2,095,436	2,408,681
			131,338
			12,760,896
		2,731,711	19,278,968
			12,760,896
2,034,560	15,330,385	8,191,247	40,241,982
			4,461,849
		(66,165)	(6,323,741)
<u>2,034,560</u>	<u>15,330,385</u>	<u>8,125,082</u>	<u>51,140,986</u>
<u>\$2,034,560</u>	<u>\$15,330,385</u>	<u>\$10,856,793</u>	<u>\$70,419,954</u>

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CITY OF EAST PALO ALTO
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances reported on the Governmental Funds Balance Sheet \$51,140,986

Amounts reported for Governmental Activities in the Statement of Net Assets
 are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
 therefore are not reported in the Governmental Funds 28,011,307

BOND ISSUANCE COSTS

Bond issuance cost are expended in the governmental funds, are capitalized and
 amortized over the life of the bonds in the statement of net assets 1,214,607

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Governmental Fund balance sheet because they are
 not available currently are taken into revenue in the Statement of Activities. 610,058

LONG-TERM ASSETS AND LIABILITIES

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

Long-term debt	(41,489,548)
Compensated absences	(744,839)
Claims payable	(76,660)
Interest payable	(315,270)
	<u>(42,626,317)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$38,350,641

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Low and Moderate Income Housing Special Revenue Fund	Capital Projects Funds	
			Redevelopment Agency	Capital Improvements
REVENUES				
Property tax	\$7,310,956			
Property tax increment		\$1,538,884	\$6,087,044	
Sales tax	2,870,854			
Transient occupancy tax	811,686			
Utility users tax	1,502,939			
Other taxes	177,344			
Licenses, fees and permits	1,451,605			
Charges for services	228,968			
Fines and forfeitures	239,233			
Use of money and property	2,974,963	100,727	28,630	
Grants and Intergovernmental	139,127			\$1,140,883
Miscellaneous	216,412		433,718	39,215
Total Revenues	17,924,087	1,639,611	6,549,392	1,180,098
EXPENDITURES				
Current:				
General government	3,675,341		346,725	1,504
Public safety	9,362,665			
Public works	1,589,292		114,062	
Culture and recreation	655,452			
Community development	1,143,358	(44,457)	3,241,538	
Capital outlay	8,158			2,112,545
Debt service:				
Principal				
Interest and fiscal charges			1,026,205	
Total Expenditures	16,434,266	(44,457)	4,728,530	2,114,049
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,489,821	1,684,068	1,820,862	(933,951)
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4C)	1,710,180		266,630	7,522,211
Transfers (out) (Note 4C)	(3,865,044)	(3,070,053)	(2,490,288)	(4,447)
Total Other Financing Sources (Uses)	(2,154,864)	(3,070,053)	(2,223,658)	7,517,764
Special item (Note 1M)				
NET CHANGE IN FUND BALANCES	(665,043)	(1,385,985)	(402,796)	6,583,813
BEGINNING FUND BALANCES	20,286,267	12,383,908	(11,920,147)	770,942
ENDING FUND BALANCES	\$19,621,224	\$10,997,923	(\$12,322,943)	\$7,354,755

See accompanying notes to financial statements

Debt Service Funds			
Redevelopment Agency	Public Financing Authority	Other Governmental Funds	Total Governmental Funds
		\$305,462	\$7,616,418
			7,625,928
			2,870,854
		202,922	1,014,608
			1,502,939
		1,238,694	1,416,038
			1,451,605
		865,882	1,094,850
			239,233
\$133,318	\$1,005,092	65,913	4,308,643
		3,006,759	4,286,769
		483,920	1,173,265
<u>133,318</u>	<u>1,005,092</u>	<u>6,169,552</u>	<u>34,601,150</u>
2,000		791,987	4,817,557
		1,404,442	10,767,107
		1,655,979	3,359,333
		59,294	714,746
		739,699	5,080,138
		1,447,797	3,568,500
495,000	580,000		1,075,000
1,460,686	836,785		3,323,676
<u>1,957,686</u>	<u>1,416,785</u>	<u>6,099,198</u>	<u>32,706,057</u>
(1,824,368)	(411,693)	70,354	1,895,093
633,979		694,081	10,827,081
		(1,404,652)	(10,834,484)
<u>633,979</u>		<u>(710,571)</u>	<u>(7,403)</u>
(1,196,653)	15,742,078	1,104,575	15,650,000
(2,387,042)	15,330,385	464,358	17,537,690
<u>4,421,602</u>		<u>7,660,724</u>	<u>33,603,296</u>
<u>\$2,034,560</u>	<u>\$15,330,385</u>	<u>\$8,125,082</u>	<u>\$51,140,986</u>

CITY OF EAST PALO ALTO
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the Statement of Activities
 FOR THE YEAR ENDED JUNE 30, 2011

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$17,537,690

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

CAPITAL ASSETS TRANSACTIONS

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

Capital outlay and other capitalized expenditures are added back to fund balance	4,001,131
Depreciation expense is deducted from the fund balance	(1,152,951)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Repayment of debt principal are added back to fund balance	1,075,000
Interest expense are deducted from fund balance	6,188
Special item is deducted from fund balance	(15,650,000)

ACCRUAL OF NON-CURRENT ITEMS

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

Deferred revenue	(2,211,703)
Deferred charges	182,000
Compensated absences	(44,511)
Claims	(45,410)
Amortization of bond issuance cost	(67,670)
Net amortization of bond discount and premium	<u>38,514</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$3,668,278

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

The City has identified the funds below as major proprietary funds in fiscal 2011.

GARBAGE COLLECTION FUND

To account for activities associated with garbage collection services.

WATER SERVICE FUND

To account for activities associated with providing water services.

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	Business-type Activities-Enterprise Funds		
	Garbage Collection	Water Service	Totals
ASSETS			
Current Assets:			
Cash and investments (Note 3)	\$1,489,241	\$640,802	\$2,130,043
Cash with fiscal agents (Note 3)		834,286	834,286
Accounts receivables, net	36,045	27,871	63,916
Total Current Assets	1,525,286	1,502,959	3,028,245
Noncurrent Assets:			
Capital assets (Note 6)			
Non-depreciable		206,750	206,750
Depreciable capital assets, net		4,113,064	4,113,064
Total Non-current Assets		4,319,814	4,319,814
Total Assets	1,525,286	5,822,773	7,348,059
LIABILITIES			
Current Liabilities:			
Accounts payable	526,520	55	526,575
Other Accrued Liabilities	558,000		558,000
Total current liabilities	1,084,520	55	1,084,575
Noncurrent Liabilities:			
Deposits		53,622	53,622
Total Liabilities	1,084,520	53,677	1,138,197
NET ASSETS (Note 9)			
Invested in capital assets		4,319,814	4,319,814
Restricted for capital projects		834,286	834,286
Unrestricted	440,766	614,996	1,055,762
Total Net Assets	\$440,766	\$5,769,096	\$6,209,862

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services and other fees	\$1,984,543	\$243,750	\$2,228,293
Other	179,294		179,294
Total Operating Revenues	<u>2,163,837</u>	<u>243,750</u>	<u>2,407,587</u>
OPERATING EXPENSES			
Outside services	2,575,439	255,918	2,831,357
Administration	26,644		26,644
Depreciation		183,908	183,908
Total Operating Expenses	<u>2,602,083</u>	<u>439,826</u>	<u>3,041,909</u>
Operating (Loss)	<u>(438,246)</u>	<u>(196,076)</u>	<u>(634,322)</u>
NON-OPERATING REVENUES			
Interest revenue	9,387	5,757	15,144
Transfers in	7,403		7,403
Total Non-operating Revenues	<u>16,790</u>	<u>5,757</u>	<u>22,547</u>
Change in net assets	(421,456)	(190,319)	(611,775)
BEGINNING NET ASSETS	<u>862,222</u>	<u>5,959,415</u>	<u>6,821,637</u>
ENDING NET ASSETS	<u>\$440,766</u>	<u>\$5,769,096</u>	<u>\$6,209,862</u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities-Enterprise Funds</u>		
	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$2,152,792	\$241,447	\$2,394,239
Disbursements to suppliers for goods and services	(1,903,634)	(256,423)	(2,160,057)
Cash Flows from Operating Activities	<u>249,158</u>	<u>(14,976)</u>	<u>234,182</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>9,387</u>	<u>5,757</u>	<u>15,144</u>
Cash Flows from Investing Activities	<u>9,387</u>	<u>5,757</u>	<u>15,144</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES			
Transfer in	<u>7,403</u>		<u>7,403</u>
Cash Flows from Investing Activities	<u>7,403</u>		<u>7,403</u>
Net Cash Flows	265,948	(9,219)	256,729
Cash and investments at beginning of period	<u>1,223,293</u>	<u>1,484,307</u>	<u>2,707,600</u>
Cash and investments at end of period	<u>\$1,489,241</u>	<u>\$1,475,088</u>	<u>\$2,964,329</u>
Reconciliation of Operating Loss to Cash Flows from Operating Activities:			
Operating loss	(\$438,246)	(\$196,076)	(\$634,322)
Adjustments to reconcile operating loss to cash flows from operating activities:			
Depreciation		183,908	183,908
Change in assets and liabilities:			
Receivables, net	(11,045)	(2,303)	(13,348)
Accounts payable	140,449	(505)	139,944
Other accrued liabilities	558,000		558,000
Cash Flows from Operating Activities	<u>\$249,158</u>	<u>(\$14,976)</u>	<u>\$234,182</u>

See accompanying notes to financial statements

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. *Reporting Entity*

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

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

Blended Component Units

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

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

B. *Basis of Presentation*

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

C. Major Funds

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

GENERAL FUND

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

LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND

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

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

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

CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND

To account for capital project improvement revenues and expenditures financed by various sources such as Federal and State grants, Measure A money, and Park in-lieu funds.

REDEVELOPMENT AGENCY DEBT SERVICE FUND

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

PUBLIC FINANCING AUTHORITY DEBT SERVICE FUND

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

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

GARBAGE COLLECTION FUND

To account for activities associated with garbage collection services.

WATER SERVICE FUND

To account for activities associated with providing water services.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

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

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

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

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

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

Revenue Recognition for Garbage Collection and Water Enterprise Funds

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property Tax

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

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

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

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

F. Compensated Absences

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

	<u>Governmental Activities</u>
Beginning Balance	\$700,328
Additions	587,488
Payments	<u>(542,977)</u>
Ending Balance	<u>\$744,839</u>
Current Portion	<u>\$400,000</u>

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Deposits*

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

H. *Prepayments*

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

I. *Property held for resale*

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

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33432 and approved the conveyance of all of the property held for resale from the Agency to the City. The property is held in the Capital Improvement Capital Projects Fund. The property held for resale balance at June 30, 2011 in the amount of \$3,141,165 represents land acquired by the Redevelopment Agency for the purpose of resale to developers in regard to the development of the Gateway 101 Retail Center and related projects.

J. *Bond Discounts, Premiums and Issuance Costs*

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

K. *Cash and Cash equivalents*

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

L. *Use of Estimates*

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Special Item

Establishment of East Palo Alto Public Financing Authority Funds - In prior fiscal year, both the East Palo Alto Public Financing Authority activities and East Palo Alto Redevelopment Agency debt service activities were reported in the Debt Service Fund. In the current fiscal year, as of July 1, 2011, the City determined that the East Palo Alto Public Financing Authority activities, including the East Palo Alto Public Financing Authority 2005 Revenue Bonds, should be presented separately. As a result, the City established the Public Financing Authority Debt Service Fund and the Public Financing Authority Capital Projects Fund. Therefore, the fund balance for the Redevelopment Agency Debt Service fund was decreased by \$1,196,653 while the fund balances for Public Financing Authority Debt Service Fund and Public Financing Authority Capital Project Fund were increased by \$92,078 and \$1,104,575 respectively. In addition the Public Financing Authority Debt Service Fund's fund balance was also increased by \$15,650,000 to record its investment in the Agency's 1999 Tax Allocation Bonds.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

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

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

B. Encumbrances

The City uses an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS

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

The City's cash and investments consist of the following at June 30, 2011:

	<u>Cash and Investments</u>		
	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total</u>
Investments:			
Local Agency Investment Fund	\$5,199,860		\$5,199,860
San Mateo County Investment Fund	21,889,858		21,889,858
Certificates of deposits	100,000		100,000
Money Market Funds		\$3,751,721	3,751,721
Guaranteed investment agreements:			
JP Morgan Chase		1,966,397	1,966,397
Direct Fund Investment:			
Municipal Bonds:			
Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds		14,805,000	14,805,000
Petty Cash	900		900
Cash in banks	225,810		225,810
Total cash and investments	<u>\$27,416,428</u>	<u>\$20,523,118</u>	<u>\$47,939,546</u>

A. *Authorized Investments by the City*

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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

B. *Authorized Investments by Debt Agreements*

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

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

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

C. *Interest Rate Risk*

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

	12 Months or less	More than 5 years	Total
Pooled cash and investments:			
Local Agency Investment Fund	\$5,199,860		\$5,199,860
San Mateo County Pooled Investments	21,889,858		21,889,858
Certificates of Deposits	100,000		100,000
Cash in bank and petty cash	226,710		226,710
Subtotal pooled cash and investments	<u>\$27,416,428</u>		<u>\$27,416,428</u>
Direct fund investment:			
Municipal bonds:			
Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	435,000	14,805,000	15,240,000
Held with fiscal agent:			
Guaranteed investment agreements:			
JP Morgan Chase		\$1,966,397	1,966,397
Money market funds	3,751,721		3,751,721
Total Cash and Investments	<u>\$31,603,149</u>	<u>\$16,771,397</u>	<u>\$48,374,546</u>

Money Market Funds are available for withdrawal on demand.

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual credit rating as of June 30, 2011, for each investment type:

Investment Type	Not Rated	Moody's Rating		Total
		Aa1	Aaa	
Local Agency Investment Fund	\$5,199,860			\$5,199,860
San Mateo County Investment Fund		\$21,889,858		21,889,858
Certificates of Deposits	100,000			100,000
Direct fund investment:				
Municipal bonds:				
Redevelopment Agency of the City of East Palo Alto 1999 Tax Allocation Bonds	14,805,000			14,805,000
Guaranteed investment agreements:				
JP Morgan Chase	1,966,397			1,966,397
Money Market Funds			\$3,751,721	3,751,721
Petty Cash	900			900
Cash in banks	225,810			225,810
Total Cash and Investments				<u>\$47,939,546</u>

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Custodial Credit Risk

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

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

F. Concentration Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2011 investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of total City's investments include a Guaranteed Investment Agreement issued by JP Morgan Chase in the amount of \$1,966,397.

G. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2011, these investments matured in an average of 203 days.

H. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2011, these investments matured in an average of 1.4 years.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 4 - INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2011, interfund balances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Funds:	
	Federal and State Law Enforcement	\$51,556
	Federal and State Grants	46,808
Local Grant Special Revenue Fund	Special Revenue Fund:	
	Measure A	6,785
Capital Improvements Capital Projects Fund	Public Finance Authority Capital Projects Fund	53,549
		\$158,698

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

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

Interfund advances are not expected to be repaid in the following fiscal year. At June 30, 2011, the outstanding balance of \$12,568,679 is comprised of two advances from the General Fund to the Redevelopment Agency Capital Projects Fund.

The first advance is for the ongoing assistance and services in connection with the implementation of the redevelopment plan for the Ravenswood Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement to provide for a repayment schedule to ensure full repayment of the outstanding balance. The repayment terms are that the advance will be repaid in 35 years, the rate of interest on the advance is 12% and the repayment of the advance is limited to property tax increment revenues. At June 30, 2011, the Agency's ending advance balance was \$6,535,805.

The second advance is for the funding of the Ravenswood High School Site. This property was developed into a retail shopping center in the Gateway 101 Project Area. During the fiscal year 2011, the City and Agency made findings and amended the Repayment Agreement and the Purchase and Sale Agreement to specify the repayment terms for the purchase price of the property. The repayment terms are that the advance will be repaid in 35 years, there is no interest provision and the repayment of the advance is limited to property tax increment revenues. The ending advance balance at June 30, 2011 was \$6,225,090.

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

At June 30, 2011, outstanding balances from the above advances were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Redevelopment Agency Capital Projects Fund	\$12,760,896
		<u>\$12,760,896</u>

C. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Redevelopment Agency Capital Projects Funds	\$1,518,567 A
	Nonmajor Governmental Funds	191,613 B,F
Redevelopment Agency Capital Projects Fund	Low and Moderate Income Housing Special Revenue Fund	266,630 F
Redevelopment Agency Debt Service	Low and Moderate Income Housing Special Revenue Fund	199,687 C
	Redevelopment Agency Capital Projects Funds	434,292 C
Capital Improvements Capital Project Fund	Low and Moderate Income Housing Special Revenue Fund	2,603,736 H
	Redevelopment Agency Capital Projects Funds	537,429 H
	General Fund	3,865,044 D,E
	Nonmajor Governmental Funds	516,002 E
Garbage Collection Enterprise Fund	Nonmajor Governmental Funds	7,403 F
Nonmajor Governmental Funds	Capital improvement fund	4,447 F
	Nonmajor Governmental Funds	<u>689,634 D,E,F,G</u>
	Total Interfund Transfers	<u>\$10,834,484</u>

The reasons for these transfers are set forth below:

- A. Transfer TOT payment obligation
- B. To transfer interest earned
- C. To fund debt service payments
- D. To cover operating deficit
- E. Fund capital projects
- F. To reimburse operating expense or administrative expenses
- G. To cover matching requirements
- H. To transfer land held for resale

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 5 - LOANS RECEIVABLE

Loans receivable as of June 30, 2011, are composed of the following:

	Balance as of June 30, 2011
Nairobi Housing Associates Loan	\$5,500,000
Nugent Square Partners Loan	1,100,000
Bay Road Housing Loan	275,000
First Time Home Buyer Assistance Loans	376,631
Total:	\$7,251,631

A. *Nairobi Housing Associates Loan*

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

B. *Nugent Square Partners*

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

C. *Bay Road Housing Loan*

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

D. *First Time Home Buyer Assistance Loans*

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 6 - CAPITAL ASSETS

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

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

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

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in capital assets during the year ended June 30, 2011, are comprised of the following:

	Balance at June 30, 2010	Additions	Transfers	Balance at June 30, 2011
Governmental activities				
Capital assets not being depreciated:				
Land	\$901,610			\$901,610
Construction in progress	2,214,008	\$495,191	(\$1,124,030)	1,585,169
Total capital assets not being depreciated	3,115,618	495,191	(1,124,030)	2,486,779
Capital assets being depreciated:				
Infrastructure:				
Streets and roadways	37,944,771	2,826,634	812,032	41,583,437
Storm drain system	3,760,989	23,800	304,703	4,089,492
Building and Improvements	4,868,874	250,612	7,295	5,126,781
Improvements other than buildings	3,664,641	47,457		3,712,098
Furniture, Fixtures and Equipment	1,570,810	257,903		1,828,713
Vehicles	1,477,351	99,534		1,576,885
Total capital assets being depreciated	53,287,436	3,505,940	1,124,030	57,917,406
Less accumulated depreciation for:				
Infrastructure:				
Streets and roadways	(25,557,515)	(518,624)		(26,076,139)
Storm drain system	(2,103,736)	(54,581)		(2,158,317)
Building and Improvements	(1,262,714)	(218,237)		(1,480,951)
Improvements other than buildings	(579,195)	(113,230)		(692,425)
Furniture, Fixtures and Equipment	(1,095,211)	(132,676)		(1,227,887)
Vehicles	(641,556)	(115,603)		(757,159)
Total accumulated depreciation	(31,239,927)	(1,152,951)		(32,392,878)
Total capital assets, being depreciated, net	22,047,509	2,352,989	1,124,030	25,524,528
Governmental activities capital assets, net	\$25,163,127	\$2,848,180		\$28,011,307

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 6 - CAPITAL ASSETS (Continued)

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Balance at June 30, 2011</u>
Business-type activities			
Capital assets not being depreciated:			
Land	\$206,750		\$206,750
Total capital assets not being depreciated	<u>206,750</u>		<u>206,750</u>
Capital assets, being depreciated:			
Building and improvements	43,790		43,790
Improvements other than buildings	7,057,660		7,057,660
Furniture, fixtures and equipment	63,943		63,943
Vehicles	89,890		89,890
Total capital assets being depreciated	<u>7,255,283</u>		<u>7,255,283</u>
Less accumulated depreciation for:			
Building and improvements	(43,790)		(43,790)
Improvements other than buildings	(2,760,687)	(\$183,908)	(2,944,595)
Furniture, fixtures and equipment	(63,943)		(63,943)
Vehicles	(89,891)		(89,891)
Total accumulated depreciation	<u>(2,958,311)</u>	<u>(183,908)</u>	<u>(3,142,219)</u>
Total capital assets, being depreciated, net	<u>4,296,972</u>	<u>(183,908)</u>	<u>4,113,064</u>
Business-type activities capital assets, net	<u>\$4,503,722</u>	<u>(\$183,908)</u>	<u>\$4,319,814</u>

A. Capital Asset Contributions

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 6 - CAPITAL ASSETS (Continued)

B. Depreciation Allocation

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

Governmental Activities

General Government	\$25,508
Public Safety	151,508
Culture and Recreation	8,725
Public Works	732,388
Community Development	<u>234,822</u>
Total Governmental Activities	<u><u>\$1,152,951</u></u>

Business-Type Activities

Water Service	<u>\$183,908</u>
Total Business-Type Activities	<u><u>\$183,908</u></u>

C. Capital Project Commitments

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

Project	Project Authorization	Extended through June 30, 2011	Committed
Cooley Landing Park - Design	\$619,633	\$548,605	\$71,028
Cooley Landing Park Phase I	1,879,649	107,056	1,772,593
City-wide Annual Street Resurfacing	1,159,000		1,159,000
Safe Route to School	1,112,300		1,112,300
Street Light LED Replacement	180,000		180,000
University Avenue Traffic Signal Improvement	170,000		170,000
East Bayshore Rd/Pulgas Intersection Improvement	260,000		260,000
Skateboard Park	<u>75,000</u>		<u>75,000</u>
	<u><u>\$5,455,582</u></u>	<u><u>\$655,661</u></u>	<u><u>\$4,799,921</u></u>

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 7 – LONG-TERM DEBT

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

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2010	Retirements	Balance June 30, 2011	Amount due within one year
Redevelopment Agency					
1999 Tax Allocation Bonds					
4.200-6.625%, due 10/1/2032	\$22,785,000	\$15,650,000	(\$410,000)	\$15,240,000	\$435,000
2003 Tax Allocation Refunding Bonds Series A					
4.00-5.00%, due 10/1/2032	5,155,000	5,030,000	(15,000)	5,015,000	15,000
2003 Tax Allocation Refunding Bonds Series B (Taxable)					
4.12-6.45%, due 10/1/2032	3,600,000	3,205,000	(70,000)	3,135,000	70,000
Public Financing Authority					
2005 Revenue Bonds, Series A					
3.40-5.00%, due 10/1/2029	17,995,000	17,995,000	(580,000)	17,415,000	600,000
Unamortized Premium, Discounts, and Loss on Refundings	848,836	723,062	(38,514)	684,548	(38,514)
Total Redevelopment Agency Debt	<u>\$50,383,836</u>	<u>\$42,603,062</u>	<u>(\$1,113,514)</u>	41,489,548	<u>\$1,081,486</u>
				Less amount due within one year: <u>(1,081,486)</u>	
				Amount due in more than one year: <u>\$40,408,062</u>	

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

B. 1999 Tax Allocation Bonds (TABS)

The Agency issued \$22,785,000 in University Circle-Gateway 101 Corridor Merged Project Area Tax Allocation Bonds, Series 1999, dated October 21, 1999. The bonds were issued to finance the redevelopment activities within the Agency's Gateway 101 Corridor Redevelopment Project Area, to refinance and retire certain obligations related to the project area, to fund capitalized interest on a portion of the 1999 bonds, to fund a reserve account for the bonds, and to pay issuance costs.

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 7 - LONG TERM DEBT (Continued)

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

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

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

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

For The Year Ending June 30	1999 Tax Allocation Bonds		
	Principal	Interest	Total
2012	\$435,000	\$980,570	\$1,415,570
2013	460,000	953,938	1,413,938
2014	490,000	925,438	1,415,438
2015	520,000	895,138	1,415,138
2016	550,000	861,663	1,411,663
2017-2021	3,330,000	3,704,966	7,034,966
2022-2026	4,575,000	2,413,322	6,988,322
2027-2031	4,880,000	672,438	5,552,438
Total payments due	<u>\$15,240,000</u>	<u>\$11,407,473</u>	<u>\$26,647,473</u>

The pledge of future tax increment revenues ends upon repayment of the \$26,647,473 in remaining debt service on the 1999 Tax Allocation Bonds which is scheduled to occur in 2033. For fiscal year 2011, total tax increment revenues amounted to \$7.6 million which represented coverage of 5.3 over the \$1,440,088 in debt service.

C. 2003A and 2003B Tax Allocation Bonds

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 7 - LONG TERM DEBT (Continued)

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

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

Future debt service on the 2003A bonds at June 30, 2011, are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series A		
	Principal	Interest	Total
2012	\$15,000	\$249,450	\$264,450
2013	15,000	248,850	263,850
2014	15,000	248,250	263,250
2015	15,000	247,594	262,594
2016	15,000	246,882	261,882
2017-2021	95,000	1,221,817	1,316,817
2022-2026	120,000	1,196,257	1,316,257
2027-2031	1,580,000	1,127,750	2,707,750
2032- 2033	3,145,000	159,125	3,304,125
Total payments due	<u>\$5,015,000</u>	<u>\$4,945,975</u>	<u>\$9,960,975</u>

Future debt services on the 2003B bonds at June 30, 2011, are as follows:

For The Year Ending June 30	2003 Tax Allocation Refunding Bonds Series B		
	Principal	Interest	Total
2012	\$70,000	\$195,205	\$265,205
2013	75,000	191,276	266,276
2014	80,000	187,076	267,076
2015	85,000	182,273	267,273
2016	90,000	176,848	266,848
2017-2021	535,000	791,395	1,326,395
2022-2026	725,000	597,477	1,322,477
2027-2031	990,000	324,114	1,314,114
2032- 2033	485,000	31,767	516,767
Total payments due	<u>\$3,135,000</u>	<u>\$2,677,431</u>	<u>\$5,812,431</u>

The pledge of future tax increment revenues ends upon repayment of the \$9,960,975 in remaining debt service on the 2003A Tax Allocation Bonds which is scheduled to occur in 2033. For fiscal year 2011 tax increment revenues amounted to \$7.6 million which represented coverage of 28.8 over the \$265,050 in debt service.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 7 - LONG TERM DEBT (Continued)

The pledge of future tax increment revenues ends upon repayment of the \$5,812,431 in remaining debt service on the 2003B Tax Allocation Bonds which is scheduled to occur in 2032. For fiscal year 2011 tax increment revenues amounted to \$7.6 million which represented coverage of 28.3 over the \$268,999 in debt service.

D. 2005 East Palo Alto Public Financing Authority Bonds

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

The purchase in lieu of redemption is structured somewhat differently from a standard refunding in that on 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 property of the Authority. In other words, there were no changes to the 1999 Bonds after the October 1, 2009 purchase date. After the October 1, 2009 purchase date, the Authority, in its role as a Joint Powers Authority (the "JPA") became the owner of the 1999 Bonds. The Agency will continue to make debt service payments on the 1999 Bonds as previously scheduled. Additionally, up to and including the October 1, 2009 purchase date, debt service on the 2005 Authority Bonds were payable solely from an investment agreement with General Electric Capital Funding. The principal invested under the investment agreement, together with interest earnings thereon were sufficient to pay the interest cost of the 2005 Authority Bonds up to and including October 1, 2009 and to purchase the 1999 Bonds in lieu of redemption on October 1, 2009.

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 7 - LONG TERM DEBT (Continued)

Future debt service on the 2005 bonds at June 30, 2011, assuming no redemptions of the 2005 bonds other than scheduled mandatory sinking account redemption was:

For The Year Ending June 30	2005 Revenue Bonds Series A		
	Principal	Interest	Total
2012	\$600,000	\$816,424	\$1,416,424
2013	620,000	794,454	1,414,454
2014	645,000	770,487	1,415,487
2015	670,000	741,240	1,411,240
2016	700,000	706,990	1,406,990
2017-2021	4,050,000	2,989,689	7,039,689
2022-2026	5,070,000	1,923,750	6,993,750
2027-2031	5,060,000	521,250	5,581,250
Total payments due	<u>\$17,415,000</u>	<u>\$9,264,284</u>	<u>\$26,679,284</u>

The assignment of all principal and interest payments from the 1999 Tax Allocation Bonds ends upon repayment of \$26,679,284 in remaining debt service on the 2005 Tax Allocation Bonds which is scheduled to occur in 2030. For fiscal year 2011, revenue assigned and received by the Public Financing Authority under the Bond Assignment and Purchase amounted to \$1,415,088. Debt service coverage equaled 1.0 of the \$1,416,784 in debt service including the draw down of existing reserves.

E. Debt without City Commitment

The Agency sponsored \$11 million of the Redevelopment Agency of the City of East Palo Alto Multifamily Housing Mortgage Revenue Bonds, 1999 Series A and Series B, and taxable 1999 Series C to assist a developer in financing the construction of a multifamily rental housing project known as Gateway 101 Apartments. The Agency has no legal or moral liability with respect to repayment of the debt, and does not include these obligations in the City's financial statements. The bonds are secured by the developer's project and related rental operations, and are not an obligation of the Agency. The total principal outstanding as of June 30, 2011, is \$7,467,000.

NOTE 8 – OPERATING LEASE

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$478,445 for governmental activities and \$50,804 for business-type activities for the fiscal year ended June 30, 2011. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2012	\$260,909
2013	123,696
2014	123,696
2015	123,690
	<u>\$631,991</u>

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCES

A. Net Assets

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

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

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

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

B. Fund Balance

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

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

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

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

Fund Balance Classifications	General Fund	Low and Moderate Income Housing Special Revenue Fund	Capital Projects Funds		Debt Service Funds		Other Governmental Funds	Total
			Redevelopment Agency	Capital Improvements	Redevelopment Agency	Public Financing Authority		
Nonspendables:								
Items not in spendable form:								
Advances to other funds	\$12,760,896							\$12,760,896
Total Nonspendable Fund Balances	<u>12,760,896</u>							<u>12,760,896</u>
Restricted for:								
Low and Moderate Income Housing		10,997,923		3,141,165				14,139,088
NPDES Fees							86,316	86,316
Gas Tax							674,923	674,923
Federal and State Law Enforcement							5,180	5,180
Park in Lieu							363,717	363,717
Rent Stabilization							157,018	157,018
Housing in Lieu							937,782	937,782
Housing Assistance							405,114	405,114
Public Improvements in Lieu							309,334	309,334
Measure A							2,090,233	2,090,233
Local Grants							61,538	61,538
CYSFF Child/Family							277,916	277,916
Lighting District							672,597	672,597
Drainage District							695	695
Measure C							1,158,492	1,158,492
Capital projects			546,702				990,392	1,537,094
Debt Service						2,034,560	15,330,385	17,364,945
Total Restricted Fund Balances		<u>10,997,923</u>	<u>546,702</u>	<u>3,141,165</u>	<u>2,034,560</u>	<u>15,330,385</u>	<u>8,191,247</u>	<u>40,241,982</u>
Assigned to:								
Capital Projects	248,259			4,213,590				4,461,849
Total Assigned Fund Balances	<u>248,259</u>			<u>4,213,590</u>				<u>4,461,849</u>
Unassigned:	<u>6,612,069</u>		<u>(12,869,645)</u>				<u>(66,165)</u>	<u>(6,323,741)</u>
Total Fund Balances	<u>\$19,621,224</u>	<u>\$10,997,923</u>	<u>(\$12,322,943)</u>	<u>\$7,354,755</u>	<u>\$2,034,560</u>	<u>\$15,330,385</u>	<u>\$8,125,082</u>	<u>\$51,140,986</u>

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

C. Fund Balance Deficit

The Redevelopment Capital Projects Fund had a fund balance deficit of \$12,322,943 at June 30, 2011. The deficit is expected to be eliminated from future tax increment revenues.

NOTE 10 - RETIREMENT BENEFITS

A. CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined on an actuarial basis as of June 30 of each year. The City must contribute the amounts determined by CALPERS. The Plans' provisions and benefits in effect at June 30, 2011, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4 - 3%	2 - 2.5%
Required employee contribution rates	9.0%	8.0%
Required employer contribution rates	20.927%	11.308%

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

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

Three-year historical trend information is presented below:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$1,098,259	100%	\$0
June 30, 2010	1,231,814	100%	0
June 30, 2011	1,324,956	100%	0

State-wide Pool Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$1,648,159,522	\$1,422,143,105	\$226,016,417	86.3%	\$200,537,256	112.7%
2008	1,755,559,311	1,517,609,609	237,949,702	86.4%	210,590,567	113.0%
2009	1,802,882,330	1,520,081,328	282,801,002	84.3%	221,600,192	127.6%

State-wide Pool Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$1,315,454,361	\$1,149,247,298	\$166,207,063	87.4%	\$289,090,187	57.5%
2008	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 10 - RETIREMENT BENEFITS (Continued)

The City's Safety Plan represents approximately 1.5%, 1.5%, 1.6%, and of the State-wide pool for the years ended June 30, 2009, 2008, and 2007 respectively, based on covered payroll of \$221,600,192, \$3,223,247, and \$3,242,948 for those years.

The City's Miscellaneous Plan represents approximately 1.3%, 1.4%, and 1.3%, of the State-wide pool for the years ended June 30, 2009, 2008, and 2007 respectively, based on covered payroll of \$355,150,151, \$4,605,218, and 3,755,077 for those years.

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

B. *Deferred Compensation Plan*

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

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

NOTE 11 – RISK MANAGEMENT

A. *Insurance Coverage*

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

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

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

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 11 – RISK MANAGEMENT (Continued)

B. *Liability for Uninsured Claims*

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

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2011 and 2010:

	2011	2010
Beginning balance of claims payable	\$31,250	\$880,000
Increase/Decrease in estimated claims liability	453,571	(503,985)
Claims paid	(408,161)	(344,765)
Ending balance of claims payable	\$76,660	\$31,250
Current Portion	\$5,200	\$1,110

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

NOTE 12 – JOINT VENTURES

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

A. *South Bayside Waste Management Authority*

The City is one of twelve members of the South Bayside Waste Management Authority (SBWMA), which is a joint powers agreement that commenced operations March 1, 2000. The SBWMA was formed for the purpose of joint ownership, financing, and administration of the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration management, review, monitoring, enforcement, and reporting of solid waste, recyclable material, and plant material collection activities with the service area of the SBWMA.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 12 – JOINT VENTURES (Continued)

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

B. *San Francisquito Creek Joint Powers Authority*

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

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS

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

On April 9, 2001, the City entered into a lease agreement with American Water Services, Inc. (the Company) and agreed to lease the waster system owned by the City to the Company. The Company is responsible to operate, maintain and manage the water system as well as bill and collect water services charges and utility tax from the City's resident. The Company also agreed to pay lease payment and franchise fee to the City. The franchise fee and lease payment represents 6% and 5%, respectively, of the net revenue, defined as gross revenue of the Company received from the City's resident net of utility tax collected and transferred to the City. For the year ended June 30, the Company paid lease payment, and franchise fee to the City in the amount of \$184,144 and \$153,453 respectively.

B. *Long-Term Pass-Throughs*

Menlo Park Fire Protection District - In 1988 the Agency entered into an agreement with the Menlo Park Fire Protection District (District) whereby the Agency agreed to pay the District the equivalent of 10.24% of the tax increment received by the Agency from the University Circle Project Area (Project Area) to help defray the additional costs to the District to manage the new risk in the Project Area. In the event that the Agency is not able to make the payment, the District has agreed that the payment will be deferred to future years when tax increment is available. At June 30, 2011, the total commitment was \$3,846,749.

East Palo Alto Sanitary District - In 1988 the Agency entered into an agreement with the East Palo Alto Sanitary District (EPASD) whereby the Agency agreed to pay the EPASD the equivalent of 3.968% of the tax increment received by the Agency from the University Circle Project Area up to a cumulative total of \$1,500,000 to defray the additional costs to the EPASD to provide wastewater transport facilities to the University Circle Project Area. At June 30, 2011, the total commitment was \$433,217.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

C. *Cooperative Agreement with State of California – Stage 2*

On January 8, 2001, the City entered into an agreement with the State of California whereby the parties agreed to modifications of the Interchange on Route 101 at University Avenue. As part of the approval of the agreement, the City committed future tax increment of the University Circle Project Area. The project was divided in two stages. To date, the second stage of the project (Stage 2) has not been completed. The estimated cost of Stage 2 is approximately \$6.0 million, of which the Agency has incurred approximately \$560,000. The Agency is actively seeking Federal and State grants to fund the commitment, and has Federal earmarks of approximately \$2,000,000 from the Department of Transportation.

D. *Bay Road Housing LP*

In December 2004, the Redevelopment Agency provided an operating subsidy loan from low and moderate income housing funds to Bay Road Housing L.P. for the development of affordable housing at the Courtyard at Bay Road. In consideration for the loan, Bay Road Housing agreed the housing units will be regulated to comply with the requirements of the Health and Safety Code with regard to replacement housing, production of affordable housing and use of the housing fund. The units are to be counted towards the Agency's replacement housing obligation. The operating subsidy loan is a maximum not to exceed \$1,200,000 consisting of an annual obligation until the development is self-sustaining. Based on a variety of factors the annual subsidy may vary and, as such, the total of all annual commitments is estimated to be in the range of \$245,000 to \$900,000.

F. *Contingent Liabilities*

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

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

NOTE 14 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND (SERAF)

The State of California adopted AB26 4X in July 2009 which directed that a portion of the incremental property taxes received by redevelopment agencies, based on the property taxes received in fiscal year 2006-07, be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. While the Agency can use any legally available funds to make the SERAF payments, the obligation to make the SERAF payment is subordinate to obligations to repay bonds.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 14 – TAX INCREMENT SHIFT TO SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND (SERAF) (Continued)

The Agency made its first SERAF payment from the Gateway 101, University Circle, and Ravenswood Capital Projects Funds of \$3,263,513 in fiscal year 2009-10. The Agency's obligation due May 10, 2011 was \$691,700, and it made the payment out of the Gateway 101, University Circle, and Ravenswood Capital Projects Funds in fiscal year 2010-11.

NOTE 15 – SUBSEQUENT EVENTS

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated \$1.7 billion for fiscal year 2012 and an estimated \$400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of ABx1 26.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx1 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 23, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller's Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

CITY OF EAST PALO ALTO
Notes to Financial Statements
For the Fiscal Year ended June 30, 2011

NOTE 15 – SUBSEQUENT EVENTS (Continued)

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

1. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid, then the City will opt-in to the alternative voluntary redevelopment program. In July 2011, the City enacted Ordinance 345 which the City elected, on behalf of itself and the Agency, to comply with the provisions of Part 1.9 of the Redevelopment Law, including the required annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. It is anticipated that the City's annual remittances would be reimbursed by the Agency from tax increment revenues of the Gateway 101, University Circle and Ravenswood project areas. The State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be \$2,026,028.
2. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that ABx1 26 is valid, but ABx1 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of ABx1 26. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City including those discussed in Notes 5 and 6, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.
3. If the Supreme Court determines that both ABx1 26 and ABx1 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of ABx1 26 and ABx1 27.

As of September 16, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Low and Moderate Income Housing Special Revenue Fund - To account for property tax increments and other sources received by the East Palo Alto Redevelopment Agency and required to be set-aside for low and moderate-income housing and other related expenditures.

CITY OF EAST PALO ALTO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Property tax	\$6,883,091	\$7,435,000	\$7,310,956	(\$124,044)
Sales tax	2,316,000	2,745,000	2,870,854	125,854
Transient occupancy tax	1,089,600	736,000	811,686	75,686
Utility users tax	1,502,991	1,560,000	1,502,939	(57,061)
Other taxes	85,000	100,000	177,344	77,344
Licenses, fees and permits	1,210,994	1,313,500	1,451,605	138,105
Charges for services	183,014	170,000	228,968	58,968
Fines and forfeitures	165,000	180,000	239,233	59,233
Use of money and property	109,455	3,702,700	2,974,963	(727,737)
Grants and intergovernmental	122,300	137,700	139,127	1,427
Miscellaneous	121,130	196,600	216,412	19,812
Total Revenues	13,788,575	18,276,500	17,924,087	(352,413)
EXPENDITURES:				
Current:				
General government	3,713,108	3,990,956	3,675,341	315,615
Public safety - police	9,233,769	9,353,979	9,362,665	(8,686)
Public works	1,650,871	1,617,813	1,589,292	28,521
Culture and recreation	640,393	670,062	655,452	14,610
Community development	1,125,798	1,169,756	1,143,358	26,398
Capital outlay			8,158	(8,158)
Total Expenditures	16,363,939	16,802,566	16,434,266	368,300
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,575,364)	1,473,934	1,489,821	15,887
OTHER FINANCING SOURCES (USES)				
Transfers in		1,705,800	1,710,180	4,380
Transfers (out)	(266,273)	(3,869,300)	(3,865,044)	4,256
Total other financing sources (uses)	(266,273)	(2,163,500)	(2,154,864)	8,636
NET CHANGE IN FUND BALANCES	(\$2,841,637)	(\$689,566)	(665,043)	\$24,523
BEGINNING FUND BALANCE			20,286,267	
ENDING FUND BALANCE			\$19,621,224	

CITY OF EAST PALO ALTO
 LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
GOVERNMENTAL REVENUES				
Property tax increment		\$1,573,000	\$1,538,884	(\$34,116)
Use of money and property			100,727	100,727
Total Revenues		<u>1,573,000</u>	<u>1,639,611</u>	<u>66,611</u>
EXPENDITURES				
Community development	35,000	35,000	(44,457)	79,457
Total Expenditures	<u>35,000</u>	<u>35,000</u>	<u>(44,457)</u>	<u>79,457</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(35,000)</u>	<u>1,538,000</u>	<u>1,684,068</u>	<u>146,068</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)		(3,037,000)	(3,070,053)	(33,053)
Total Other Financing Sources (Uses)		<u>(3,037,000)</u>	<u>(3,070,053)</u>	<u>(33,053)</u>
NET CHANGE IN FUND BALANCES	<u>(\$35,000)</u>	<u>(\$1,499,000)</u>	<u>(1,385,985)</u>	<u>\$113,015</u>
BEGINNING FUND BALANCE			<u>12,383,908</u>	
ENDING FUND BALANCE			<u>\$10,997,923</u>	

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

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

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OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST PALO ALTO
REDEVELOPMENT AGENCY DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property	<u>\$8,300</u>	<u>\$133,318</u>	<u>125,018</u>
Total Revenues	<u>8,300</u>	<u>133,318</u>	<u>125,018</u>
EXPENDITURES			
Current:			
General government	\$2,000	2,000	
Debt service:			
Principal - purchase in lieu of redemption	85,000	495,000	(410,000)
Interest and fiscal charges	<u>451,550</u>	<u>1,460,686</u>	<u>(1,009,136)</u>
Total Expenditures	<u>538,550</u>	<u>1,957,686</u>	<u>(1,419,136)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(530,250)</u>	<u>(1,824,368)</u>	<u>(1,294,118)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,370,600	633,979	(736,621)
Transfers out	<u>(769,500)</u>	<u> </u>	<u>769,500</u>
Total Other Financing Sources (Uses)	<u>601,100</u>	<u>633,979</u>	<u>32,879</u>
SPECIAL ITEM	<u> </u>	<u>(1,196,653)</u>	<u>(1,196,653)</u>
NET CHANGE IN FUND BALANCES	<u>70,850</u>	<u>(2,387,042)</u>	<u>(\$1,261,239)</u>
BEGINNING FUND BALANCE		<u>4,421,602</u>	
ENDING FUND BALANCE		<u>\$2,034,560</u>	

CITY OF EAST PALO ALTO
PUBLIC FINANCING AUTHORITY FUND DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
GOVERNMENTAL REVENUES			
Use of money and property	\$33,400	\$1,005,092	\$971,692
Total Revenues	<u>33,400</u>	<u>1,005,092</u>	<u>971,692</u>
EXPENDITURES			
Debt service:			
Principal - purchase in lieu of redemption	580,000	580,000	
Interest and fiscal charges	840,850	836,785	4,065
Total Expenditures	<u>1,420,850</u>	<u>1,416,785</u>	<u>4,065</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,387,450)</u>	<u>(411,693)</u>	<u>975,757</u>
SPECIAL ITEM		<u>15,742,078</u>	<u>15,742,078</u>
NET CHANGE IN FUND BALANCES	<u><u>(1,387,450)</u></u>	15,330,385	<u><u>\$16,717,835</u></u>
BEGINNING FUND BALANCE			
ENDING FUND BALANCE		<u><u>\$15,330,385</u></u>	

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

Park in Lieu – Accounts for park in lieu fees collected from developers.

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

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

Federal and State Grants – Accounts for grant money received and expended from various Federal and State government grants.

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

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

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

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

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

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

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

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

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

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

Capital Projects Fund

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

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

SPECIAL REVENUE FUNDS					
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
ASSETS					
Cash and investments	\$87,894	\$720,693		\$409,803	\$174,945
Cash with fiscal agent				337,103	
Receivables:					
Intergovernmental			\$195,586		
Other receivables					
Deposits and prepayments					
Due from other funds					
Advances to other funds					
Loans and notes receivables					
Loans and notes receivables					
Total Assets	<u>\$87,894</u>	<u>\$720,693</u>	<u>\$195,586</u>	<u>\$746,906</u>	<u>\$174,945</u>
LIABILITIES					
Accounts payable	\$1,578	\$45,770	\$45,469	\$45,947	\$17,094
Retentions payable				139	
Deposits					
Other accrued liabilities					833
Due to other funds			51,556		
Deferred revenue			93,381	337,103	
Advances from other funds					
Total Liabilities	<u>1,578</u>	<u>45,770</u>	<u>190,406</u>	<u>383,189</u>	<u>17,927</u>
FUND BALANCE					
Restricted	86,316	674,923	5,180	363,717	157,018
Assigned					
Unassigned					
Total Fund Balances	<u>86,316</u>	<u>674,923</u>	<u>5,180</u>	<u>363,717</u>	<u>157,018</u>
Total Liabilities and Fund Balances	<u>\$87,894</u>	<u>\$720,693</u>	<u>\$195,586</u>	<u>\$746,906</u>	<u>\$174,945</u>

SPECIAL REVENUE FUNDS

ISTEA Grant	Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assistance	Public Improvements in Lieu	Measure A	Local Grants
			\$937,782	\$88,786	\$309,334 1,379,269	\$2,156,807	\$72,101
	\$121,576			2,994 39,386		2,665	209,852
				\$273,948			6,784
	<u>\$121,576</u>		<u>\$937,782</u>	<u>\$405,114</u>	<u>\$1,688,603</u>	<u>\$2,159,472</u>	<u>\$288,737</u>
	\$19,956					62,454	\$50,888
	4,820 46,808 116,157				1,379,269	6,785	6,785 169,526
	<u>187,741</u>				<u>1,379,269</u>	<u>69,239</u>	<u>227,199</u>
			937,782	405,114	309,334	2,090,233	61,538
	(66,165)						
	<u>(66,165)</u>		<u>937,782</u>	<u>405,114</u>	<u>309,334</u>	<u>2,090,233</u>	<u>61,538</u>
	<u>\$121,576</u>		<u>\$937,782</u>	<u>\$405,114</u>	<u>\$1,688,603</u>	<u>\$2,159,472</u>	<u>\$288,737</u>

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

	SPECIAL REVENUE FUNDS				Public Financing Authority Capital Projects Fund	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C		
ASSETS						
Cash and investments	\$427,416	\$690,022	\$1,630	\$1,166,476		\$7,243,689
Cash with fiscal agent					\$1,043,941	2,760,313
Receivables:						
Intergovernmental						527,014
Other receivables						2,994
Deposits and prepayments						42,051
Due from other funds						6,784
Advances to other funds						
Property held for resale						
Loans and notes receivables						273,948
Total Assets	\$427,416	\$690,022	\$1,630	\$1,166,476	\$1,043,941	\$10,856,793
LIABILITIES						
Accounts payable	\$139,500	\$17,425	\$935	\$7,984		\$392,546
Retentions payable						62,593
Deposits						
Other accrued liabilities	10,000					22,438
Due to other funds					53,549	158,698
Deferred revenue						2,095,436
Advances from other funds						
Total Liabilities	149,500	17,425	935	7,984	53,549	2,731,711
FUND BALANCE						
Restricted	277,916	672,597	695	1,158,492	990,392	8,191,247
Assigned						
Unassigned						(66,165)
Total Fund Balances	277,916	672,597	695	1,158,492	990,392	8,125,082
Total Liabilities and Fund Balances	\$427,416	\$690,022	\$1,630	\$1,166,476	\$1,043,941	\$10,856,793

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CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS				
	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu	Rent Stabilization
GOVERNMENTAL REVENUES					
Property tax					
Transient occupancy tax					
Other taxes		\$534,530			
Licenses, fees and permits					
Charges for services				\$79,572	\$564,692
Use of money and property	\$472	4,545	\$321	\$4,486	2,979
Grants and intergovernmental	127,456	268,062	1,009,671	216,618	
Miscellaneous					385,000
Total Revenues	127,928	807,137	1,009,992	300,676	952,671
EXPENDITURES					
Current:					
General government	9,866	115,475			55,575
Public safety			807,755		
Public works	96,628	722,775		34,336	
Culture and recreation					
Community development					355,078
Capital outlay				457,877	
Total Expenditures	106,494	838,250	807,755	492,213	410,653
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,434	(31,113)	202,237	(191,537)	542,018
OTHER FINANCING SOURCES (USES)					
Contributed capital					
Transfers in			13,441		
Transfers (out)				(4,486)	(385,000)
Total Other Financing Sources (Uses)			13,441	(4,486)	(385,000)
Special item					
NET CHANGE IN FUND BALANCES	21,434	(31,113)	215,678	(196,023)	157,018
BEGINNING FUND BALANCES (DEFICITS)	64,882	706,036	(210,498)	559,740	
ENDING FUND BALANCES (DEFICITS)	\$86,316	\$674,923	\$5,180	\$363,717	\$157,018

SPECIAL REVENUE FUNDS

ISTEA Grant	Federal and State Grants	U.S. EPA	Housing in Lieu	Housing Assist	Public Improvements In Lieu	Measure A	Local Grants
			\$101,461				
	\$557,214	\$33,345	5,352	3,819	\$221,618 2,184	\$23,050 461,614	\$332,779 \$20,000
	557,214	33,345	106,813	82,739	223,802	484,664	352,779
	2,759	1,859				12,616	84,650
	1,364	10,406	(1,022)		11,182	10,356	468,621
	53,057		(92,755)	77,668			6,237
639,807	399,708				17,063	258,609	32,456
	41,985						
639,807	498,873	12,265	(93,777)	77,668	28,245	281,581	591,964
(639,807)	58,341	21,080	200,590	5,071	195,557	203,083	(239,185)
			294,860		17,063		212,153
	(61,383)				(133,513)	(705,951)	
	(61,383)		294,860		(116,450)	(705,951)	212,153
(639,807)	(3,042)	21,080	495,450	5,071	79,107	(502,868)	(27,032)
639,807	(63,123)	(21,080)	442,332	\$400,043	230,227	2,593,101	88,570
	(\$66,165)		\$937,782	\$405,114	\$309,334	\$2,090,233	\$61,538

(Continued)

CITY OF EAST PALO ALTO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS				Public Financing Authority Capital Projects Fund	Total Nonmajor Governmental Funds
	CYSFF Child/ Family	Lighting District	Drainage District	Measure C		
GOVERNMENTAL REVENUES						
Property tax		\$244,340	\$61,122			\$305,462
Transient occupancy tax	\$101,461					202,922
Other taxes				\$704,164		1,238,694
Licenses, fees and permits						865,882
Charges for services						65,913
Use of money and property	\$3,144	5,732	398	9,295	\$136	3,006,759
Grants and intergovernmental						483,920
Miscellaneous						
Total Revenues	104,605	250,072	61,520	713,459	136	6,169,552
EXPENDITURES						
Current:						
General government	270,811	55,522	4,666	178,188		791,987
Public safety				596,687		1,404,442
Public works		249,413	51,920			1,655,979
Culture and recreation						59,294
Community development						739,699
Capital outlay						1,447,797
Total Expenditures	270,811	304,935	56,586	774,875		6,099,198
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(166,206)	(54,863)	4,934	(61,416)	136	70,354
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers in	151,860		4,704			694,081
Transfers (out)					(114,319)	(1,404,652)
Total Other Financing Sources (Uses)	151,860		4,704		(114,319)	(710,571)
Special item					1,104,575	1,104,575
NET CHANGE IN FUND BALANCES	(14,346)	(54,863)	9,638	(61,416)	990,392	464,358
BEGINNING FUND BALANCES (DEFICITS)	292,262	727,460	(8,943)	1,219,908		7,660,724
ENDING FUND BALANCES (DEFICITS)	\$277,916	\$672,597	\$695	\$1,158,492	\$990,392	\$8,125,082

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CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	NPDES FEES			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax						
Other taxes				\$540,000	\$534,530	(\$5,470)
Licenses, fees and permits						
Charges for services						
Use of money and property		\$472	\$472		4,545	4,545
Grants and intergovernmental	\$126,600	127,456	856	260,000	268,062	8,062
Miscellaneous						
Total Revenues	126,600	127,928	1,328	800,000	807,137	7,137
EXPENDITURES						
Current:						
General government	9,882	9,866	16	115,522	115,475	47
Public safety						
Public works	116,700	96,628	20,072	854,291	722,775	131,516
Culture and recreation						
Community development						
Capital outlay						
Total Expenditures	126,582	106,494	20,088	969,813	838,250	131,563
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18	21,434	21,416	(169,813)	(31,113)	138,700
OTHER FINANCING SOURCES (USES)						
Contributed capital						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	\$18	21,434	\$21,416	(\$169,813)	(31,113)	\$138,700
BEGINNING FUND BALANCES (DEFICITS)		64,882			706,036	
ENDING FUND BALANCES (DEFICITS)		\$86,316			\$674,923	

SPECIAL REVENUE FUNDS

FEDERAL AND STATE LAW ENFORCEMENT			PARK IN LIEU			RENT STABILIZATION		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	\$321	\$321		\$79,572		\$565,000	\$564,692	(\$308)
\$1,126,600	1,009,671	(116,929)	216,600	216,618	\$4,486 18		2,979	2,979
						385,000	385,000	
<u>1,126,600</u>	<u>1,009,992</u>	<u>(116,608)</u>	<u>216,600</u>	<u>300,676</u>	<u>4,504</u>	<u>950,000</u>	<u>952,671</u>	<u>2,671</u>
						55,000	55,575	(575)
913,360	807,755	105,605		34,336	(34,336)			
						406,480	355,078	51,402
			<u>860,300</u>	<u>457,877</u>	<u>402,423</u>			
<u>913,360</u>	<u>807,755</u>	<u>105,605</u>	<u>860,300</u>	<u>492,213</u>	<u>368,087</u>	<u>461,480</u>	<u>410,653</u>	<u>50,827</u>
<u>213,240</u>	<u>202,237</u>	<u>(11,003)</u>	<u>(643,700)</u>	<u>(191,537)</u>	<u>452,163</u>	<u>488,520</u>	<u>542,018</u>	<u>53,498</u>
13,400	13,441	41		(4,486)	(4,486)	(385,000)	(385,000)	
<u>13,400</u>	<u>13,441</u>	<u>41</u>		<u>(4,486)</u>	<u>(4,486)</u>	<u>(385,000)</u>	<u>(385,000)</u>	
<u>\$226,640</u>	<u>215,678</u>	<u>(\$10,962)</u>	<u>(\$643,700)</u>	<u>(196,023)</u>	<u>\$447,677</u>	<u>\$103,520</u>	<u>157,018</u>	<u>\$53,498</u>
	(210,498)			559,740				
	<u>\$5,180</u>			<u>\$363,717</u>			<u>\$157,018</u>	

(Continued)

CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SPECIAL REVENUE FUNDS

	FEDERAL AND STATE GRANTS			U.S. EPA		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax						
Transient occupancy tax						
Other taxes						
Licenses, fees and permits						
Charges for services						
Use of money and property						
Grants and intergovernmental	\$716,600	\$557,214	(\$159,386)	\$33,345	\$33,345	
Miscellaneous						
Total Revenues	<u>716,600</u>	<u>557,214</u>	<u>(159,386)</u>	<u>33,345</u>	<u>33,345</u>	
EXPENDITURES						
Current:						
General government	5,000	2,759	2,241	1,900	1,859	41
Public safety						
Public works	1,400	1,364	36	10,407	10,406	1
Culture and recreation	39,500	53,057	(13,557)			
Community development	467,100	399,708	67,392			
Capital outlay	47,000	41,985	5,015			
Total Expenditures	<u>560,000</u>	<u>498,873</u>	<u>61,127</u>	<u>12,307</u>	<u>12,265</u>	<u>42</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>156,600</u>	<u>58,341</u>	<u>(98,259)</u>	<u>21,038</u>	<u>21,080</u>	<u>42</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers in						
Transfers (out)	(61,300)	(61,383)	(83)			
Total Other Financing Sources (Uses)	<u>(61,300)</u>	<u>(61,383)</u>	<u>(83)</u>			
NET CHANGE IN FUND BALANCES	<u>\$95,300</u>	<u>(3,042)</u>	<u>(\$98,342)</u>	<u>\$21,038</u>	<u>21,080</u>	<u>\$42</u>
BEGINNING FUND BALANCES (DEFICITS)		<u>(63,123)</u>			<u>(21,080)</u>	
ENDING FUND BALANCES (DEFICITS)		<u>(\$66,165)</u>				

SPECIAL REVENUE FUNDS

HOUSING IN LIEU			MEASURE A			LOCAL GRANTS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$92,000	\$101,461	\$9,461						
	5,352	5,352	\$420,000	\$23,050 461,614	\$23,050 41,614	\$264,500	\$332,779 20,000	\$68,279
<u>92,000</u>	<u>106,813</u>	<u>14,813</u>	<u>420,000</u>	<u>484,664</u>	<u>64,664</u>	<u>264,500</u>	<u>352,779</u>	<u>68,279</u>
			10,832	12,616	(1,784)	\$85,500	84,650	850
	(1,022)	1,022	10,000	10,356	(356)	450,000 6,300	468,621 6,237	(18,621) 63
13,000	(92,755)	105,755	245,400	258,609	(13,209)		32,456	(32,456)
<u>13,000</u>	<u>(93,777)</u>	<u>106,777</u>	<u>266,232</u>	<u>281,581</u>	<u>(15,349)</u>	<u>541,800</u>	<u>591,964</u>	<u>(50,164)</u>
<u>79,000</u>	<u>200,590</u>	<u>121,590</u>	<u>153,768</u>	<u>203,083</u>	<u>49,315</u>	<u>(277,300)</u>	<u>(239,185)</u>	<u>38,115</u>
294,850	294,860	10	(729,400)	(705,951)	23,449	208,500	212,153	3,653
<u>294,850</u>	<u>294,860</u>	<u>10</u>	<u>(729,400)</u>	<u>(705,951)</u>	<u>23,449</u>	<u>208,500</u>	<u>212,153</u>	<u>3,653</u>
<u>\$373,850</u>	<u>495,450</u>	<u>\$121,600</u>	<u>(\$575,632)</u>	<u>(502,868)</u>	<u>\$72,764</u>	<u>(\$68,800)</u>	<u>(27,032)</u>	<u>\$41,768</u>
	<u>442,332</u>			<u>2,593,101</u>			<u>88,570</u>	
	<u>\$937,782</u>			<u>\$2,090,233</u>			<u>\$61,538</u>	

(Continued)

CITY OF EAST PALO ALTO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	CYSFF CHILD/ FAMILY			LIGHTING DISTRICT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
GOVERNMENTAL REVENUES						
Property tax				\$254,388	\$244,340	(\$10,048)
Transient occupancy tax	92,000	101,461	9,461			
Other taxes						
Licenses, fees and permits						
Charges for services						
Use of money and property		\$3,144	\$3,144		5,732	5,732
Grants and intergovernmental						
Miscellaneous						
Total Revenues	92,000	104,605	12,605	254,388	250,072	(4,316)
EXPENDITURES						
Current:						
General government	\$353,456	270,811	82,645	55,522	55,522	
Public safety						
Public works				503,064	249,413	253,651
Culture and recreation						
Community development						
Capital outlay						
Total Expenditures	353,456	270,811	82,645	558,586	304,935	253,651
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(261,456)	(166,206)	95,250	(304,198)	(54,863)	249,335
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers in	151,850	151,860	10			
Transfers (out)						
Total Other Financing Sources (Uses)	151,850	151,860	10			
NET CHANGE IN FUND BALANCES	<u>(\$109,606)</u>	<u>(14,346)</u>	<u>\$95,260</u>	<u>(\$304,198)</u>	<u>(54,863)</u>	<u>\$249,335</u>
BEGINNING FUND BALANCES (DEFICITS)		292,262			727,460	
ENDING FUND BALANCES (DEFICITS)		<u>\$277,916</u>			<u>\$672,597</u>	

SPECIAL REVENUE FUNDS

DRAINAGE DISTRICT			MEASURE C		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$64,000	\$61,122	(\$2,878)			
			\$688,580	\$704,164	\$15,584
	398	398		9,295	9,295
<u>64,000</u>	<u>61,520</u>	<u>(2,480)</u>	<u>688,580</u>	<u>713,459</u>	<u>24,879</u>
4,666	4,666		233,560	178,188	55,372
			646,640	596,687	49,953
59,320	51,920	7,400			
<u>63,986</u>	<u>56,586</u>	<u>7,400</u>	<u>880,200</u>	<u>774,875</u>	<u>105,325</u>
14	4,934	4,920	(191,620)	(61,416)	130,204
8,900	4,704	(4,196)			
<u>8,900</u>	<u>4,704</u>	<u>(4,196)</u>			
<u>\$8,914</u>	9,638	<u>\$724</u>	<u>(\$191,620)</u>	(61,416)	<u>\$130,204</u>
	<u>(8,943)</u>			<u>1,219,908</u>	
	<u>\$695</u>			<u>\$1,158,492</u>	

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STATISTICAL SECTION

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

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

Operating Information

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

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

Sources

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

**City of East Palo Alto
Net Assets by Component
June 30, 2011
Last Nine Fiscal Years
(accrual basis of accounting)**

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

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002-03. Information prior to the implementation of GASB 34 is not available.

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Expenses									
Governmental Activities:									
General Government	\$3,119,253	\$3,381,815	\$3,168,537	\$2,991,380	\$3,170,200	\$3,932,553	\$3,859,589	\$5,119,297	\$4,700,459
Public Safety	7,196,411	8,452,372	8,627,051	9,010,553	9,220,203	8,935,880	10,309,298	11,005,614	10,972,657
Culture and Recreation	4,065,512	1,158,334	919,419	779,360	798,679	700,497	4,076,009	1,228,036	1,333,904
Public Works	1,277,874	3,388,142	2,995,043	2,190,525	2,964,223	3,063,920	459,853	4,036,926	3,055,334
Community Development	3,358,388	3,176,220	3,081,094	3,303,821	3,131,545	3,603,493	5,920,364	7,230,567	5,333,924
Interest on Long Term Debt	1,451,695	1,693,351	1,771,580	1,959,772	2,744,481	2,618,397	3,067,294	2,882,117	2,291,283
Total Governmental Activities Expenses	<u>20,469,133</u>	<u>21,250,234</u>	<u>20,562,724</u>	<u>20,235,411</u>	<u>22,029,331</u>	<u>22,854,740</u>	<u>27,692,407</u>	<u>31,502,557</u>	<u>27,687,561</u>
Business-Type Activities:									
Water service	421,174	539,020	597,795	511,861	440,589	524,709	460,887	1,616,967	2,602,083
Garbage collection	1,544,235	1,613,488	1,603,614	1,732,952	1,765,870	1,895,331	1,708,893	619,277	439,826
Total Business-Type Activities Expenses	<u>1,965,409</u>	<u>2,152,508</u>	<u>2,201,409</u>	<u>2,244,813</u>	<u>2,206,459</u>	<u>2,420,040</u>	<u>2,169,780</u>	<u>2,236,244</u>	<u>3,041,909</u>
Total Primary Government Expenses	<u>\$22,434,542</u>	<u>\$23,402,742</u>	<u>\$22,764,133</u>	<u>\$22,480,224</u>	<u>\$24,235,790</u>	<u>\$25,274,780</u>	<u>\$29,862,187</u>	<u>\$33,738,801</u>	<u>\$30,729,470</u>
Program Revenues									
Governmental Activities:									
Charges for Services:									
General Government	\$18,565	\$13,644	\$16,214	\$16,227	\$41,641	\$3,481	\$19,249	\$2,536	\$18,101
Public Safety	248,227	267,768	305,717	222,306	99,012	186,210	173,177	207,305	249,676
Culture and Recreation	19,922	12,749	13,602	7,235	7,696	11,808	43,638	11,411	91,961
Public Works		679,383	333,960	539,740	178,202	121,665	104,772	47,852	169,034
Community Development	1,931,471	946,723	1,003,516	1,270,591	966,262	1,211,953	765,015	455,586	1,049,045
Operating Grants and Contributions	2,988,026	3,644,129	2,953,045	2,256,982	4,419,015	3,214,779	4,162,714	4,896,638	3,621,393
Capital Grants and Contributions	2,178,113	1,368,358	728,800	461,214	435,188	3,416,868	1,614,942	178,073	1,266,486
Total Government Activities Program Revenues	<u>7,384,324</u>	<u>6,932,754</u>	<u>5,354,854</u>	<u>4,774,295</u>	<u>6,147,016</u>	<u>8,166,764</u>	<u>6,883,507</u>	<u>5,799,401</u>	<u>6,465,696</u>
Business-Type Activities:									
Charges for Services:									
Water service	270,028	198,380	277,442	218,900	329,539	885,986	199,816	174,743	243,750
Garbage collection	1,541,441	1,562,954	1,868,865	1,757,508	2,059,546	1,895,698	1,679,492	1,642,054	2,163,837
Total Business-Type Activities Program Revenue	<u>1,811,469</u>	<u>1,761,334</u>	<u>2,146,307</u>	<u>1,976,408</u>	<u>2,389,085</u>	<u>2,781,684</u>	<u>1,879,308</u>	<u>1,816,797</u>	<u>2,407,587</u>
Total Primary Government Program Revenues	<u>\$9,195,793</u>	<u>\$8,694,088</u>	<u>\$7,501,161</u>	<u>\$6,750,703</u>	<u>\$8,536,101</u>	<u>\$10,948,448</u>	<u>\$8,762,815</u>	<u>\$7,616,198</u>	<u>\$8,873,283</u>
Net (Expense)/Revenue									
Governmental Activities	(\$13,084,809)	(\$14,317,480)	(\$15,207,870)	(\$15,461,116)	(\$15,882,315)	(\$14,687,976)	(\$20,808,900)	(\$25,703,156)	(\$21,221,865)
Business-Type Activities	(153,940)	(391,174)	(55,102)	(268,405)	182,626	361,644	(290,472)	(419,447)	(634,322)
Total Primary Government Net Expense	<u>(\$13,238,749)</u>	<u>(\$14,708,654)</u>	<u>(\$15,262,972)</u>	<u>(\$15,729,521)</u>	<u>(\$15,699,689)</u>	<u>(\$14,326,332)</u>	<u>(\$21,099,372)</u>	<u>(\$26,122,603)</u>	<u>(\$21,856,187)</u>

(Continued)

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

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

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002-03. Information prior to the implementation of GASB 34 is not available

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

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

Notes:

- (a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.
- (b) The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002-03. Information prior to the implementation of GASB 34 is not available.

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

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

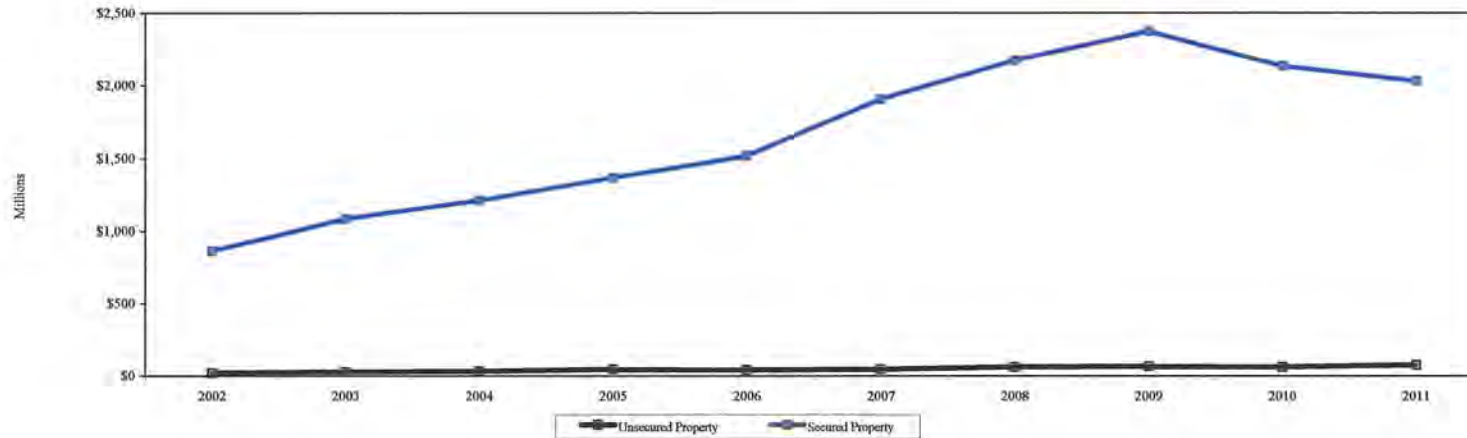
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
Taxes	\$9,279,009	\$10,492,050	\$13,574,214	\$14,729,697	\$20,480,740
Licenses and permits	1,076,574	800,705	832,783	854,222	741,979
Charges for services	1,752,851	1,795,903	1,644,136	1,640,193	1,757,569
Fines and forfeitures	225,428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

NOTE:

- (a) Contributions and donations for fiscal year 2009 were included in Intergovernmental
- (b) Administrative expenses for fiscal years 07-08 were included in General government expenditures
- (c) As suggested by City auditors for fiscal years 07-08 and 08-09 Tax Increment pass through payments were included in the functional area rather than a separate line item.
- (d) The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002-03. Information prior to the implementation of GASB 34 is not available.

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

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



Fiscal Year	Secured				Total Secured Property	Unsecured				Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	City	Gateway 101 Corridor	University Circle	Ravenswood		City	Gateway 101 Corridor	University Circle	Ravenswood				
2002	613,522,740	138,751,889	43,008,681	50,416,805	\$845,700,115	8,590,279	4,308,562	134,948	6,468,480	\$19,502,269	865,202,384	865,202,384	1.00%
2003	700,499,649	189,975,178	102,968,852	61,873,984	\$1,055,317,663	7,296,300	5,136,734	10,919,005	3,436,102	\$26,788,141	1,082,105,804	1,082,105,804	1.00%
2004	770,934,412	233,714,655	109,112,054	64,396,546	\$1,178,157,667	5,456,508	5,221,932	11,472,035	9,346,432	\$31,496,907	1,209,654,574	1,209,654,574	1.00%
2005	872,975,114	281,087,465	105,172,961	65,880,186	\$1,325,115,726	5,134,547	10,541,193	20,009,124	8,039,438	\$43,724,302	1,368,840,028	1,368,840,028	1.00%
2006	1,005,033,061	289,348,595	115,592,414	68,670,547	\$1,478,644,617	7,316,832	10,377,700	18,552,585	3,520,421	\$39,767,538	1,518,412,155	1,518,412,155	1.00%
2007	1,144,127,598	297,541,707	348,165,460	73,562,973	\$1,863,397,738	5,095,167	9,849,847	24,836,342	3,427,001	\$43,208,357	1,906,606,095	1,906,606,095	1.00%
2008	1,348,476,067	306,561,634	372,177,677	88,893,136	\$2,116,108,514	5,414,795	10,104,010	40,495,044	3,378,665	\$59,392,514	2,175,501,028	2,175,501,028	1.00%
2009	1,510,291,931	327,844,925	379,621,229	92,952,830	\$2,310,710,915	5,604,572	13,006,019	42,195,488	3,241,611	\$64,047,690	2,374,758,605	2,374,758,605	1.00%
2010	1,283,832,450	315,872,778	379,888,089	96,422,143	\$2,076,015,460	4,686,491	8,807,463	43,695,337	2,870,813	\$60,060,104	2,136,075,564	2,136,075,564	1.00%
2011	1,188,412,331	305,966,439	379,147,248	84,571,225	\$1,958,097,243	7,363,881	20,146,922	41,919,469	3,191,957	\$72,622,229	2,030,719,472	2,030,719,472	1.00%

2010-11 Total Local Secured Assessed Valuation Breakdown

Residential Property	Commercial Property	Industrial Property	Other Property	Total Local Secured Property
1,280,559,994	591,013,497	31,915,515	54,608,237	1,958,097,243

Source: San Mateo County Assessors 2001/02 - 2010/11 Combined Tax Rolls

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

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

Note:

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

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

Fiscal Year	Basic County-wide Rate	Ravenswood School District	Sequoia Union High School District	San Mateo Community College District	Total
2002	1.000	0.0282	0.0079	0.0000	1.0361
2003	1.000	0.0313	0.0130	0.0079	1.0522
2004	1.000	0.0272	0.0238	0.0065	1.0575
2005	1.000	0.0331	0.0164	0.0065	1.0560
2006	1.000	0.0374	0.0223	0.0065	1.0662
2007	1.000	0.0335	0.0208	0.0184	1.0727
2008	1.000	0.0316	0.0205	0.0171	1.0692
2009	1.000	0.0299	0.0282	0.0165	1.0746
2010	1.000	0.0364	0.0277	0.0182	1.0823
2011	1.000	0.0364	0.0311	0.0193	1.0868

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

Note:

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

**CITY OF EAST PALO ALTO
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR 2010-11**

(secured taxpayers)

Property Tax Payer (Local Secured)	Primary Land Use	Total Assessed Value	% of Total Assessed Value (1)
1 Wells REIT II-University Circle LP	Office Building	\$305,115,299	15.58%
2 Ikea Property Inc.	Commercial Store	74,862,834	3.82%
3 LD Riviera LLC	Hotel	67,300,000	3.44%
4 Redus Woodland LLC	Apartments	55,505,860	2.83%
5 Gateway 101 LLC	Commercial Store	24,481,840	1.25%
6 HD Development of Maryland Inc.	Commercial Store	18,662,023	0.95%
7 Nairobi Housing Inc. (2)	Apartments	12,628,542	0.64%
8 OLP Palo Alto LLC	Commercial Store	10,918,561	0.56%
9 1751 East Bayshore Investors LLC DE	Commercial Store	10,103,481	0.52%
10 TMG/MFP Ravenswood Palms LLC	Office Building	8,272,999	0.42%
	Total	\$587,851,439	32.64%
Total Assessed Value (City and Redevelopment Agency)		\$1,958,097,243	

Source: San Mateo County Assessor 2010/11 Combined Tax Rolls

**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
2002	\$5,352,833	\$5,208,918	97%	\$5,208,918	97%
2003	6,817,632	6,559,474	96%	6,559,474	96%
2004	7,530,376	7,177,352	95%	7,177,352	95%
2005	8,106,022	7,884,378	97%	7,884,378	97%
2006	8,612,902	8,237,968	96%	8,237,968	96%
2007	13,701,921	12,884,456	94%	12,884,456	94%
2008	13,778,302	12,927,420	94%	12,927,420	94%
2009	14,628,038	13,892,862	95%	13,892,862	95%
2010	13,439,564	13,051,893	97%	13,051,893	97%
2011	12,975,746	12,551,184	97%	12,551,184	97%

Source: San Mateo County Assessor 2001/02 - 2010/11 Combined Tax Rolls

Notes:

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

City of East Palo Alto
Ratios of Outstanding Debt by Type
June 30, 2011
Last Ten Fiscal Years

Fiscal Year	Redevelopment Tax Allocation Bonds ¹	Revenue Bond ¹	Less: Restricted Bonds/ Bond Proceeds ²	Total Primary Government Bonded Debt (including Redevelopment Agency Bonds)	Percentage of Personal Income per Capita ³	Outstanding Debt Per Capita ⁴
2002	22,655,000			22,655,000	n/a	n/a
2003	22,515,000			22,515,000	1.4%	\$724
2004	26,475,000			26,475,000	1.5%	840
2005	26,005,000	17,995,000	16,040,000	27,960,000	1.4%	871
2006	25,620,000	17,995,000	16,040,000	27,575,000	1.3%	860
2007	25,220,000	17,995,000	16,040,000	27,175,000	1.2%	838
2008	24,800,000	17,995,000	16,040,000	26,755,000	1.1%	816
2009	24,355,000	17,995,000	16,040,000	26,310,000	1.1%	793
2010	23,700,500	17,995,000	15,650,000	26,045,500	n/a	777
2011	23,390,000	17,415,000	15,240,000	25,565,000	n/a	903

Source: City of East Palo Alto

Notes:

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

n/a: Data not available

**CITY OF EAST PALO ALTO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2011**

2010-11 Assessed Valuation: \$2,046,322,912
Redevelopment Incremental Valuation: 775,488,304
Adjusted Assessed Valuation: \$1,270,834,608

	Total Debt 6/30/2011	(1) Percentage Applicable	City's Share of Debt 6/30/2011
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
San Mateo Community College District	\$613,779,994	0.995%	\$6,107,111
Sequoia Union High School District	348,900,000	2.373	8,279,397
Ravenswood School District	11,692,358	66.394	7,763,024
City of East Palo Alto		100	
California Statewide Communities Development Authority 1915 Act Bonds	3,282,453	100	3,282,453
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	<u>\$977,654,805</u>		<u>\$25,431,985</u>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County General Fund Obligations	\$337,584,816	0.995%	\$3,358,969
San Mateo County Board of Education Certificates of Participation	12,420,000	0.995	123,579
Menlo Park Fire Protection District Certificates of Participation	11,990,000	6.462	774,794
Midpeninsula Regional Open Space District General Fund Obligations	131,003,031	0.795	1,041,474
TOTAL OVERLAPPING GENERAL FUND DEBT	<u>\$492,997,847</u>		<u>\$5,298,816</u>
 COMBINED TOTAL DEBT			 <u>\$30,730,801</u> (2)

Notes:

Percentage of overlapping agency's assessed valuation located within boundaries of the city

Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

(1) **Ratios to 2010-11 Assessed Valuation:**

(2)	Direct Debt	0.00%
	Direct and Overlapping Tax and Assessment Debt	1.24%
	Direct and Overlapping Tax, Assessment and Tax Increment Debt	2.49%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt	0.00%
Combined Total Debt	2.42%

State School Building Aid Repayable as of 6/30/2011: \$0

Source: California Municipal Statistics, Inc.

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

	2002	2003	2004	2005	2006
Gross Assessed Valuation	622,113,019	707,795,949	776,390,920	878,109,661	1,012,349,893
Conversion Percentage	25%	25%	25%	25%	25%
Adjusted Assessed Valuation	155,528,255	176,948,987	194,097,730	219,527,415	253,087,473
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	23,329,238	26,542,348	29,114,660	32,929,112	37,963,121

Debt Applicable to Limit:

Less: Outstanding General Obligations	0	0	0	0	0
Legal debt service margin	23,329,238	26,542,348	29,114,660	32,929,112	37,963,121

	2007	2008	2009	2010	2011
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%
Adjusted Assessed Valuation	287,305,691	338,472,716	378,974,126	322,129,735	298,944,053
Debt service limit percentage	15%	15%	15%	15%	15%
Debt service limit percentage	43,095,854	50,770,907	56,846,119	48,319,460	44,841,608

Debt Applicable to Limit:

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

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

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

**City of East Palo Alto
Bonded Debt Pledged-Revenue Coverage
June 30, 2011
Last Ten Fiscal Years**

Fiscal Year	RDA Tax Allocation Bonds					Public Financing Authority Revenue Bonds					
	Tax Increment	Debt Service (1)			Coverage	Principal and Interest From 1999 TABS	Capitalized Interest Acct	Debt Service (2)			Coverage
		Principal	Interest	Total				Principal	Interest	Total	
2002	\$2,510,141	\$70,000	\$1,371,729	\$1,441,729	1.7	-	-	-	-	-	-
2003	3,744,619	140,000	1,366,898	1,506,898	2.5	-	-	-	-	-	-
2004	4,074,133	290,000	1,356,648	1,646,648	2.5	-	-	-	-	-	-
2005	4,557,353	470,000	1,812,260	2,057,010	2.2	-	-	-	-	-	-
2006	4,409,635	385,000	1,792,133	1,951,883	2.3	-	507,986	-	507,986	507,986	100%
2007	7,996,776	400,000	1,772,923	2,172,923	3.7	-	846,644	-	846,644	846,644	100%
2008	7,857,564	420,000	1,752,425	2,172,425	3.6	-	846,644	-	846,644	846,644	100%
2009	7,996,776	445,000	1,730,325	2,175,325	3.7	-	846,644	-	846,644	846,644	100%
2010	7,891,237	470,000	1,706,055	2,176,055	3.6	-	846,644	-	846,644	846,644	100%
2011	7,625,928	495,000	1,455,833	1,950,833	3.9	1,416,784	-	580,000	836,784	1,416,784	100%

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

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

**City of East Palo Alto
Demographic and Economic Statistics
June 30, 2011
Last Ten Fiscal Years**

Calendar Year	City Population (1)	City's Unemployment Rate (2)	City's Per Capita Personal Income (3)	County's Unemployment Rate (4)	County's Per Capita Personal Income (5)	K-12 Public School Enrollments (6)
2002	n/a	n/a	n/a	5.7%	53,315	5,223
2003	31,117	n/a	13,804	5.8%	52,289	6,168
2004	31,517	n/a	14,968	4.9%	56,697	5,019
2005	32,090	10.5%	16,283	4.3%	61,678	4,883
2006	32,049	9.1%	17,762	3.7%	67,279	4,453
2007	32,413	9.4%	18,943	3.8%	71,753	4,607
2008	32,800	11.6%	19,493	4.7%	73,839	4,936
2009	33,164	19.8%	18,364	8.6%	69,562	4,554
2010	33,524	20.0%	n/a	8.3%	n/a	4,385
2011	28,300	20.0%	n/a	8.3%	n/a	4,290

Sources:

- 1 State of CA, Department of Finance estimates.
 - 2 State of CA, Employment Development Department, City Unemployment Rates (not seasonally adjusted).
These are calendar year annual unemployment rates. Year 2010 rate is an average of six months (January 2010 to June 2010).
 - 3 Fy 2002 to fy2008 data derived from 2009 ratio of County's per capita to City's. Year 2009 is actual.
 - 4 State of CA, Employment Development provides annual Unemployment rates on calendar year basis for San Mateo County.
The 2010 Unemployment rate is a an average of six months (January 2010 to June 2010).
 - 5 U.S. Department of Commerce, Bureau of Economic Analysis
<http://bea.gov/regional/reis/default.cfm?selTable=CA1-3§ion=2>
 - 6 Ed-Data (www.ed-data.com) updated by California Department of Education. These are fiscal year enrollment figures for Ravenswood School District. For instance, 2009 represents fiscal year 2008-2009.
<http://www.ed-data.k12.ca.us/Navigation/fsTwoPanel.asp?bottom=%2Fprofile.asp%3Flevel%3D06%26reportNumber%3D16>
- na - Not available as these statistics lag by one or two years.

City of East Palo Alto
Number of Positions - City Government by Function
June 30, 2011
Last Seven Fiscal Years

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

Source: City of East Palo Alto Government Budget.

Note: The City began publishing budgeted positions by function in Fiscal Year 2004-05; therefore, only seven years of data available.

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City of East Palo Alto
Operating Indicators by Function
June 30, 2011
Last Three Fiscal Years

Function	Fiscal Year 2008-2009	Fiscal Year 2009-2010	Fiscal Year 2010-2011
Police			
Calls for Service	37,385	35,736	35,337
Number of serious crimes *	630	551	440
Number of burglaries	347	424	399
Number of assaults	482	385	316
Number of auto thefts reported	256	213	194
Number of homicides	8	9	2
Number of robberies	121	137	104
Number of physical arrests	713	1,172	1,385
Community Development			
<u>Transportation</u>			
Shuttle Passengers			
Caltrain/Commuter Shuttle	21,433	32,872	46,894
Shopper Shuttle	7,055	5,186	7,666
Youth Shuttle	12,835	18,471	13,233
Weekend Shuttle	14,321	17,783	13,509
<u>Streets</u>			
Street Resurfacing (lane miles)	1.30	1.30	4.40
Potholes repaired	12	67	20
<u>Engineering</u>			
Encroachment permits	76	44	42
Culture & recreation			
Facility Rentals	25	27	21
Lunches Served to Seniors	8,188	9,225	8,437
Transportation trips provided to Seniors	3,457	3,375	3,234
Special Event participants	1,899	2,600	1,800
Program Registration participants	115	206	150
<u>Building Permits Issued:</u>			
Residential - Count	650	425	373
Commercial Count	27	22	22
Water **			
Hydrant Breaks	13	7	7
Water main breaks	18	6	12
Average daily consumption per family (in gallons)	227	332	224

Source: City Departments

* Crimes against a person (homicide, rape, robbery, assault)

** The water related data was obtained from American Water Company which services approximately 90% residents in East Palo Alto

Data prior to 2008-09 is not available

**City of East Palo Alto
Capital Asset Statistics by Function
June 30, 2011
Last Ten Fiscal Years**

FUNCTION	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Government owned buildings						
Public Works & Comm Development Building				1	1	1
Housing (Water Enterprise Fund)	1	1	1	1	1	1
Highways & Streets						
Streets (miles)	38	38	38	38	38	38
Streetlights	805	805	805	809	827	827
Traffic Signals	13	14	14	14	14	14
Culture & recreation						
Parks (number of parks)	5	5	5	6	6	6
Parks acreage (acres)	13.4	13.4	13.4	16	16	16
Senior Centers	1	1	1	1	1	1
Water *						
Water pipelines (miles)	39.2	39.2	39.2	39.2	39.2	39.2
Fire hydrants	230	230	230	230	230	230
Maximum daily capacity (millions of gallons per day)	1.9	1.9	1.9	1.9	1.9	1.9

Source: Various city departments

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

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1	1	1	1
1	1	1	1
38	38	38	38
827	827	827	827
14	14	14	14
6	6	6	6
16	16	16	16
1	1	1	1
39.2	39.2	38.6	38.6
230	230	282	282
1.9	1.9	1.9	1.9

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