

**EAST PALO ALTO
REDEVELOPMENT AGENCY**

**BASIC COMPONENT UNIT
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2009

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EAST PALO ALTO REDEVELOPMENT AGENCY For The Year Ended June 30, 2009

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Board of Directors of the
East Palo Alto Redevelopment Agency
East Palo Alto, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the East Palo Alto Redevelopment Agency (Agency) as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements as of June 30, 2008, were audited by other auditors whose opinion dated December 26, 2008, were unqualified.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *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 financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the East Palo Alto Redevelopment Agency as of June 30, 2009, and the respective changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2009, on our consideration of the City of East Palo Alto'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 schedule for the Redevelopment Agency Special Revenue Fund are required by the Government Accounting Standards Board, but are not part of the Notes to 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.

Mare & Associates

October 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of East Palo Alto Redevelopment Agency (Agency), we present a narrative overview and analysis of the Agency's financial activities for the fiscal year ended June 30, 2009. The management's discussion and analysis is designed to provide (a) an overview of the Agency's financial activities, (b) highlights of significant financial issues, (c) challenges facing the Agency'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 this financial report.

FINANCIAL HIGHLIGHTS

As a result of the worst economic crisis this nation has seen since the Great Depression, the City has seen a significant decline in development activities. We have seen the credit and financial markets tighten up on financing opportunities, which has impacted development activities. Due to lack of financing opportunities, many developers are unable to finance projects. The University Palms project halted construction of its 207,000 square feet of office development including approximately 24,000 square feet of retail. Additionally, another development site (965 Weeks Street) was recently acquired by the City as the known owner was willing to sell the undeveloped property. We have also seen a significant increase in housing foreclosures and an increase in unemployment for the City. We have also experienced a decline in assess valuation throughout the City as the County continues to reassess properties within the City and the Agency's redevelopment project areas.

Current economists are optimistic that the nation is in the early stages of a modest recovery. On a local level, the recovery may take a longer time given the current fiscal conditions of the State of California. The State Budget impacts are expected to have a significant impact on local agencies, counties and even redevelopment agencies as the State struggles to balance its budget.

On a positive note, the City's previously vacant Home Expo site was recently renovated and two new stores - a Nordstrom Rack and, Sports Authority, opened their doors in the third quarter of the 2008-2009 fiscal year. These projects are expected to add to the future assessed value of property within the Agency's boundaries as well as sales tax to the city's general fund.

The Agency continues to utilize cash reserves to reduce the debt owed the City of East Palo Alto (the City). However, the rate of repayment has declined compared to recent years. The Agency's primary revenue source is property tax increment, which increased by \$139,000 during the current fiscal year; resulting mainly from Gateway 101 project area, due to the improvements related to Jamba Juice and the Firehouse Grill.

The following are some key financial highlights for the fiscal year ending June 30, 2009:

- The liabilities exceeded assets by \$17.7M (net deficit). This net deficit is comprised of long-term bonds and loans requiring payment in the future. Information related to debt payments can be found on page 32 in the notes to the financial statements. Overall, analysis of the statement of net assets shows that the Agency is able to meet current obligations; however, currently it would be unable to meet long-term financial obligations. While this is not an unusual situation for Redevelopment Agencies, management must carefully balance the Agency's current and future resources between debt obligations and development activities.

- The net deficit increased approximately \$444,000. This increase is the net result of current year expenses (approximately \$9.0M) exceeding revenues of approximately \$8.55M.
- Total assets increased approximately \$1.2M. The increase is due mainly to an increase in the cash and investment account from prior year.
- Total liabilities increased approximately \$1.6M. The increase is primarily due to an increase of \$2.3M in the loan amount the Agency owes the City's General Fund and other payables offset by a reduction in bond payments and other liabilities totaling \$700,000.
- Government-wide revenues decreased approximately \$1.1M. The slight decrease is primarily due to a reduction in investment earnings of \$1.4M; offset by an increase of \$139,000 in property tax and an increase in reimbursements revenue.
- Government-wide expenditures increased approximately \$2.1M. Of this increase, \$830,000 resulted from higher pass-through payments to taxing agencies. Most of this increase was a result of AB1389, which required redevelopment agencies to submit correct amount in pass through payments to taxing agencies dating back to fiscal year 2003-2004. Another \$725,000 resulted from a loan repayment transfer to the City. Then an increase of \$250,000 resulted from an increase in interest expense on loans outstanding with the City. The remaining increase of \$295,000 is primarily related to increases in operational expenditures and several one-time expenditures, such as a tax-base growth strategic analysis, and the implementation of a fiscal merger.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and, (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements to provide further understanding of the Agency's activities.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

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

Statement of Net Assets: Presents information on all of the Agency'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 Agency is improving or declining.

Statement of Activities: Presents information showing how the Agency's net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus,

revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal periods (e.g., revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation leave).

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 Agency, like other State and local governments, uses fund accounting to ensure and demonstrate financial compliance with legal requirements. All of the funds of the Agency are governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in determining what financial resources are available in the near future to finance the Agency's programs.

The Agency maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance for the Capital Projects Fund, the Special Revenue Fund, and the Debt Service Fund.

The Agency adopts an annual appropriated budget for its Capital Projects, Special Revenue, and Debt Service funds. A budgetary comparison statement has been provided in the Required Supplemental Information section of the financial statement to demonstrate budget compliance.

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

Net assets typically serve as a useful indicator of a government's financial position. For the Agency, liabilities exceed assets by approximately \$17.7M. Over the years the Agency issued tax allocation bonds secured by future tax increments and incurred debt owed to the City and other governmental agencies or developers. Proceeds of the debt have been utilized for redevelopment projects, and the Agency is able to meet current debt obligations, as well as fund annual administrative and development activities as a result of the incremental tax revenues generated by successful redevelopment projects.

Analysis of Net Assets (Deficit)

- Total assets of \$42.2M consist of current and other assets of \$41.2 million and capital assets of \$1.0M. Current and other assets increased by \$1.2M which is primarily due to an increase in cash as operating revenues continue to exceed expenditures. However, this increase was smaller this year as operating expenditures is catching up with revenues. The remaining difference is due to the transfer of cash from the City's General Fund to offset the operating deficit in Ravenswood.

Ravenswood is the last project area within the City to be developed. As a result, this project area requires staffing resources and consulting services to develop the project. There has been progress made towards the completion of the Engineers Report, which will identify the infrastructure needs for the project and provide the Agency with a basis to begin the task of developing a financing plan to underwrite the cost of building such infrastructure in the project area. It's anticipated that the cost of the improvements will be expensive. Therefore, the need exists to fiscally merge Ravenswood with the other two project areas (University Circle & Gateway 101) to achieve a sufficiently broad financing vehicle (such as an assessment district) to pay the costs required to build such infrastructure. As such, the Agency conducted a fiscal merger study in compliance with redevelopment law and on June 2nd, 2009 the Agency Board approved the fiscal merger.

- Total liabilities of \$59.9M consist of \$2.9M of current liabilities and \$57.0M of long-term debt. Total liabilities net increase of \$1.6M is comprise of a \$1.9M increase in City loan advances and approximately \$400,000 in other liabilities such as account payable; offset by a decrease of approximately \$500,000 due to the payment of bond principal and amortized bond issuance costs. The \$1.9M increase in liabilities relates to the advance from the General Fund to cover operating costs for the Ravenswood Redevelopment Project Area. In order to cover those costs, it requires an advance from the General Fund; whereby repayments will be made upon available tax increment in future years. The Agency borrowed an additional loan advance of \$940,000 from the General Fund and owes \$715,000 in accrued interest on the prior loan balance. In addition to the loan, Ravenswood owes the General Fund approximately \$237,000 in pass-through payments for a net total of \$1.9M.
- Of the Agency's total deficit of \$17.7M; \$858,000 is invested in capital assets, \$11.5M is restricted for low and moderate-income housing, and, \$20.7M is restricted for debt payments related to bonds issued by Agency and the East Palo Alto Public Financing Authority (PFA). The unrestricted net deficit balance is \$50.8M.

STATEMENT OF NET ASSETS (DEFICIT)

(Dollars in thousands)

	Governmental Activities	
	2009	2008
Assets:		
Current & other assets	41,326	40,038
Capital assets	858	975
Total assets	<u>42,184</u>	<u>41,013</u>
Liabilities:		
Current and other liabilities	2,877	2,618
Noncurrent liabilities	57,000	55,644
Total liabilities	<u>59,877</u>	<u>58,262</u>
Net Assets:		
Investment in capital, net of debt	858	975
Restricted for:	-	-
Low & Moderate Income Housing	11,546	10,603
Debt Service	20,744	19,882
Unrestricted	(50,841)	(48,709)
Total Net Assets (Deficit)	<u>(17,693)</u>	<u>(17,249)</u>

Governmental Activities The change in the net assets (deficit) of the Agency of (\$444,000) is related to governmental activities. Key financial elements are as follows:

STATEMENT OF ACTIVITIES
(Dollars in thousands)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenues		
Program revenues:		
Grants and contributions	\$ 0	\$ 0
General revenues:		
Property taxes	7,997	7,858
Investment earnings	548	1,816
	<u>8,545</u>	<u>9,674</u>
Total Revenues		
Expenses:		
Program expenses:		
General government	946	653
Public works	155	77
Community development	3,324	2,307
Intergovernmental	1,336	612
Interest on long-term debt	3,228	3,268
	<u>8,989</u>	<u>6,917</u>
Total Expenses		
Increase (Decrease) in Net Assets	(444)	2,757
Beginning Net Assets	<u>(17,249)</u>	<u>(25,570)</u>
Restatement of Beg. Net Assets		5,564
Ending Net Assets	<u>\$ (17,693)</u>	<u>\$ (17,249)</u>

- Fiscal Year ending 2009 total revenues was approximately \$8.5M; a decrease of \$1.1M or -11.7% from the prior year. This decrease is the result of a reduction in investment earnings of \$1.4M; offset by an increase of approximately \$139,000 in property tax and an increase in reimbursement revenues.

The reduction in investment earnings resulted from a prior year one-time payment whereby the early termination of the 2005 investment agreement with XL Capital which was downgraded due to the number of sub-prime loans it had guaranteed. XL Capital was obligated to pay a breakage fee for opting out of the investment agreement with the East Palo Alto Public Financing Authority and to cover any additional cost associated with obtaining another investment agreement with another provider, in this case GE Capital. Additionally, there was a reduction in the current year's investment earnings due to the San Mateo County Pool investment loss of \$150 million related to the Lehman Brothers bankruptcy filing. The City's share of this investment loss was approximately \$1.1M. Of which, the Agency's proportionate share was \$434,634.

- Total expenses were approximately \$9.0M; an increase of \$2.1M or 30% over the prior year. Approximately \$830,000 or 44% of this increase related to an increase in pass-through payments to other taxing agencies. This obligation is usually based on tax increment and in some cases the taxing formula increases each year, resulting in higher payments to some taxing entities. However, in the current year all California redevelopment agencies were required to comply with AB1389 which required agencies to perform a five-year look back of its pass-through agreements to ensure complete accuracy of calculated payments and to make any outstanding obligations to those taxing agencies. The Agency hired a consulting firm to perform the five-year analysis and did find some errors in calculation, as well as agreements the Agency was not aware of. All outstanding obligations were made to those taxing agencies, thus increasing the Agency's pass through payments in the current year.
- The remaining increase is the result of an increase of redevelopment activities over the prior year. Such activities are the approval of a fiscal merger, whereby, the Ravenswood Redevelopment Project Area will be fiscally merged with both Gateway 101 and University Circle project areas to allow tax increment to shift to the Ravenswood project in an effort to develop the final undeveloped area of the City and eliminate blight. Ravenswood does not generate enough tax increment to meet its current obligation let alone the ability to finance major redevelopment and therefore needs the tax increment from the other two fully developed project areas to make the necessary improvements. Additional activities includes, a tax base growth strategic study to identify potential tax base of several redevelopment opportunities and identify industry sectors and/or specific uses to further diversify the City's tax base.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

The focus of the Agency'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 Agency's financing requirements.

At June 30, 2009, the Agency reported combined fund balances of \$38.2M compared to \$37.0M at June 30, 2008, an increase of \$1.2M. This is the result of increases in assets related to cash, investment and receivable balances at June 30, 2009.

The Special Revenue Fund - The Low and Moderate Income Housing Fund accounts for the portion of property tax increment required under California law to be set aside to fund low and moderate income housing expenditures. Agency housing loan and grant programs are accounted for in this fund.

The Capital Projects Fund is the general fund for the Agency and accounts for the activities of the Agency, which was created to prepare and carry out redevelopment plans within designated project areas of the City. The Agency has three distinct project areas – Gateway/101, University Circle, and Ravenswood.

The Debt Service Fund accounts for the resources used for the purpose of paying principal, interest and related costs on the Agency's Tax Allocation Bonds and other long-term obligations, which are more

fully described on page 32 in the notes to the financial statements. As of June 30, 2009, the Agency's bonded indebtedness was \$42.35M, comprised of the 1999 Bond Issue of \$16.04M; the 2003 Bond Refunding of \$8.31M; and, the 2005 Authority Bond issue of \$18.0M. These Tax Allocation Bonds are secured by future property tax increment revenue. Debt service expenditures include \$2.35M in interest payments and \$445,000 in bond principal payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Overall property taxes for the Agency are expected to decline for the upcoming fiscal year as overall economic conditions continue to reflect weakness. A continuation of such conditions will likely lead to an increase in appeal petitions by property owners to the County Tax Assessor for reductions in assessed residential and commercial property valuation. However, the recent opening of two new retail stores (Nordstrom Rack and Sport Authority) is expected to increase assessed values in Gateway 101 project area.
- The City first full-service grocery store Mi Pueblo is expected to open at the end of the 2009 calendar year.
- The 2008-2009 State action requiring the all redevelopment agencies to shift tax increment to the Educational Relief Augmentation Fund (ERAF) was successfully challenged by the California Redevelopment Agency Association (CRA) based on the a court ruling stating the takeaway was unconstitutional. The Agency impact would have been \$671,251 if the State was successful. The State is still facing budget challenges and has included as a part of its FY2009-2010 budget another shift of tax increment to the Educational Relief Augmentation Fund (ERAF) by the Agency. The Agency's estimated takeaway being \$3.3M in Fiscal Year 2009-10 and \$675,000 in Fiscal Year 2010-11. The CRA has filed another lawsuit against the State as it believes this new budget proposal is also unconstitutional.

Some of these factors were considered in preparing the Agency's operating budget for FY 2009-10. Others occurred after the Agency had finalized its budget and will be taken under consideration when it amends the FY09-10 budget.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

EAST PALO ALTO REDEVELOPMENT AGENCY

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

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

The Statement of Net Assets summarizes the financial position of all the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is prepared on the full accrual basis, which means it includes all the Agency'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.

The Statement of Activities presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

EAST PALO ALTO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS (DEFICITS)
JUNE 30, 2009

	Governmental Activities
ASSETS	
Cash and investments, available for operations (Note 2)	\$12,822,998
Cash and investments held by fiscal agents (Note 2)	19,556,197
Receivables:	
Accrued interest	94,894
Notes receivable	6,877,996
Deposits and prepayments	86,157
Property held for resale (Note 4)	537,429
Deferred charges	1,349,947
Capital assets (Note 6):	
Land	295,965
Construction in progress	561,970
Total Assets	42,183,553
LIABILITIES	
Accounts payable	1,549,362
Interest payable	585,060
Retentions payable	24,279
Deposits	91,112
Accrued liabilities	13,217
Advances from developers	113,899
Long-term debt (Note 7):	
Due within one year	505,480
Due in more than one year	56,994,342
Total Liabilities	59,876,751
NET ASSETS (DEFICITS) (Note 8)	
Invested in capital assets	857,935
Restricted for:	
Debt service	20,743,696
Low-and-moderate-income housing programs	11,546,134
Total Restricted Net Assets	32,289,830
Unrestricted	(50,840,963)
Total Net Assets (Deficits)	(\$17,693,198)

See accompanying notes to financial statements

CITY OF EAST PALO ALTO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Expenses	
General government	\$945,610
Public works	154,878
Community development	3,323,919
Interest and fiscal charges	3,228,034
Transfers out to City (Note 5D)	<u>1,336,001</u>
Total Governmental Activities	<u>8,988,442</u>
General revenues:	
Taxes:	
Incremental property tax	7,996,776
Investment earnings	463,837
Miscellaneous	<u>84,542</u>
Total general revenues and transfers	<u>8,545,155</u>
Change in Net Assets	(443,287)
Net Assets (Deficits)-Beginning	<u>(17,249,911)</u>
Net Assets (Deficits)-Ending	<u><u>(\$17,693,198)</u></u>

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.

MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

This is the general fund for the East Palo Alto Redevelopment Agency, which was created to prepare and carry out redevelopment plans within designated project areas of the City.

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.

EAST PALO ALTO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	Special Revenue Fund	Capital Projects Fund		
		Gateway/ 101	University Circle	Ravenswood
ASSETS				
Cash and investments, available for operations (Note 2)	\$4,636,280	\$1,547,234	\$5,185,222	\$266,065
Receivables:				
Accrued interest	94,894			
Deposits and prepayments		86,157		
Restricted cash and investments held by fiscal agents (Note 2)				
Property held for resale (Note 4)		537,429		
Loans and notes receivable	6,814,960	63,036		
Total Assets	\$11,546,134	\$2,233,856	\$5,185,222	\$266,065
LIABILITIES				
Accounts payable		\$630,322	\$761,583	\$157,457
Retentions payable				24,279
Deposits		91,112		
Accrued liabilities		4,957	2,321	5,939
Advances from developers		12,374		101,525
Total Liabilities		738,765	763,904	289,200
FUND BALANCES (DEFICITS) (Note 8):				
Fund balance				
Reserved for:				
Capital projects		63,036		
Debt service				
Encumbrances		16,644	45,459	18,566
Loans and notes receivable	\$6,814,960	264,382		
Property held for resale		537,429		
Unreserved:				
Undesignated	4,731,174	613,600	4,375,859	(41,701)
Total Fund Balances	11,546,134	1,495,091	4,421,318	(23,135)
Total Liabilities and Fund Balances (Deficits)	\$11,546,134	\$2,233,856	\$5,185,222	\$266,065

See accompanying notes to financial statements

<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$1,188,197	\$12,822,998
	94,894
	86,157
19,556,197	19,556,197
	537,429
	<u>6,877,996</u>
<u>\$20,744,394</u>	<u>\$39,975,671</u>

	\$1,549,362
	24,279
	91,112
	13,217
	<u>113,899</u>
	<u>\$1,791,869</u>

	63,036
\$20,743,696	20,743,696
698	81,367
	7,079,342
	537,429
	<u>9,678,932</u>
<u>20,744,394</u>	<u>38,183,802</u>
<u>\$20,744,394</u>	<u>\$39,975,671</u>

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EAST PALO ALTO REDEVELOPMENT AGENCY
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances reported on the governmental funds balance sheet \$38,183,802

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. 857,935

DEFERRED CHARGES

Bond issuance costs are expended in governmental funds when paid, and
 are capitalized and amortized over the life of the bonds 1,349,947

LONG-TERM ASSETS AND LIABILITIES

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

Long-term debt (57,499,822)
 Interest payable (585,060)

NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$17,693,198)

See accompanying notes to financial statements

EAST PALO ALTO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Fund	Capital Projects Funds		
		Gateway/101	University Circle	Ravenswood
REVENUES				
Property tax increment	\$1,599,355	\$2,600,232	\$3,277,676	\$519,513
Use of money and property	(17,702)	12,884	(125,463)	5,846
Miscellaneous		14,216		70,326
Total Revenues	1,581,653	2,627,332	3,152,213	595,685
EXPENDITURES				
Current:				
General government		144,409	191,257	534,327
Public works				154,878
Community development	51,881	234,600	236,969	690,078
Payments to property tax pass-throughs (Note 7)		708,476	747,114	396,914
Capital outlay		33,220	(490)	108,051
Debt service:				
Principal				
Interest and fiscal charges			196,219	714,768
Total Expenditures	51,881	1,120,705	1,371,069	2,599,016
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,529,772	1,506,627	1,781,144	(2,003,331)
OTHER FINANCING SOURCES (USES)				
Proceeds from advance from the City (Note 7)				1,891,681
Transfers in (Note 5)				
Transfers (out) (Note 5)	(585,223)	(576,505)	(735,721)	
Transfers (out) to City (Note 5)			(1,336,001)	
Total Other Financing Sources (Uses)	(585,223)	(576,505)	(2,071,722)	1,891,681
NET CHANGE IN FUND BALANCES	944,549	930,122	(290,578)	(111,650)
BEGINNING FUND BALANCES (DEFICITS)	10,601,585	564,969	4,711,896	88,515
ENDING FUND BALANCES	\$11,546,134	\$1,495,091	\$4,421,318	(\$23,135)

See accompanying notes to financial statements

<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
	\$7,996,776
\$588,272	463,837
	84,542
<u>588,272</u>	<u>8,545,155</u>
7,947	877,940
	154,878
	1,213,528
	1,852,504
	140,781
445,000	445,000
<u>2,358,266</u>	<u>3,269,253</u>
<u>2,811,213</u>	<u>7,953,884</u>
<u>(2,222,941)</u>	<u>591,271</u>
	1,891,681
1,897,449	1,897,449
	(1,897,449)
	<u>(1,336,001)</u>
<u>1,897,449</u>	<u>555,680</u>
(325,492)	1,146,951
<u>21,069,886</u>	<u>37,036,851</u>
<u>\$20,744,394</u>	<u>\$38,183,802</u>

EAST PALO ALTO REDEVELOPMENT AGENCY
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2009

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	\$1,146,951
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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

Capital outlay are therefore added back to fund balance	32,730
Retirement of capital asset are deducted from fund balance	(149,836)

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 is added back to fund balance	445,000
Proceeds from advance from the City	(1,891,681)
Amortization of bond premiums, discounts, and loss on refundings	35,480
Amortization of deferred charges (bond issuance costs)	(67,670)

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):

Interest expense	<u>5,739</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(\$443,287)</u></u>
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See accompanying notes to financial statements

EAST PALO ALTO REDEVELOPMENT AGENCY

Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. Organization and Purpose

The East Palo Alto Redevelopment Agency (Agency), although a legally separate entity from the City of East Palo Alto, California (City), is a component unit of the City because the City is financially accountable for the Agency. The Agency is governed by the City's elected five member Council.

The Agency was organized pursuant to provisions of the Community Redevelopment Law of the State of California for the purpose of conducting economic development and redevelopment activities. The financial statements present only the information relative to the Agency and do not present the financial position or results of operations of the City.

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

B. Basis of Presentation

The Agency's Notes to 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 United States of America.

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency'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 Agency's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

EAST PALO ALTO REDEVELOPMENT AGENCY

Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency considers all its funds to be major funds and reported the following major governmental funds in the accompanying financial statements:

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

CAPITAL PROJECTS FUND – used to account for resources restricted for the acquisition or construction of specific capital projects or items. The Agency has three distinct project areas – Gateway/101, University Circle, and Ravenswood.

DEBT SERVICE FUND – used to account for the accumulation of financial resources for the payment of principal and interest on the long-term debt of the Agency. Property tax increment is used for the payment and interest on the Agency’s debt.

D. Basis of Accounting

The agency-wide 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 Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty 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 incremental property taxes and interest revenue.

Non-exchange transactions, in which the Agency 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 Agency 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 Agency’s policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

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

E. *Property Tax*

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

1. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
2. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

San Mateo County assesses properties and it bills, collects, and distributes property taxes to the Agency. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed provided they become available as defined above.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City and any increased tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Agency debt.

F. *Budgets and Budgetary Accounting*

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts in the financial statements are as originally adopted, or as amended by the Agency Board. Individual amendments were not material in relation to the original appropriations. Formal budgetary integration is employed as a management control device. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. 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.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 2 - CASH AND INVESTMENTS

Cash and investments are classified in the financial statements as shown below: based on whether or not their use is restricted under the terms of debt instruments or Agency agreements.

Pool cash and investments with the	
City of East Palo Alto	\$12,822,998
Cash and investments held by fiscal agent	<u>19,566,197</u>
 Total	 <u><u>\$32,389,195</u></u>

Please refer to the City's Comprehensive Annual Financial Report for detailed disclosure on the pool cash and investments with the City of East Palo Alto.

A. Authorized Investments by the Agency

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

<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%	30%
Commercial Paper	270 days	25%	10%
Demand Deposits	2 years	None	None
Money Market Mutual Funds	2 years	20%	None
Repurchase Agreements	92 days	None	None
Passbook Savings Accounts	2 years	None	None
Negotiable Certificates of Deposit	2 years	30%	None
State Local Agency Investment Fund (LAIF)	2 years	None	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

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. Authorized Investments by Debt Agreements

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency ordinances, bond indentures or State statutes. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<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

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

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 an investment has, the greater the sensitivity of its fair value to changes in market interest rates.

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

	<u>12 Months or less</u>	<u>More than 5 Years</u>	<u>Total</u>
Money Market Funds	\$1,309,433		\$1,309,433
Guaranteed Investment Agreements:			
General Electric Capital Funding	16,280,367		16,280,367
Bear Stearns Capital Markets, Inc.		\$1,966,397	1,966,397
Total investments held by fiscal agent	<u>\$17,589,800</u>	<u>\$1,966,397</u>	<u>\$19,556,197</u>

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Agency's investment policy, or debt agreements and the actual rating as of June 30, 2009 for each investment type:

<u>Investment Type</u>	<u>Not Rated</u>	<u>Moody's Rating Aaa</u>	<u>Total</u>
Money Market Funds		\$1,309,433	\$1,309,433
<i>Not rated:</i>			
Guaranteed Investment Agreements:			
General Electric Capital Funding	\$16,280,367		16,280,367
Bear Stearns Capital Markets, Inc.	1,966,397		<u>1,966,397</u>
Total investments held held by fiscal agent			<u><u>\$19,556,197</u></u>

E. Local Agency Investment Fund

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, 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. The carrying value of LAIF approximates fair value. At June 30, 2009, these investments matured in an average of 235 days.

F. San Mateo County Investment Fund

The Agency 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 Agency 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, 2009, these investments matured in an average of 1 year.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 2 - CASH AND INVESTMENTS (Continued)

G. Concentration of Credit Risk

The following are significant investments held by individual Agency Funds in the securities of issuers other than U. S. Treasury securities, mutual funds and external investment pools, that represent 5% or more of total investments are as follows at June 30, 2009:

Fund/Issuer	Investment Type	Reported Amount
General Electric Capital Market	Gauranteed Investment Agreement	\$16,280,367
Bear Stearns Capital Market	Gauranteed Investment Agreement	1,966,397

NOTE 3 - LOANS RECEIVABLE

A. Nairobi Housing Associates Loan

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

B. Nugent Square Partners

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

C. Owner Participant Agreement Loan

Pursuant to an Owner Participation Agreement, the Agency has a loan receivable of \$63,036 from a local property owner at 8% per annum, due March 2014. The loan is secured by a promissory note and a deed of trust.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 3 - LOANS RECEIVABLE

D. Bay Road Housing Loan

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

NOTE 4 - PROPERTY HELD FOR RESALE

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

The property held for resale balance at June 30, 2009 of \$537,429 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.

NOTE 5 - INTERFUND TRANSACTIONS

A. Advances and Loans from the City of East Palo Alto

The City and Agency have entered into a repayment agreement whereby the City has agreed to provide ongoing financial assistance and services to the Agency in connection with implementation of the redevelopment plan for the three redevelopment project areas. At June 30, 2009, the outstanding balance comprised of two advances which totaled to \$14,450,450.

The first advance was for the ongoing assistance and services in connection with the implementation of the redevelopment plan for the Ravenswood Project Area. There was no repayment schedule and the repayment of the advance is limited to property tax increment revenues. The rate of interest on the advance is 12%. During the year ended June 30, 2009, the Agency received advance proceeds of \$940,000 from the City. At June 30, 2009, the Agency's outstanding advance from the City was \$7,611,168.

The second advance was for the funding of the Ravenswood High School Site was developed into a retail shopping center. There was no interest provision or repayment schedule and the repayment of this advance is limited to property tax increment revenues. The outstanding advance balance at June 30, 2009 was \$6,602,369.

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

EAST PALO ALTO REDEVELOPMENT AGENCY

Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

B. Transfers

Interfund transfer amounts for the year ended June 30, 2009 were as follows for repayment of debt service:

	<u>Transfer in</u>	<u>Transfer out</u>
Capital projects fund - Gateway 101		\$833,871
Capital projects fund - University Circle		1,063,578
Debt service fund	<u>\$1,897,449</u>	
	<u>\$1,897,449</u>	<u>\$1,897,449</u>

During the fiscal year ended June 30, 2009, the Capital Projects – University Circle fund transferred \$1,336,001 to the City, related to the TOT settlement agreement.

NOTE 6 - CAPITAL ASSETS

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

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

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency 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.

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 6 - CAPITAL ASSETS (Continued)

Changes in fixed assets during the year ended June 30, 2009 comprise:

	Balance at June 30, 2008	Addition	Retirement	Balance at June 30, 2009
Capital assets, not being depreciated:				
Land	\$263,235	\$32,730		\$295,965
Construction in progress	711,806		(\$149,836)	561,970
Total capital assets	<u>\$975,041</u>	<u>\$32,730</u>	<u>(\$149,836)</u>	<u>\$857,935</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.

NOTE 7 - LONG TERM DEBT

A. Composition and Changes

The Agency uses long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The Agency's debt transactions and balances are summarized below and discussed in detail subsequently:

	Original Issue Amount	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amount due within one year
1999 Tax Allocation Bonds						
4.200-6.625%, due 10/1/2032	\$22,785,000	\$16,410,000		(\$370,000)	\$16,040,000	\$390,000
2003 Tax Allocation Refunding Bonds Series A						
4.00-5.00%, due 10/1/2032	5,155,000	5,060,000		(\$15,000)	5,045,000	\$15,000
2003 Tax Allocation Refunding Bonds Series B (Taxable)						
4.12-6.45%, due 10/1/2032	3,600,000	3,330,000		(\$60,000)	3,270,000	\$65,000
Unamortized Premium, Discounts, and Loss on Refundings	848,836	734,852		(35,480)	699,372	35,480
2005 Revenue Bonds, Series A						
3.40-5.00%, due 10/1/2029	17,995,000	17,995,000			17,995,000	
Advances and loans from the City		12,558,769	\$1,891,681		14,450,450	
Total Redevelopment Agency Debt	<u>\$50,383,836</u>	<u>\$56,088,621</u>	<u>\$1,891,681</u>	<u>(\$480,480)</u>	<u>\$57,499,822</u>	<u>\$505,480</u>

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 7 - LONG TERM DEBT (Continued)

B. 1999 Tax Allocation Bonds

The Agency issued \$22,785,000 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, and 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. To provide additional security, pursuant to the 1999 bond agreement, \$165,517 is held in a bond reserve fund with a trustee at June 30, 2009.

The bonds bear interest at rates of 4.2% to 6.625% and the interest is payable each April 1 and October 1 commencing April 1, 2000. Principal on the bonds is payable each October 1, commencing 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 at June 30, 2009, assuming no redemptions of the 1999 bonds other than scheduled mandatory sinking account redemption are as follows:

For The Year Ending June 30	Principal	Interest	Total
2010	\$390,000	\$1,242,023	\$1,632,023
2011	410,000	1,218,653	1,628,653
2012	435,000	1,192,988	1,627,988
2013	460,000	1,165,388	1,625,388
2014	490,000	1,135,988	1,625,988
2015-2019	2,940,000	5,143,040	8,083,040
2020-2024	4,025,000	3,975,664	8,000,664
2025-2029	5,550,000	2,352,207	7,902,207
2030-2033	1,340,000	457,750	1,797,750
Total payments due	<u>\$16,040,000</u>	<u>\$17,883,701</u>	<u>\$33,923,701</u>

The pledge of future tax increment revenues ends upon repayment of the \$33,923,701 in remaining debt service on the 1999 Tax Allocation Bonds which is scheduled to occur in 2032. For fiscal year 2009 tax increment revenues amounted to \$8.0 million which represented coverage of 484% over the \$1,653,473 in debt service.

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 7 - LONG TERM DEBT (Continued)

C. 2003 Tax Allocation Bonds

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

The bonds are secured by a pledge of the tax revenues from the Project Areas. The annual tax increment revenues expected to be received by the Agency and pledged to secure repayment of the 2003 bonds are sufficient to pay annual debt service.

The bonds bear interest at rates of 4% to 6.45% and the interest is payable each April 1 and October 1 commencing April 1, 2004. Principal on the bonds is payable each October 1, commencing October 1, 2004. On December 11, 2003, the original bonds consisted of \$5,155,000 and \$3,600,000 with annual principal installments ranging from \$10,000 to \$1,610,000 through 2032.

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, 2009, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

For The Year Ending June 30	Principal	Interest	Total
2010	\$15,000	\$250,650	\$265,650
2011	15,000	250,050	265,050
2012	15,000	249,450	264,450
2013	15,000	248,850	263,850
2014	15,000	248,250	263,250
2015-2019	85,000	1,230,369	1,315,369
2020-2024	110,000	1,207,212	1,317,212
2025-2029	135,000	1,177,594	1,312,594
2030- 2033	4,640,000	584,250	5,224,250
Total payments due	<u>\$5,045,000</u>	<u>\$5,446,675</u>	<u>\$10,491,675</u>

The pledge of future tax increment revenues ends upon repayment of the \$10,491,675 in remaining debt service on the 2003A Tax Allocation Bonds which is scheduled to occur in 2033. For fiscal year 2009 tax increment revenues amounted to \$8.0 million which represented coverage of 3,003% over the \$266,250 in debt service.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 7 - LONG TERM DEBT (Continued)

Future debt service on the 2003B bonds at June 30, 2009, assuming no redemptions of the 2003B bonds other than scheduled mandatory sinking account redemption are as follows:

For The Year Ending June 30	Principal	Interest	Total
2010	\$65,000	\$202,658	\$267,658
2011	70,000	198,999	268,999
2012	70,000	195,205	265,205
2013	75,000	191,276	266,276
2014	80,000	187,076	267,076
2015-2019	475,000	854,015	1,329,015
2020-2024	640,000	682,740	1,322,740
2025-2029	875,000	444,245	1,319,245
2030- 2033	920,000	122,874	1,042,874
Total payments due	<u>\$3,270,000</u>	<u>\$3,079,088</u>	<u>\$6,349,088</u>

The pledge of future tax increment revenues ends upon repayment of the \$6,349,088 in remaining debt service on the 2003B Tax Allocation Bonds which is scheduled to occur in 2032. For fiscal year 2009 tax increment revenues amounted to \$8.0 million which represented coverage of 3,010% over the \$265,656 in debt service.

D. 2005 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 structure used is somewhat different from a standard refunding in that on their October 1, 2009 call date, the 1999 Bonds scheduled to mature on October 1, 2010 through and including October 1, 2029 will be purchased from bond holders and instead of being cancelled, will instead become property of the Authority. In other words, there will be no changes to the 1999 Bonds until 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") will become 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 will be payable solely from an investment agreement with General Electric Capital Funding. The principal invested under the investment agreement, together with interest earnings thereon will be 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.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 7 - LONG TERM DEBT (Continued)

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 will not hold, nor have access to the debt service payments received from the 1999 Bonds. As such, the source of repayment for the 2005 Authority Bonds after the October 1, 2009 purchase date is the principal and interest paid on the 1999 Bonds, which is paid from tax increment revenue generated from the Project Areas.

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

Future debt service on the 2005 bonds at June 30, 2009, assuming no redemptions of the 2005 bonds other than scheduled mandatory sinking account redemption was:

For The Year Ending June 30	Principal	Interest	Total
2010		\$846,644	\$846,644
2011	\$580,000	836,784	1,416,784
2012	600,000	816,424	1,416,424
2013	620,000	794,454	1,414,454
2014	645,000	770,487	1,415,487
2015-2019	3,690,000	3,350,756	7,040,756
2020-2024	4,620,000	2,394,663	7,014,663
2025-2029	5,880,000	1,103,500	6,983,500
2030	1,360,000	34,000	1,394,000
Total payments due	<u>\$17,995,000</u>	<u>\$10,947,712</u>	<u>\$28,942,712</u>

The pledge of future tax increment revenues ends upon repayment of the \$28,942,712 in remaining debt service on the 2005 Tax Allocation Bonds which is scheduled to occur in 2032. For fiscal year 2009 tax increment revenues amounted to \$8.0 million which represented coverage of 945% over the \$846,644 in debt service.

E. Debt without City Commitment

The Agency sponsored \$11 million of the Redevelopment Agency of the City of East Palo Alto Multifamily Housing Mortgage Revenue Bonds, 1999 Series A and Series B, and taxable 1999 Series C to assist a developer in financing the construction of a multifamily rental housing project known as Gateway 101 Apartments. The City has no legal or moral liability with respect to repayment of the debt, and does not include these debt in the City's financial statement. 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, 2009 is \$7,796,000.

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 8 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the Agency's assets over all its liabilities, regardless of fund. These captions 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 Agency'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 Agency 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 Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The Agency cannot modify or remove these restrictions or reserves. The Agency has the following fund balance reservations as of June 30, 2009:

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

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

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

Reserved for loans and notes receivable is the portion of fund balance set aside to indicate this item does not represent available, spendable resources even though it is a component of assets.

C. Fund Balance Deficit

The Capital Projects – Ravensword Fund had a fund balance deficit of \$23,135 at June 30, 2009. The deficit is expected to be eliminated from future tax increment revenues.

EAST PALO ALTO REDEVELOPMENT AGENCY
Notes to Financial Statements
For The Year Ended June 30, 2009

NOTE 9 – CONTINGENT LIABILITIES AND COMMITMENTS

A. *Contingent Liabilities*

The Agency is subject to litigation arising in the normal course of business. 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.

B. *Transient Occupancy Tax Settlements*

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

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

Any TOT collected and retained up to the \$7 million becomes a commitment of the Agency to reimburse the City from future tax increment generated from the University Circle Project. As of June 30, 2009, the hotel collected \$5,352,214 in TOT, of which \$1,500,000 was sent to the City, leaving a net balance of \$3,852,214 million that was retained by the hotel developers. The Agency reimbursed the City's General Fund \$2,559,050 of the estimated \$3,852,214 current commitment, leaving a net commitment amount of approximately \$1,293,164.

C. *Long-Term Pass-Throughs*

Menlo Park Fire Protection District - In 1988 the Agency entered into an agreement with the Menlo Park Fire Protection District (District) whereby the Agency agreed to pay the District the equivalent of 10.24% of the tax increment received by the Agency from the University Circle Project Area (Project Area) to help defray the additional costs to the District to manage the new risk in the Project Area. In the event that the Agency is not able to make the payment, the District has agreed that the payment will be deferred to future years when tax increment is available. At June 30, 2009, the total commitment was \$4,085,260.

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, 2009, the total commitment was \$758,510.

EAST PALO ALTO REDEVELOPMENT AGENCY

**Notes to Financial Statements
For The Year Ended June 30, 2009**

NOTE 10 – SUBSEQUENT EVENT

The State of California adopted ABX426 in July 2009 which directs a portion of the incremental property taxes received by redevelopment agencies be paid to the County Supplemental Educational Revenue Augmentation Fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance will determine each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. Based on the calculations in ABX426, the Agency's payments are estimated to be \$3,260,360 in fiscal year 2009-10 and \$671,250 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The payment due in fiscal year 2009-10 represents 25% of the Agency's cash and investments available for operations at June 30, 2009. The obligation to make the SERAF payment is subordinate to obligations to repay bonds. However, if the Agency fails to make a SERAF payment the Agency may not encumber or expend future funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF payments are paid in full.

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REQUIRED SUPPLEMENTARY INFORMATION

EAST PALO ALTO REDEVELOPMENT AGENCY
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
GOVERNMENTAL REVENUES				
Property tax increment	\$1,544,920	\$1,591,500	\$1,599,355	\$7,855
Use of money and property			(17,702)	(17,702)
Total Revenues	<u>1,544,920</u>	<u>1,591,500</u>	<u>1,581,653</u>	<u>(9,847)</u>
EXPENDITURES				
Community development	60,000	60,000	51,881	8,119
Total Expenditures	<u>60,000</u>	<u>60,000</u>	<u>51,881</u>	<u>8,119</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,484,920</u>	<u>1,531,500</u>	<u>1,529,772</u>	<u>(1,728)</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(861,798)	(789,686)	(585,223)	204,463
Total Other Financing Sources (Uses)	<u>(861,798)</u>	<u>(789,686)</u>	<u>(585,223)</u>	<u>204,463</u>
NET CHANGE IN FUND BALANCES	<u>\$623,122</u>	<u>\$741,814</u>	944,549	<u>\$202,735</u>
BEGINNING FUND BALANCE			<u>10,601,585</u>	
ENDING FUND BALANCE			<u>\$11,546,134</u>	

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, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
GOVERNMENTAL REVENUES			
Use of money and property		\$588,272	588,272
Total Revenues		<u>588,272</u>	<u>588,272</u>
EXPENDITURES			
Current:			
General government	\$5,500	7,947	(2,447)
Debt service:			
Principal	445,000	445,000	
Interest and fiscal charges	<u>1,507,570</u>	<u>2,358,266</u>	<u>(850,696)</u>
Total Expenditures	<u>1,958,070</u>	<u>2,811,213</u>	<u>(853,143)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,958,070)</u>	<u>(2,222,941)</u>	<u>(264,871)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,950,072</u>	<u>1,897,449</u>	<u>(52,623)</u>
Total Other Financing Sources (Uses)	<u>1,950,072</u>	<u>1,897,449</u>	<u>(52,623)</u>
NET CHANGE IN FUND BALANCES	<u>(\$7,998)</u>	(325,492)	<u>(\$317,494)</u>
BEGINNING FUND BALANCE		<u>21,069,886</u>	
ENDING FUND BALANCE		<u>\$20,744,394</u>	

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**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board of the
East Palo Alto Redevelopment Agency
East Palo Alto, California

We have audited the financial statements of the Redevelopment Agency of the City of East Palo Alto as of and for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2009. We have conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the Guidelines for Compliance Audits of California Redevelopment Agencies. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Maze & Associates

October 22, 2009