

CITY OF EAST PALO ALTO

Independent Auditor's Reports,
Basic Financial Statements and
Supplementary Information

For the Year Ended June 30, 2008

CITY OF EAST PALO ALTO
For the Year Ended June 30, 2008

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MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

The Honorable City Council of
the City of East Palo Alto
East Palo Alto, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Palo Alto, California (City), as of and for the year ended June 30, 2008, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.(d)14 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2008 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.

The management's discussion and analysis and the other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California
December 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management's discussion and analysis is designed to provide, for the fiscal year ending June 30, 2008, (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

The City continues to face significant financial challenges in a period of significant economic turmoil and uncertainty that is impacting all levels of the economy, including local, national, and international markets. On a local level, the City is experiencing increased home foreclosures due to the sub-prime loans, a substantial slow down of construction projects as reflected in reduced permit activity and related revenues, declining sales tax, and, the threat of reduced property tax revenues as suggested by increased assessed valuation appeals.

At the state level, the recent budget shortfalls and its persistent structural budget deficits are impacting local agencies. Faced with a \$15 billion deficit, the 2008-09 State Budget signed on September 23, 2008, included a one-time shift of \$350 million in property tax from redevelopment agencies to schools. The share to be paid by the East Palo Alto Redevelopment Agency (Agency) is approximately \$671,000. These funds will not be repaid to redevelopment agencies. Additionally, AB 1389 requires redevelopment agencies to make up millions in missed or unreported pass-through payments to schools and community colleges over the past five years. This Agency is currently reviewing the impact of this bill and may be required to make additional pass-through payments in the upcoming fiscal year. As the State continues to search for solutions to balance its structural deficit, now projected to be \$28 billion by 2010, it's believed that there is a likelihood that they will continue to target redevelopment agencies and could look to local agency revenues as well.

In the current year, the City was able to continue to effectively manage a balanced budget through continued fiscal controls and related efforts, budget savings from vacant authorized positions, and higher than anticipated property tax revenue. At the end of the current fiscal year, the General Fund had an increase in net assets of \$3.5M which was the combination of lower than projected expenditures resulting from unfilled vacancies combined with higher than expected revenues from property tax proceeds and increased charges for services from developer fees. In addition, the City transferred approximately \$612,000 from the Agency to reimburse the General Fund for Transient Occupancy Tax (TOT) forgone provided by an agreement between the Agency and a hotel developer. As a result of the increase in net assets at fiscal year-end, for the first time, approximately \$1.3M have been designated as a reserve in the General Fund as a set aside against future economic uncertainty.

Even though the General Fund currently has a reserve designation, it is not enough to address the current economic conditions as the country heads into a recession. The City can effectively cope with these uncertainties through careful planning, budgeting, and continued strategic authorization of new development that collectively shares cost related to enhanced community benefit and/or generate additional revenue.

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

economic uncertainties. The challenge will be to not only maintain the reserve established, but to continue to add to this reserve in future years.

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

- Government-wide assets exceed liabilities by \$39.0M (net assets). The net assets are comprised of capital assets, restricted assets, and an unrestricted deficit in the amount of (\$26.7M). Overall, analysis of the statement of net assets shows that the City is able to meet current obligations; however long-term financial obligations must be paid through continued annual funding from operations.
- Government-wide total assets increased by approximately \$13.2M over the prior year primarily due a significant increase of approximately \$5.9M in both the Agency and City's General Fund cash balance resulting from increased revenues generated during the current fiscal year, as well as cost savings. In addition, the City participated in State Community Infrastructure Program (SCIP) increasing receivables by \$1.7M. SCIP finances developer infrastructure-related impact fees due to the City, by issuing bonds. When a developer's application for SCIP is approved, the state issues bonds to generate money to pay for the infrastructure for which the impact fees were required. Also, the City made capital improvements of approximately \$1.3M to Bay Road (phase 1) and received \$2.3M of donated assets for the lighting and drainage districts during the current year.
- Government-wide net liabilities decreased by approximately \$3.4M. This was mainly the result of a restatement of a prior liability and bond principal payments made during the year; which were offset by increases in unearned revenues from various grants and developer impact fees generated through the SCIP program. As mentioned above the SCIP financing program issues bonds to assist developers to pay, on an expedited basis, for infrastructure that served as the basis for imposed impact fees. The SCIP arrangement creates unearned revenue in the form of bond proceeds have been raised, on behalf of the City, but are not yet received by the City.
- Governmental activities revenues resulted in an increase of approximately \$3.6M from prior year. This increase resulted from a greater level of grant activities, donations of capital assets, higher property tax revenues and investment earnings.
- Governmental activities expenses increased by \$825,000 over prior year as a result of higher expenses in community development activities and public works projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Reporting the City's Major Funds

The analysis of the City's major funds begins on page 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 reconciliation at the bottom 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.

The City as Trustee

The City is the trustee, or *fiduciary*, for its employees' 401K and 401A pension plans. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial

statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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 \$39.0M. However a significant portion of these assets are not liquid, and are not available to pay liabilities. Of the \$91.7M total assets; only \$62.4M 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 \$39.0M 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
(Dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$ 59,518	\$ 49,621	\$ 2,914	\$ 2,172	\$ 62,432	\$ 51,793
Capital assets	24,175	21,298	5,101	5,382	29,276	26,680
Total assets	<u>83,693</u>	<u>70,919</u>	<u>8,015</u>	<u>7,554</u>	<u>91,708</u>	<u>78,473</u>
Liabilities:						
Current and other liabilities	7,399	5,236	454	434	7,853	5,670
Long-term liabilities	44,860	50,395	-	-	44,860	50,395
Total liabilities	<u>52,259</u>	<u>55,632</u>	<u>454</u>	<u>434</u>	<u>52,713</u>	<u>56,066</u>
Net Assets:						
Investment in capital, net of debt	24,175	21,298	5,101	5,382	29,276	26,680
Restricted	36,384	14,391	-	-	36,384	14,391
Unrestricted	(29,125)	(20,401)	2,460	1,738	(26,665)	(18,663)
Total net assets	<u>\$ 31,434</u>	<u>\$ 15,288</u>	<u>\$ 7,561</u>	<u>\$ 7,120</u>	<u>\$ 38,995</u>	<u>\$ 22,408</u>

Numbers may not add due to rounding.

Governmental Activities

- Total assets of \$83.7M consist of current and other assets of \$59.5M and capital assets of \$24.2M. Current and other assets increased \$9.9M. This increase of \$9.9M is comprised of a \$3.3M Agency cash balance resulting from expenses being covered by revenues in the University Circle Project Area allowing for cash reserves to accumulate; a \$3.0M increase in General Fund cash balance caused increased tax revenues, reduction in operating expenses for Public Safety and Public Works as cost savings measures resulting from a combination of vacancies and the opportunity to shift some operating expenses to other sources such as grants and other special revenues. The remaining balance of \$3.6M is from receivables in the current year as a result

increased to activities in various public safety grant programs and various funding sources from grants related to development activities within the City.

- Total liabilities of \$52.3M consist of \$7.4M of current and other liabilities and \$44.9M of long-term liabilities. Total liabilities decreased by \$3.3M. This decrease mainly resulted from a restatement of \$5.6M whereby the Agency agreed that this amount is not truly a liability of the Agency, but rather a commitment that should the Agency generate enough tax increment those payments will be paid. If however, the Agency does not generate enough tax increment to make those payments, the Agency is not obligated to make those payments. This amount is mainly offset by an increase of \$1.7M in developer bond revenues being held by SCIP generated from the Cummings Park and Pulgas Avenue developments.
- Net assets are comprised of 1) \$24.2M investment in capital assets (e.g. land building, improvements, infrastructure, etc.) less any outstanding debt used to acquire those assets. The City utilizes capital assets to provide services to citizens. These assets, however, are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities; (2) \$36.4M represents resources that are subject to external restrictions on how they may be expended and (3) a remaining deficit of \$29.1M. The \$29.1M deficit is comprised of long-term obligations secured by future tax increments and liabilities for claims and judgments and compensated absences. The City intends to liquidate those liabilities as the payments become due from continued annual operations.

Business-type Activity

The City's business-type activities reflect a \$5.1M investment in capital assets, which primarily consists of water-service type assets and infrastructure. Approximately, \$2.5M unrestricted net assets are available at year-end to pay current and future obligations. No major capital improvements were added to the water system during the current fiscal year.

Analysis of Statement of Activities

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

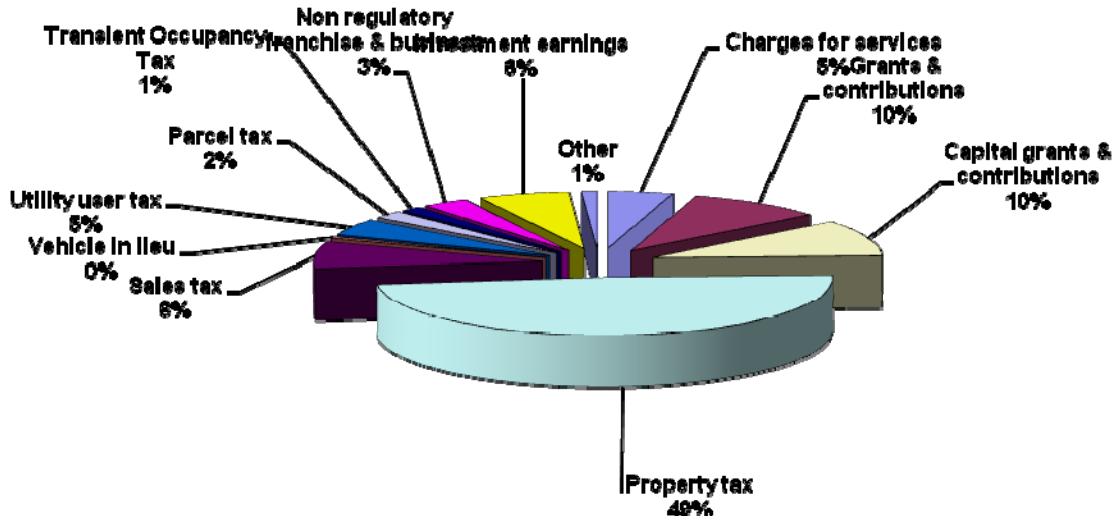
	Statement of Activities					
	(Dollars in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 1,535	\$ 1,293	\$ 2,782	\$ 2,389	\$ 4,317	\$ 3,682
Operating grants and contributions	3,215	4,419	-	-	3,215	4,419
Capital grants and contributions	3,417	435	-	-	3,417	435
General revenues:						
Property taxes	16,230	16,144	-	-	16,230	16,144
Sales taxes	2,525	2,481	-	-	2,525	2,481
Motor vehicle in lieu	139	201	-	-	139	201
Utility user tax	1,582	1,586	-	-	1,582	1,586
Parcel tax	703	-	-	-	703	-
Transient occupancy tax	500	500	-	-	500	500
Non regulatory franchise and business	1,087	1,086	-	-	1,087	1,086
Investment earnings	2,131	1,638	78	94	2,209	1,732
Other general revenues	373	90	-	-	373	90
Total revenues	<u>33,437</u>	<u>29,873</u>	<u>2,860</u>	<u>2,483</u>	<u>36,297</u>	<u>32,356</u>
Expenses						
General government	3,933	3,170	-	-	3,933	3,170
Public safety	8,936	9,220	-	-	8,936	9,220
Public works	3,064	2,964	-	-	3,064	2,964
Culture and recreation	700	799	-	-	700	799
Community development	3,604	3,132	-	-	3,604	3,132
Water services	-	-	524	441	524	441
Garbage collection	-	-	1,895	1,766	1,895	1,766
Interest on long-term debt	2,618	2,744	-	-	2,618	2,744
Total expenses	<u>22,855</u>	<u>22,029</u>	<u>2,419</u>	<u>2,206</u>	<u>25,274</u>	<u>24,235</u>
Change in net assets	<u>10,582</u>	<u>7,845</u>	<u>441</u>	<u>276</u>	<u>11,023</u>	<u>8,121</u>
Beginning net assets,						
as previously reported	15,288	7,443	7,120	6,844	22,408	14,287
Prior period adjustment	5,564	-	-	-	5,564	-
Beginning net assets, as restated	<u>20,852</u>	<u>7,443</u>	<u>7,120</u>	<u>6,844</u>	<u>27,972</u>	<u>14,287</u>
Ending net assets	<u>\$ 31,434</u>	<u>\$ 15,288</u>	<u>\$ 7,561</u>	<u>\$ 7,120</u>	<u>\$ 38,995</u>	<u>\$ 22,408</u>

Numbers may not add due to rounding.

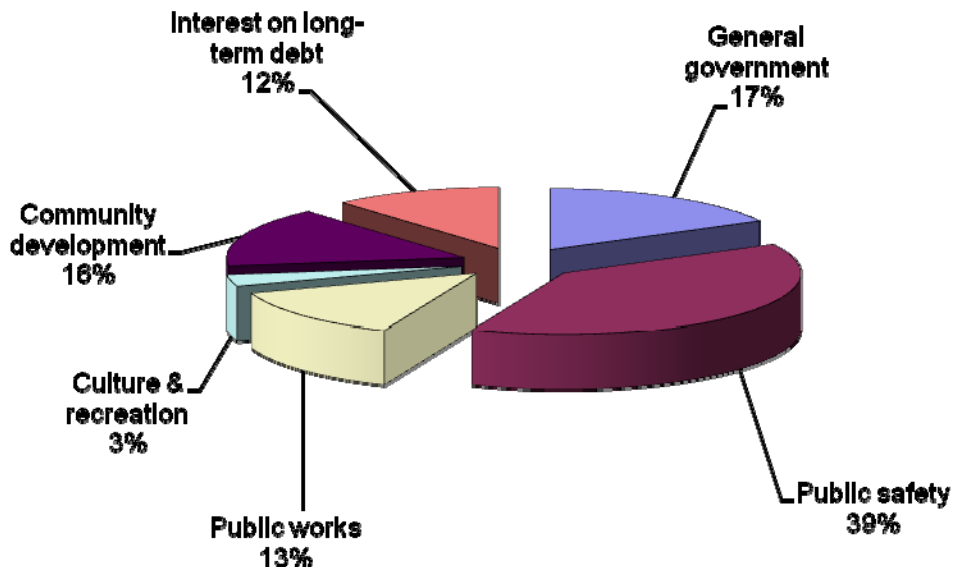
The government-wide net assets increased by approximately \$16.5M as noted in the table above. The primary reasons for the increase are revenues exceeding expenses in the governmental activities by \$10.6M and a restatement of net assets of \$5.6M.

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

Governmental Activities Revenues by Source



Governmental Activities Expenditures by Type



Governmental activities

- Overall total revenues are approximately \$33.4M; an increase of \$3.5M (11%) from the prior year. General revenues increased approximately \$1.5M from prior year. This was mainly attributed to a new Measure C Parcel tax and an increase in investment income. Additionally, program revenues increased approximately \$2.0M from significant spending in grant related activities and donations of lighting and drainage capital assets.
- Overall total expenses are approximately \$22.9M; an increase of \$0.8M (3.7%) from the prior year. The significant components of the increase are increased community development activities and infrastructure improvements from the prior year.

Business-type activities increased City's net assets by \$440,000 in the current fiscal year. Key factors of this increase are as follows:

- Net assets increase of \$440,000 is comprised of Water net assets increase of \$392,000 and Garbage net assets increase of \$48,000 in the current fiscal year.
- Although Water revenues increased by \$556,000 from the previous year, of the current year's revenue of \$886,000, approximately \$713,000 is revenue being held by SCIP for the purpose of capital improvements to the City's water infrastructure; leaving a net amount of \$173,000 of revenue received for services during the current fiscal year.

Water expenses increased by \$84,000 from the previous year. This increase was mainly due to an increase in the San Francisquito Creek JPA dues and an increase in lease payments as a result of additional leased facility space acquired in the current fiscal year.

- Although Garbage service revenues (charges for services) decreased by \$164,000 and expenses increased by \$129,000 from the previous year, the current year's operating revenues of \$1,896,000 were able to cover the operating expenses of \$1,895,000; thereby resulting in a net operating surplus of approximately \$1,000.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

At June 30, 2008, the City's governmental funds reported a combined ending fund balance of \$50.4M, an increase of \$6.8M in comparison to the prior year.

- Governmental revenues at fiscal year-end were \$31.4M, an increase of \$1.3M in revenues from the previous year. This was mainly a result of increased property tax revenues due to increased assessed valuation of properties within the City and increased activity in grant funded programs and capital project.
- Governmental expenditures totaled approximately \$24.6M, an increase of \$700,000 (3%) over the previous year. There were fluctuations within the various expenditure programs resulting in no significant change overall. However, the primary cause of the \$700,000 increase in expenditure

resulted from capital projects such as Bay Road, the new Police Department Parole Reentry program, and a one-time settlement payment.

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.

At June 30, 2008 fund balance was \$18.0M; an increase of \$3.5M (19%) from the prior year. Of the total fund balance approximately \$5.4M is unreserved and is available for spending at City's discretion. Of this \$5.4M, City has earmarked approximately \$535,000 (9%) fund balance for pending/future litigation, to purchase technology equipment, City vehicles and related equipment for various City departments; \$1.3M (24%) was designated as a reserve for economic uncertainties; another \$1.2M (22%) to balance the upcoming FY2008-2009 Adopted General Fund Operating Budget; leaving a net balance of \$2.4M as available sources. Unreserved fund balance represents 41.2 % of the total fund expenditures of \$13.1M. The City has available funds for unanticipated emergencies based on the adopted financial plan policy, which requires a minimum reserve set aside of 10 percent of operating costs estimated at \$1.3M. The Council has set aside this reserve amount as a part of the FY2007-2008 budget amendment. Although the General Fund recognizes an unreserved fund balance in the current year, being able to meet such level of reserves annually will continue to be a challenge for the City, as cost of services increases, revenue sources fluctuate depending on the economy and current vacancies being filled. Management intends to continue meeting these challenges through careful financial planning, monitoring budget expenditures, and by identifying ways to reduce cost and/or generate more revenues for the City.

Revenues equaled \$16.1M; an increase of \$690,000 (4%) over prior year. The increase was a combination of various activities such as a one-time settlement pay-out; interest repayment from Agency; increased property tax revenues and charges for services related to new development.

Expenditures equaled \$13.1M; a decrease of \$900,000 (7%) over prior year. The decrease was largely due to vacant positions within public safety and other areas of the organization.

Revenue exceeded expenditures in the current year, creating an excess of revenues over expenditures of approximately \$3.0M. The Agency approved an accelerated repayment of commitment to the General Fund in the amount of \$611,525 to balance the FY2008-2009 Adopted Operating Budget.

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

The Capital Project Fund's revenues were \$6.5M in the current year, a decrease of approximately \$600,000 from the previous year. The decrease was a result of one-time supplemental payments made to the Agency in the prior year from the increase in assessed valuation related to property within the redevelopment project area, which resulted in the prior year tax increment being higher than current year. Expenditures in the current year were \$3.6M; a decrease of approximately \$100,000 from the prior year. Although there was only a marginal change in total expenditures from prior year, there were significant changes in two expenditure categories. In prior year, the Agency made a \$570,000 principal payment related to UCI Stage 2A project. This reduction in expenditures in the current year was offset by an increase in community development activities mainly related to the capital improvements on Bay Road.

In the current year, the Agency had reserved for encumbrances, approximately \$290,000, land held for resale for approximately \$537,000 and \$324,000 for other reserved fund balance, leaving an unreserved fund deficit of approximately \$8.3M. However it's important to note that the Agency has a long-term advance from the City's General Fund estimated at \$12.6M, and the Agency's obligation to make such payments is subordinate to all other long term debt obligations. If the Agency's ability to collect tax increment revenues expires, then any remaining long-term advance due to the City will be forgiven. This long-term debt the Agency owes is not uncommon for Redevelopment Agencies.

Additional information about the Agency's financial information appears in its separately issued financial statements.

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

Total tax increment revenues received in the current year were approximately \$1.6M, a portion of which was 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 \$1.6M and \$880,000, respectively. The combined increase in net assets for both funds was \$440,000 compared to prior year. Further discussions of these funds have been addressed previously in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original FY 2007-08 General Fund budget and the final amended budget resulted in an approximate \$1.3M increase in budgeted revenues and a \$105,000 decrease in expenditure appropriations. Following are the main components of the changes in revenues and expenditure appropriations.

- The fiscal year 2008 adopted revenues equaled \$14.9M and the final amended revenue was \$16.2M; an increase of \$1.3M from the original budget. When the adopted budget was approved, the City anticipated a General Fund deficit of (\$686,000). However due to higher than anticipated increased property tax revenue and increased Charges for Services revenue of \$1.3M and \$216,000 respectively, an additional transfer of \$611,000 from the Redevelopment Agency resulting in an amended operating fund balance budget of \$537,000. The actual year-end operating revenue of \$16.9M was \$684,000 over the amended FY2007-2008 budget as a result of higher than anticipated revenue in various revenue categories such as interest income, business license and permits and sales tax revenue received than projected in the amended budget. Of the current year fund balance of \$3.6M, approximately \$1.2M will be used to balance the FY2008-2009 Adopted Budget; \$1.3M will be set-aside based on the Council Adopted Financial Plan which calls for a minimum General Fund Reserve Policy of 10% of the total operating budget for economic uncertainties that could negatively impact the City's budget in the future; leaving an unreserved fund balance of \$1.1M, which could be used to offset any negative impacts to the FY08-09 operating budget projections.
- The fiscal year 2008 adopted appropriations equaled \$16.8M, a decrease of \$138,000 from the final amended appropriations of \$16.7M. The increase is combination of a \$1.2M decrease in law enforcement services such as overtime and contract services with the County Sheriff's department, as well as, other reductions in personnel costs due to vacancies; offset by an increase of \$1.1M in advance from the General Fund cash reserves to the Agency to cover the operating deficit in the Ravenswood Project Area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2008 amounted to \$29.3M (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 \$2.6M or 9.7 percent.

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

	Governmental Capital Assets (Dollars in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 868	\$ 868	\$ 207	\$ 207	\$ 1,075	\$ 1,075
Construction in progress	2,631	1,326	-	-	2,631	1,326
Buildings and improvements	4,712	3,949	44	44	4,756	3,993
Improvements other than buildings	2,897	2,854	7,058	7,022	9,955	9,876
Furnishings and equipment	1,255	1,204	63	63	1,318	1,267
Vehicles	1,127	1,110	90	90	1,217	1,200
Street and roadways	32,642	31,559	-	-	32,642	31,559
Storm drain system	3,761	3,261	-	-	3,761	3,261
Less accumulated depreciation	(25,718)	(24,831)	(2,361)	(2,044)	(28,079)	(26,875)
Total	<u>\$ 24,175</u>	<u>\$ 21,300</u>	<u>\$ 5,101</u>	<u>\$ 5,382</u>	<u>\$ 29,276</u>	<u>\$ 26,682</u>

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

Governmental Activities:

- Capital assets increased a total of \$2.9M, net of current year depreciation of \$886,000.
- Construction in progress (CIP) increased \$1.3M over the prior year. This is a result of an increase to the Bay Road Improvement project, totaling \$1.3M.
- Capital infrastructure such as streets and roadways increased \$2.4M over the prior year primarily from donations of lighting and drainage facilities of \$2.3M.

Business-Type Activities:

- Water Services' capital assets decreased by \$281,000 (net of accumulated depreciation). This is a result of the depreciation of the water assets in the amount of \$317,000 net of a \$36,000 increase in improvements being made to the water system.

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 III(d) to the financial statements.

Debt Administration

At year-end, the City had \$44.9M in debt related to governmental activities. There was no debt related to the business-type activities. A restatement of \$5.5M was made to the prior year debt outstanding balance of \$51.3M, leaving a restated June 30, 2007 balance of \$45.8M. Debt outstanding at year-end decreased by \$1.0M or 2 % from prior year restated amount. Debt outstanding as of June 30, 2008 with a comparison to prior year, including net change follows:

	Debt Outstanding		
	(Dollars in thousands)		
	2008	2007	Change
Tax allocation bonds	\$ 24,800	\$ 25,220	\$ (420)
Revenue bonds	17,995	17,995	-
Amortized bond premium	735	770	(35)
Loan from other governments	-	520	(520)
Claims and judgments	410	263	147
Compensated absences	920	1,013	(93)
Total	<u>\$ 44,860</u>	<u>\$ 45,781</u>	<u>\$ (921)</u>

As noted earlier, a prior year restatement of \$5.5M in pass-through obligations was made in the current year; whereby the Agency agreed that this amount is not truly a liability of the Agency, but rather a commitment that should the Agency generate enough tax increment those payments will be paid. If however, the Agency does not generate enough tax increment to make those payments, the Agency does not have an obligation to make those payments.

A \$1.0M net reduction in debt; resulted from payment of bond principal totaling \$420,000; a loan payment of \$520,000 related to the California Housing Finance Agency (CHFA) revolving housing loan used to assist development projects within the community. As a result of a significant reduction in housing development activities due to the current market conditions; the City returned the loan amount it owed to CHFA as cost of borrowing such funds became an expensive investment. The City had accumulated interest payment of 3% on the loan; however, the City earned less than 2% in interest income from holding the funds. The additional \$60,000 resulted in the net adjustment in compensated absences and amortized bond premium.

In FY 2008 no debt activity was reported in the business-type activities.

Additional information about the City's debt can be found in Note III(f) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City population has slightly increased over the past year, showing a slight increase of 1% in 2007. The City unemployment rate increased from 9.2% in 2006 to 9.4% in 2007. Historically, the City's unemployment rates are higher than the rates of San Mateo County and the State of California. In 2007, the State and County unemployment rates were 5.4% and 3.8%, respectively. The unemployment rate increased in 2007, due to an overall downturn in the economy. It's expected that the unemployment rate will continue to rise as we are faced with a recession as the economy weakens and the State continues to face a severe budget crisis. Locally, the City is experiencing less development activities, as the banking industry tightens lending practices, resulting in less available funding for developers. Housing foreclosures are on a rise as more homeowners are unable to afford their adjustable housing loan programs. These factors will impact the City's local revenues such as property tax, sales tax and construction fees.

- The City's fiscal position has improved compared to prior years; however, the City continues to face fiscal challenges implementing its FY08-09 operating General Fund budget. Although revenues have increased, so have operating expenditures and in order to adopt a balanced General Fund budget for FY08-09, the City Council authorized the use of prior year unreserved fund

balance and required the Agency to reimburse the General Fund \$611,525 as noted above. Personnel costs are on the rise as the City tries to compete in the market for qualified experienced employees by enhancing benefit packages to align with surrounding communities. Relative to existing employees, the City enhanced its CalPERS Retirement Plan package requiring a contribution rate increase for both employees and the City. Sworn employees increased from 2% at 55 to 3% at 55 causing the City's contribution to significantly increase; the Non-Sworn employees increased from 2% at 60 to 2.5% at 55. The City was able to restore 1.75 FTE positions previously eliminated as a part of a prior year budget. Additionally, the Council approved two new positions; a Community Development Director and Executive Assistant, allowing for the creation of a proper management structure for the City's existing Community Development Department. Additionally a new Employee Relations Manager was approved, a position needed to meet an ever increasing workload in the Human Resources' Department.

- Given the recent financial turmoil resulting from significant losses in the credit markets; a lack of consumer confidence has led to evaporating cash liquidity in the financial market and, resulted in the need for federal bailout assistance for several financial institutions, including Fannie Mae, Freddie Mac, and AIG. However, in the case of Lehman Brothers, a major Wall Street investment bank, the federal government declined funding assistance, which then forced Lehman Brothers to file for Chapter 11 bankruptcy on September 15, 2008. The collapse of Lehman Brothers impacted the San Mateo County's Investment Pool (which is made up of various cities and school districts, including the City of East Palo Alto) due to a \$150 million investment in Lehman Brothers. The loss had to be spread to all participants in the pool. The City's share of this investment loss was an estimated \$1.08 million. The loss will be allocated across various City funds and will be reflected in the second quarter of FY 2008-2009.
- In the Spring of calendar year 2009, two new retail stores are scheduled to open their doors in the Gateway 101 Redevelopment Project Area. These stores will be located in the space formerly occupied by the Home Expo Center which closed in 2006.
- By May 2009, the Redevelopment Agency is required to transfer approximately \$675,000 to the Educational Revenue Augmentation Fund (ERAF) as a result of the State's adopted budget impact on local government. The Agency is also expected to comply with AB 1389 which requires redevelopment agencies to make up millions in missed or unreported pass-through payments to schools and community colleges over the past five years. The Agency is currently reviewing the impact of this bill and may be required to make additional pass-through payments in the upcoming fiscal year.
- In late June 2008, San Mateo County Superior Court ruled that San Mateo County must refund the South San Francisco biotech firm Genentech a portion of its property taxes. The Superior Court judge determined the County had failed to act in a timely fashion on Genentech's appeals of its property tax evaluations dating back to 1994. Such failure to act led to the eventual court ruling that the County is to refund \$20 million to Genentech. The obligation for this tax refund to Genentech will be shared by various agencies in San Mateo County, including the City of East Palo Alto. It is estimated that the City will be required to pay approximately \$90,000.

Some of these factors were considered during preparation of the City's operating budget for FY 2008-09. Others occurred after the City had finalized its budget and, therefore, will have to be taken into account when it amends the FY08-09 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF EAST PALO ALTO

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 25,285,227	\$ 2,020,948	\$ 27,306,175
Receivables (net)	5,223,011	893,024	6,116,035
Deposits and prepayments	168,031	-	168,031
Restricted cash and investments	19,881,567	-	19,881,567
Property held for resale	537,429	-	537,429
Loans and notes receivable	7,005,152	-	7,005,152
Deferred charges	1,417,617	-	1,417,617
Capital assets:			
Nondepreciable	3,499,872	206,750	3,706,622
Depreciable, net of accumulated depreciation	<u>20,675,394</u>	<u>4,893,866</u>	<u>25,569,260</u>
Total assets	<u>83,693,300</u>	<u>8,014,588</u>	<u>91,707,888</u>
LIABILITIES			
Accounts payable	2,120,114	400,653	2,520,767
Accrued liabilities	691,925	-	691,925
Interest payable	590,799	-	590,799
Deposits	1,019,086	53,622	1,072,708
Unearned revenue	2,692,913	-	2,692,913
Advances from developers	284,190	-	284,190
Long-term liabilities:			
Due within one year	950,985	-	950,985
Due in more than one year	<u>43,908,670</u>	<u>-</u>	<u>43,908,670</u>
Total liabilities	<u>52,258,682</u>	<u>454,275</u>	<u>52,712,957</u>
NET ASSETS			
Invested in capital assets	24,175,266	5,100,616	29,275,882
Restricted for:			
Debt services	19,881,567	-	19,881,567
Highways and streets	3,725,541	-	3,725,541
Low and moderate income housing	10,937,302	-	10,937,302
Parks and recreation	1,379,246	-	1,379,246
Public safety	460,293	-	460,293
Unrestricted	<u>(29,124,597)</u>	<u>2,459,697</u>	<u>(26,664,900)</u>
Total net assets	<u>\$ 31,434,618</u>	<u>\$ 7,560,313</u>	<u>\$ 38,994,931</u>

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTION/PROGRAM ACTIVITIES:				
Governmental activities:				
General government	\$ 3,932,553	\$ 3,481	\$ 22,062	\$ 26,294
Public safety	8,935,880	186,210	1,193,056	29,330
Culture and recreation	700,497	11,808	110,360	1,024
Public works	3,063,920	121,665	1,823,171	3,360,220
Community development	3,603,493	1,211,953	66,130	-
Interest on long-term liabilities	2,618,397	-	-	-
Total governmental activities	<u>22,854,740</u>	<u>1,535,117</u>	<u>3,214,779</u>	<u>3,416,868</u>
Business-type activities:				
Garbage collection	1,895,331	1,895,698	-	-
Water service	524,709	885,986	-	-
Total business-type activities	<u>2,420,040</u>	<u>2,781,684</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 25,274,780</u>	<u>\$ 4,316,801</u>	<u>\$ 3,214,779</u>	<u>\$ 3,416,868</u>

GENERAL REVENUES:

Taxes:

Property tax

Transient occupancy tax

Utility users tax

Parcel tax

Nonregulatory franchise and business taxes

Contributions not restricted to specific programs:

Sales and use tax and sales tax in lieu

Motor vehicle in lieu fees

Unrestricted investment income

Other

Total general revenues

Change in net assets

NET ASSETS, BEGINNING OF YEAR,
AS PREVIOUSLY REPORTED

Prior period adjustment

NET ASSETS, BEGINNING OF YEAR, AS RESTATED

NET ASSETS, END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expenses) Revenues and
Changes in Net Assets

Governmental Activities	Business- type Activities	Total
\$ (3,880,716)	\$ -	\$ (3,880,716)
(7,527,284)	-	(7,527,284)
(577,305)	-	(577,305)
2,241,136	-	2,241,136
(2,325,410)	-	(2,325,410)
(2,618,397)	-	(2,618,397)
<u>(14,687,976)</u>	<u>-</u>	<u>(14,687,976)</u>
-	367	367
-	361,277	361,277
<u>-</u>	<u>361,644</u>	<u>361,644</u>
<u>(14,687,976)</u>	<u>361,644</u>	<u>(14,326,332)</u>
16,230,210	-	16,230,210
500,000	-	500,000
1,582,042	-	1,582,042
702,840	-	702,840
1,086,920	-	1,086,920
2,524,797	-	2,524,797
139,173	-	139,173
2,131,569	78,292	2,209,861
372,878	-	372,878
<u>25,270,429</u>	<u>78,292</u>	<u>25,348,721</u>
<u>10,582,453</u>	<u>439,936</u>	<u>11,022,389</u>
15,288,146	7,120,377	22,408,523
5,564,019	-	5,564,019
<u>20,852,165</u>	<u>7,120,377</u>	<u>27,972,542</u>
<u>\$ 31,434,618</u>	<u>\$ 7,560,313</u>	<u>\$ 38,994,931</u>

CITY OF EAST PALO ALTO
 Balance Sheet
 Governmental Funds
 June 30, 2008

	<u>General Fund</u>	<u>Low and Moderate Income Housing Special Revenue Fund</u>	<u>Redevelopment Agency Capital Projects Fund</u>
ASSETS:			
Cash and investments	\$ 6,151,807	\$ 3,914,665	\$ 6,205,160
Receivables:			
Accrued interest	61,118	86,920	45,990
Taxes	-	-	-
Intergovernmental	-	-	-
Other	392,095	-	-
Due from other funds	875,716	-	-
Deposits and prepayments	54,772	-	97,650
Restricted cash and investments	-	-	-
Advances to other funds	12,558,769	-	-
Property held for resale	-	-	537,429
Loans and notes receivable	-	6,600,000	60,000
	<u>\$ 20,094,277</u>	<u>\$ 10,601,585</u>	<u>\$ 6,946,229</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 621,777	\$ -	\$ 1,157,945
Retention payable	-	-	-
Deposits	916,481	-	102,605
Other accrued liabilities	471,705	-	37,284
Due to other funds	-	-	-
Deferred revenue	-	-	-
Advances from developers	1,175	-	283,015
Advances from other funds	-	-	12,558,769
	<u>2,011,138</u>	<u>-</u>	<u>14,139,618</u>
Fund balances (deficits):			
Reserved for:			
Advances to other funds	12,558,769	-	-
Capital projects	-	-	264,382
Debt service	-	-	-
Encumbrances	117,484	-	290,011
Loans and notes receivable	-	6,600,000	60,000
Property held for resale	-	-	537,429
Unreserved, reported in:			
General fund	5,406,886	-	-
Special revenue funds	-	4,001,585	-
Capital projects funds	-	-	(8,345,211)
	<u>18,083,139</u>	<u>10,601,585</u>	<u>(7,193,389)</u>
Total fund balances (deficits)	<u>\$ 20,094,277</u>	<u>\$ 10,601,585</u>	<u>\$ 6,946,229</u>
Total liabilities and fund balances	<u>\$ 20,094,277</u>	<u>\$ 10,601,585</u>	<u>\$ 6,946,229</u>

See accompanying notes to the basic financial statements.

Debt Service Fund	Nonmajor Governmental Funds	Total
\$ 1,190,554	\$ 7,823,041	\$ 25,285,227
-	-	194,028
-	145,956	145,956
-	2,605,042	2,605,042
-	1,885,890	2,277,985
-	-	875,716
-	15,609	168,031
19,881,567	-	19,881,567
-	50,000	12,608,769
-	-	537,429
-	345,152	7,005,152
<u>\$ 21,072,121</u>	<u>\$ 12,870,690</u>	<u>\$ 71,584,902</u>
\$ 2,235	\$ 713,157	\$ 2,495,114
-	182,936	182,936
-	-	1,019,086
-	-	508,989
-	875,716	875,716
-	3,203,159	3,203,159
-	-	284,190
-	50,000	12,608,769
<u>2,235</u>	<u>5,024,968</u>	<u>21,177,959</u>
-	50,000	12,608,769
-	-	264,382
21,069,886	-	21,069,886
-	87,801	495,296
-	696,214	7,356,214
-	-	537,429
-	-	5,406,886
-	6,945,927	10,947,512
-	65,780	(8,279,431)
<u>21,069,886</u>	<u>7,845,722</u>	<u>50,406,943</u>
<u>\$ 21,072,121</u>	<u>\$ 12,870,690</u>	<u>\$ 71,584,902</u>

CITY OF EAST PALO ALTO
 Reconciliation of the Balance Sheet of Governmental Funds to the
 Statement of Net Assets - Governmental Activities
 June 30, 2008

Fund balances - total governmental funds (page 21)		\$	50,406,943
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			24,175,266
Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the bonds for purposes of the statement of net assets.			1,417,617
Certain revenues in governmental funds are deferred because they are not collected within the prescribed period after year-end. However, the revenues are included on the accrual basis in the government-wide statements.			510,246
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental funds.			
Bonds payable	\$ (43,529,852)		
Accrued interest payable	(590,799)		
Compensated absences	(919,803)		
Claims and judgments	(35,000)		
	<u> </u>		<u>(45,075,454)</u>
Net assets of governmental activities (page 17)		\$	<u><u>31,434,618</u></u>

See accompanying notes to the basic financial statements.

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CITY OF EAST PALO ALTO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General Fund	Low and Moderate Income Housing Special Revenue Fund	Redevelopment Agency Capital Projects Fund
REVENUES:			
Taxes and assessments	\$ 12,608,576	\$ 1,571,513	\$ 6,286,051
Licenses and permits	695,105	-	-
Intergovernmental	230,815	-	-
Charges for services	1,503,740	-	-
Interest	746,177	199,276	183,769
Contributions and donations	56,793	-	-
Other	308,303	-	-
Total revenues	<u>16,149,509</u>	<u>1,770,789</u>	<u>6,469,820</u>
EXPENDITURES:			
Current:			
General government	3,013,614	-	706,663
Public safety	7,881,487	-	-
Culture and recreation	552,478	-	-
Public works	862,246	-	77,627
Community development	769,853	218,359	2,028,200
Capital outlay	24,124	-	149,836
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	661,766
Total expenditures	<u>13,103,802</u>	<u>218,359</u>	<u>3,624,092</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,045,707</u>	<u>1,552,430</u>	<u>2,845,728</u>
Other financing sources (uses):			
Transfers in	769,606	-	-
Transfers out	(266,079)	(567,077)	(1,871,008)
Total other financing sources (uses)	<u>503,527</u>	<u>(567,077)</u>	<u>(1,871,008)</u>
Net change in fund balances	3,549,234	985,353	974,720
Fund balances (deficits), beginning of year	14,533,905	9,616,232	(8,168,109)
Fund balances (deficits), end of year	<u>\$ 18,083,139</u>	<u>\$ 10,601,585</u>	<u>\$ (7,193,389)</u>

See accompanying notes to the basic financial statements.

Debt Service Fund	Other Funds	Total
\$ -	\$ 1,627,369	\$ 22,093,509
-	-	695,105
-	1,999,228	2,230,043
-	456,601	1,960,341
1,432,660	231,453	2,793,335
-	1,161,615	1,218,408
-	68,621	376,924
<u>1,432,660</u>	<u>5,544,887</u>	<u>31,367,665</u>
6,803	441,740	4,168,820
-	981,050	8,862,537
-	141,048	693,526
-	1,643,770	2,583,643
-	345,512	3,361,924
-	1,256,576	1,430,536
420,000	-	420,000
2,380,369	12,446	3,054,581
<u>2,807,172</u>	<u>4,822,142</u>	<u>24,575,567</u>
<u>(1,374,512)</u>	<u>722,745</u>	<u>6,792,098</u>
1,826,560	270,602	2,866,768
-	(162,604)	(2,866,768)
<u>1,826,560</u>	<u>107,998</u>	<u>-</u>
452,048	830,743	6,792,098
20,617,838	7,014,979	43,614,845
<u>\$ 21,069,886</u>	<u>\$ 7,845,722</u>	<u>\$ 50,406,943</u>

CITY OF EAST PALO ALTO
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2008

Net change in fund balances - total governmental funds (page 25)	\$	6,792,098
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$ 1,430,536	
Add net value for donated assets received	2,333,009	
Less current year depreciation	<u>(886,497)</u>	2,877,048
Revenues recognized in the governmental funds that were earned and recognized in previous years are reported as beginning net assets in the statement of activities.		398,285
Repayment of bond and long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bonds payable		420,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of deferred charges and bond issuance costs	(67,670)	
Amortization of bond premium, discounts, and loss on refundings	35,480	
Change in accrued interest	(193,392)	
Change in compensated absences	93,104	
Change in claims and judgments	(147,500)	
Claim amount recognized in the fund statements as due and payable	<u>375,000</u>	<u>95,022</u>
Change in net assets of governmental activities (page 19)	\$	<u><u>10,582,453</u></u>

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Fund Net Assets
Proprietary Funds
June 30, 2008

	<u>Garbage Collection</u>	<u>Water Service</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and investments	\$ 1,234,917	\$ 786,031	\$ 2,020,948
Receivables, net	<u>36,729</u>	<u>856,295</u>	<u>893,024</u>
Total current assets	<u>1,271,646</u>	<u>1,642,326</u>	<u>2,913,972</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable	-	206,750	206,750
Depreciable, net of accumulated depreciation	<u>-</u>	<u>4,893,866</u>	<u>4,893,866</u>
Total noncurrent assets	<u>-</u>	<u>5,100,616</u>	<u>5,100,616</u>
Total assets	<u>1,271,646</u>	<u>6,742,942</u>	<u>8,014,588</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	391,152	9,501	400,653
Noncurrent liabilities:			
Deposits	<u>-</u>	<u>53,622</u>	<u>53,622</u>
Total liabilities	<u>391,152</u>	<u>63,123</u>	<u>454,275</u>
NET ASSETS:			
Invested in capital assets	-	5,100,616	5,100,616
Unrestricted	<u>880,494</u>	<u>1,579,203</u>	<u>2,459,697</u>
Total net assets	<u>\$ 880,494</u>	<u>\$ 6,679,819</u>	<u>\$ 7,560,313</u>

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2008

	Garbage Collection	Water Service	Total
OPERATING REVENUES:			
Charges for services and other fees	\$ 1,560,549	\$ 885,986	\$ 2,446,535
Other	335,149	-	335,149
Total operating revenues	<u>1,895,698</u>	<u>885,986</u>	<u>2,781,684</u>
OPERATING EXPENSES:			
Ouside services	1,594,903	207,818	1,802,721
Administration	300,428	-	300,428
Depreciation	-	316,891	316,891
Total operating expenses	<u>1,895,331</u>	<u>524,709</u>	<u>2,420,040</u>
Operating income	367	361,277	361,644
NONOPERATING REVENUES:			
Interest	47,264	31,028	78,292
Change in net assets	47,631	392,305	439,936
Total net assets, beginning of the year	<u>832,863</u>	<u>6,287,514</u>	<u>7,120,377</u>
Total net assets, end of the year	<u>\$ 880,494</u>	<u>\$ 6,679,819</u>	<u>\$ 7,560,313</u>

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2008

	Garbage Collection	Water Service	Total
Cash flows from operating activities:			
Cash received from customers	\$ 1,883,969	\$ 163,059	\$ 2,047,028
Cash payment to suppliers for goods and services	(1,599,502)	(201,285)	(1,800,787)
Cash payment to employees for services	(281,847)	-	(281,847)
Net cash provided by (used in) operating activities	2,620	(38,226)	(35,606)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	-	(35,724)	(35,724)
Cash flows from investing activities:			
Interest received on investments	47,264	31,028	78,292
Net change in cash and cash equivalents	49,884	(42,922)	6,962
Cash and cash equivalents, beginning of year	1,185,033	828,953	2,013,986
Cash and cash equivalents, end of year	\$ 1,234,917	\$ 786,031	\$ 2,020,948
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 367	\$ 361,277	\$ 361,644
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation	-	316,891	316,891
Changes in operating assets and liabilities:			
Increase in:			
Receivables	(11,729)	(722,927)	(734,656)
Decrease in:			
Accounts payable	13,982	6,533	20,515
Net cash provided by (used in) operating activities	\$ 2,620	\$ (38,226)	\$ (35,606)

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Section 401 (a) Retirement	Section 401 (k) Retirement
ASSETS:		
Cash and investments with trustees:		
Money market funds	\$ 142,110	\$ 1,250,678
Mutual funds	106,383	493,974
Participant loans receivable	-	236,386
Total assets	248,493	1,981,038
 NET ASSETS:		
Held in trust for pension benefits	\$ 248,493	\$ 1,981,038

See accompanying notes to the basic financial statements.

CITY OF EAST PALO ALTO
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

	Section 401 (a) Retirement	Section 401 (k) Retirement
Additions:		
Contributions by employees	\$ -	\$ 29,630
Investment income and adjustment to fair value	(9,584)	29,118
Total additions	(9,584)	58,748
Deductions:		
Distributions	14,404	166,758
Administrative fees	144	31,418
Total deductions	14,548	198,176
Change in net assets	(24,132)	(139,428)
Total net assets, beginning of the year	272,625	2,120,466
Total net assets, end of the year	\$ 248,493	\$ 1,981,038

See accompanying notes to the basic financial statements.

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CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Reporting Entity

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

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

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

Blended Component Units

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

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

(b) Government-wide and Fund Financial Statements

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements of the reporting entity are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

(c) *Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. The government-wide statement of net assets and the statement of activities are presented using the economic resources measurement focus using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

In the governmental fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resource during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then use unrestricted resources as needed.

All proprietary funds are accounted for on an “economic resources” measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets. Pension trust funds are accounted for on the “flow of economic resources” measurement focus.

The governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Measurable means the amount of the transaction can be determined, and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts which could not be measured or were not available were not accrued as revenue in the current fiscal year.

Those revenues considered susceptible to accrual are franchise taxes, property taxes, grant revenues, and certain other intergovernmental revenues and interest. Fines, licenses, and permits are not susceptible to accrual because they are not measurable until received in cash.

Property taxes and interest are susceptible to accrual. Sales taxes collected and held by the State on behalf of the City for sales transactions occurring through June 30, 2008, are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include 1) charges to members, customers or applicants for foods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

Proprietary and pension trust funds are accounted for using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City reports the following major governmental funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. Significant sources of revenues are property taxes, sales and use taxes, investment earnings, and business licenses. Activities included are general government, public works, public safety, and culture and recreation.

The *Low and Moderate Income Housing Special Revenue Fund* is 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.

The *Capital Projects Fund* is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

The *Debt Service Fund* is 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.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise funds:

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

The *Water Service Fund* accounts for activities associated with providing water services.

In addition, the City reports Pension Trust Funds to account for assets by the City in a trustee capacity for others.

(d) Assets, Liabilities, Net Assets, and Budgeting

1. Cash and Investments

The City pools cash and investments from all sources, except the fiscal agent cash and investments, for the purpose of increasing income through investment activities. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

2. Investments Valuation

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Changes in market value and recognition of both realized and unrealized gains are recorded to investment income and are each individual components of investment income.

3. Property Taxes

State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value (\$1 per \$100 of assessed value) plus an additional amount for general obligation debt approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold or transferred. The state legislature has determined the method of distribution of receipts from the \$1.00 tax levy among the counties, cities, school districts and other districts.

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 amount of each year’s levy and in return receives all penalties and interest on delinquent payments.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/payables” (i.e. the current portion of interfund loans) or “advances to/from other fund” (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

5. 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.

6. Prepayments

Payments made for services that will benefit periods beyond June 30, 2008 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.

7. 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 realizable value is less than historical cost, the Agency adjusts the carrying value of the land to estimated realizable value and records the decline in value of land held for resale as an expenditure in the fund carrying the land as an asset.

8. 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.

Depreciation of capital assets in the proprietary funds and the government-wide financial statements has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Infrastructure	7 to 55 years
Buildings and improvements	30 years
Furniture, fixtures and equipment	5 to 10 years
Vehicles	5 years

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. 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.

10. Compensated Absences

Compensated absences are recorded as long-term obligations. This liability is reflected as a non-current liability in the government-wide financial statements. The proprietary funds do not accrue compensated absences because the City uses contract labor.

11. Fund Balance

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Fund balance reservations used by the City include:

- *Encumbrances* reflects balances for purchases of goods or services ordered, but not received.
- *Debt service* represents funds reserved for the payment of principal and interest on long-term debt.
- *Property held for resale* represents funds reserved for property that the Agency is holding for resale in the construction of capital projects.
- *Long-term advances and loans receivable* represents amounts, of a long-term nature that do not represent available, spendable resources.
- *Capital projects fund* represents amounts reserved for the acquisition and construction of major capital projects or facilities.

12. Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008, governmental activities net assets in the amount of \$712,090 are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Restatement of Net Assets

Based on the pass-through agreement entered into by the Agency in 1998 with the Menlo Park Fire District and East Palo Alto Sanitary District, the Agency is to pay 10.24% and 3.968%, respectively, of the tax increment received by the Agency from the University Circle Project Area to help defray the costs incurred. In the event that the Agency is not able to make the payment, the payment will be deferred to future years when tax increment is available. If the Agency has not repaid the balance by the time of the Agency's ability to collect tax increment revenues expires, then the unpaid balance will be forgiven. During fiscal year 2008, the Agency re-evaluated its assessment on the terms of the pass-through agreement and determined that the underpayment in prior years did not constitute as liabilities to the Agency. Instead, the agreements represent the Agency's commitment to pay when future tax increment was received. As a result, the June 30, 2007 beginning net assets were restated in the amount of \$5,564,019 representing the long term debt related to the pass-through agreements at June 30, 2007.

14. Effects of New Pronouncements

Effective July 1, 2007, the City adopted GASB Statement No. 50, *Pension Disclosures*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2009.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Application of this statement is effective for the City's fiscal year ending June 30, 2009.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

15. Use of Estimates

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

NOTE II – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) *Budgetary Policy and Control*

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 capital projects, which are adopted on a project length basis. Supplemental appropriations made during the fiscal year were not substantial.

The City does not budget for the Redevelopment Agency Debt Service Fund, therefore, a detailed budgetary comparison schedule has not been included for the Redevelopment Agency Debt Service Fund.

(b) *Deficit Fund Balance*

The Redevelopment Agency Capital Projects Fund has a deficit fund balance at June 30, 2008 in an amount of \$7,193,389 that is expected to be satisfied by future property taxes increment. The Federal and State Law Enforcement nonmajor fund has a deficit fund balance at June 30, 2008, in an amount of \$251,797 that is expected to be satisfied by future federal and state grant revenues received.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS

(a) Cash and Investments

Cash and investments are presented on the accompanying basic financial statements as of June 30, 2008 as follows:

Cash and investments	\$ 27,306,175
Cash and investments with fiscal agent	<u>19,881,567</u>
Total cash and investments	<u><u>\$ 47,187,742</u></u>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 6,400
Deposits with financial institutions	308,496
Investments	<u>46,872,846</u>
Total cash and investments	<u><u>\$ 47,187,742</u></u>

Custodial Credit Risk – Deposits

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. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial Credit Risk – Investments

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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Investments Authorized by the California Government Code and City’s Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of 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.

Investments Authorized 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of 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 Agreements	None	None	None

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Interest Rate and Credit 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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Generally, 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.

The City is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

A portion of the City's investments is with the San Mateo County Pooled Investment Funds (County Pool). The County Pool consists of U.S. government and agency securities, certificates of deposit, commercial papers, corporate bonds, asset-backed securities, floating rate securities, and deposits in LAIF as authorized by State statutes and the County investment policy. State statutes and the County's investment policy permit the use of a securities lending program with the County's principal custodian bank. At June 30, 2008, the securities loaned consisted of U.S. Treasury notes and bonds, and U.S. government agency securities. In return, the County received collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment. Collateral received was allocated to the pool participants based on their share in the pool. Additional information regarding deposit, investment risks (such as interest rate, credit, and concentration of credit risks), and securities lending transactions of the County Pool is presented in the notes of the County basic financial statements.

A summary of the City's investments at June 30, 2008 is shown below.

	Credit Rating	Fair Value	Investment Maturities (in years)			
			Less than 1	1 - 2	2 - 5	More than 5
Pooled investments:						
State Local Agency Investment Fund	Not rated	\$ 6,331,236	\$ 6,331,236	\$ -	\$ -	\$ -
San Mateo County Pooled Investments	A-	20,560,043	-	20,560,043	-	-
Nonnegotiable Certificate of Deposit	N/A	100,000	100,000	-	-	-
Subtotal pooled investments		26,991,279	6,431,236	20,560,043	-	-
Held with fiscal agent:						
Guaranteed Investment Agreement with General Electric Capital Funding	Not rated	16,678,833	-	16,678,833	-	-
Guaranteed Investment Agreement with Bear Stearns Capital Markets, Inc.	Not rated	1,966,397	-	-	-	1,966,397
Money market mutual fund	AAAm	1,236,337	1,236,337	-	-	-
Subtotal with fiscal agents		19,881,567	1,236,337	16,678,833	-	1,966,397
Total investments		\$ 46,872,846	\$ 7,667,573	\$ 37,238,876	\$ -	\$ 1,966,397

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Concentration of Credit 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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City's investments include a Guaranteed Investment Agreement issued by General Electric Capital Funding in the amount of \$16,678,833.

(b) Notes and Loans Receivable

A \$5,500,000 note receivable is payable by Nairobi Housing Associates. The \$5,500,000 loan made by the Agency to Nairobi Housing Associates was funded by a loan 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. The note bears interest at one percent per annum payable annually, and the entire principal amount is due 35 years after issuance of a certificate of occupancy for the related housing development. In addition, a \$1,100,000 note is from Nugent Square Partners, LLP at 1% per annum due January 2045.

The City also has a loan receivable of \$60,000 from a local property owner at 8% per annum due March 2014 and \$345,152 of Housing Assistance Loans from 28 homeowners.

(c) Property Held for Resale

The property held of resale balance at June 30, 2008 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.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

(d) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 868,381	\$ -	\$ -	\$ 868,381
Construction in progress	1,325,330	1,306,161	-	2,631,491
Total capital assets, not being depreciated	<u>2,193,711</u>	<u>1,306,161</u>	<u>-</u>	<u>3,499,872</u>
Capital assets, being depreciated:				
Infrastructure:				
Streets and roadways	31,558,903	1,083,009	-	32,641,912
Storm drain system	3,260,989	500,000	-	3,760,989
Buildings and improvements	3,949,233	762,373	-	4,711,606
Improvements other than buildings	2,853,577	43,251	-	2,896,828
Furniture, fixtures and equipment	1,204,014	51,711	-	1,255,725
Vehicles	1,109,716	17,040	-	1,126,756
Total capital assets, being depreciated	<u>43,936,432</u>	<u>2,457,384</u>	<u>-</u>	<u>46,393,816</u>
Less accumulated depreciation for:				
Infrastructure:				
Streets and roadways	(20,459,113)	(408,835)	-	(20,867,948)
Storm drain system	(1,967,176)	(82,304)	-	(2,049,480)
Buildings and improvements	(823,530)	(141,900)	-	(965,430)
Improvements other than buildings	(304,758)	(91,362)	-	(396,120)
Furniture, fixtures and equipment	(886,694)	(81,682)	-	(968,376)
Vehicles	(390,654)	(80,414)	-	(471,068)
Total accumulated depreciation	<u>(24,831,925)</u>	<u>(886,497)</u>	<u>-</u>	<u>(25,718,422)</u>
Total capital assets, being depreciated, net	<u>19,104,507</u>	<u>1,570,887</u>	<u>-</u>	<u>20,675,394</u>
Governmental activities capital assets, net	<u>\$ 21,298,218</u>	<u>\$ 2,877,048</u>	<u>\$ -</u>	<u>\$ 24,175,266</u>
Business-Type activities:				
Capital assets, not being depreciated:				
Land	\$ 206,750	\$ -	\$ -	\$ 206,750
Capital assets, being depreciated:				
Buildings and improvements	43,790	-	-	43,790
Improvements other than buildings	7,021,936	35,724	-	7,057,660
Furniture, fixtures and equipment	63,943	-	-	63,943
Vehicles	89,890	-	-	89,890
Total capital assets, being depreciated	<u>7,219,559</u>	<u>35,724</u>	<u>-</u>	<u>7,255,283</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,790)	-	-	(43,790)
Improvements other than buildings	(1,901,346)	(316,891)	-	(2,218,237)
Furniture, fixtures and equipment	(9,499)	-	-	(9,499)
Vehicles	(89,891)	-	-	(89,891)
Total accumulated depreciation	<u>(2,044,526)</u>	<u>(316,891)</u>	<u>-</u>	<u>(2,361,417)</u>
Total capital assets, being depreciated, net	<u>5,175,033</u>	<u>(281,167)</u>	<u>-</u>	<u>4,893,866</u>
Business-type activities capital assets, net	<u>\$ 5,381,783</u>	<u>\$ (281,167)</u>	<u>\$ -</u>	<u>\$ 5,100,616</u>

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$	14,825
Public safety		121,875
Culture and recreation		7,075
Public works		492,887
Community development		<u>249,835</u>
Total depreciation expense	\$	<u><u>886,497</u></u>

Capital Project Commitments

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

Project	Project Authorization	Expended through June 30, 2008	Committed
Bay Road Project Phase I	\$ 2,320,243	\$ 1,537,765	\$ 782,478
Stage 2A Improvements	585,668	561,970	23,698
Other projects	<u>961,935</u>	<u>531,756</u>	<u>430,179</u>
Total	<u><u>\$ 3,867,846</u></u>	<u><u>\$ 2,631,491</u></u>	<u><u>\$ 1,236,355</u></u>

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

(e) Interfund Balances and Transactions

Due from other funds and due to other funds amounts are current borrowings for working capital expected to be repaid during the following year. At June 30, 2008, the General Fund is due \$583,187, \$288,454, and \$4,075 from the Federal and State Law Enforcement nonmajor governmental fund, Federal and State Grants nonmajor governmental fund, and U.S. EPA nonmajor governmental fund, respectively.

Interfund advances are not expected to be repaid in the following fiscal year. At June 30, 2008, the outstanding balance of was comprised of two advances from the General Fund to the Redevelopment Agency Capital Projects Fund.

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, 2008, the Agency received proceeds of \$1,341,000 on the advance from the City. At June 30, 2008, the Agency's ending advance balance was \$5,956,400.

The second advance was for the funding of the Ravenswood High School Site that 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 ending advance balance at June 30, 2008 was \$6,602,369.

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

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

The City records transfers between funds for various purposes including operational grant transfers; debt service transfers; and program close-outs. During the year ended June 30, 2008, the City made the following fund transfers:

	Transfers In to			Total
	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	
Transfers Out from:				
General Fund	\$ -	\$ -	\$ 266,079	\$ 266,079
Low and Moderate Income Housing	-	567,077	-	567,077
Redevelopment Agency Capital Projects Fund	611,525	1,259,483	-	1,871,008
Other Nonmajor Governmental Funds	158,081	-	4,523	162,604
Total	<u>\$ 769,606</u>	<u>\$ 1,826,560</u>	<u>\$ 270,602</u>	<u>\$ 2,866,768</u>

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

(f) Long-Term Debt

A summary of changes in long-term debt during the year ended June 30, 2008, follows:

	Balance July 1, 2007 (as restated)	Additions	Retirements	Balance June 30, 2008	Due Within One Year
Redevelopment Agency Bonds:					
1999 Tax allocation bonds	\$ 16,760,000	\$ -	\$ (350,000)	\$ 16,410,000	\$ 370,000
2003 Tax allocation bonds	8,460,000	-	(70,000)	8,390,000	75,000
2005 Authority bonds	17,995,000	-	-	17,995,000	-
Unamortized premium, discounts, and loss on refundings	770,332	-	(35,480)	734,852	35,480
Total Redevelopment Agency	<u>43,985,332</u>	<u>-</u>	<u>(455,480)</u>	<u>43,529,852</u>	<u>480,480</u>
City of East Palo Alto:					
California Housing Finance					
Agency Loan Payable	520,350	-	(520,350)	-	-
Claims and judgments	262,500	147,500	-	410,000	375,000
Compensated absences	1,012,907	867,909	(961,013)	919,803	95,505
Total City of East Palo Alto	<u>1,795,757</u>	<u>1,015,409</u>	<u>(1,481,363)</u>	<u>1,329,803</u>	<u>470,505</u>
Total	<u>\$ 45,781,089</u>	<u>\$ 1,015,409</u>	<u>\$ (1,936,843)</u>	<u>\$ 44,859,655</u>	<u>\$ 950,985</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. Other Long-Term Obligations payments are primarily made from general revenues recorded in the General Fund.

Tax Allocation Bonds

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, 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, \$1,656,713 is held in a bond reserve fund with a trustee at June 30, 2008.

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, 2029. The serial bonds of \$4,795,000 were refunded by the 2003 issue.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

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, 2008, assuming no redemptions of the 1999 bonds other than scheduled mandatory sinking account redemption are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 370,000	\$ 1,048,167	\$ 1,418,167
2010	390,000	1,027,498	1,417,498
2011	410,000	1,005,088	1,415,088
2012	435,000	980,571	1,415,571
2013	460,000	953,938	1,413,938
2014-2018	2,765,000	4,292,628	7,057,628
2019-2023	3,780,000	3,239,546	7,019,546
2024-2028	5,205,000	1,766,061	6,971,061
2029-2030	2,595,000	174,735	2,769,735
Total	<u>\$ 16,410,000</u>	<u>\$ 14,488,232</u>	<u>\$ 30,898,232</u>

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.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Future debt service on the 2003A bonds at June 30, 2008, assuming no redemptions of the 2003A bonds other than scheduled mandatory sinking account redemption are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 15,000	\$ 251,250	\$ 266,250
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
2014-2018	80,000	1,234,231	1,314,231
2019-2023	105,000	1,212,319	1,317,319
2024-2028	130,000	1,184,125	1,314,125
2029-2033	4,670,000	817,000	5,487,000
Total	<u>\$ 5,060,000</u>	<u>\$ 5,697,925</u>	<u>\$ 10,757,925</u>

Future debt service on the 2003B bonds at June 30, 2008, assuming no redemptions of the 2003B bonds other than scheduled mandatory sinking account redemption are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 60,000	\$ 205,656	\$ 265,656
2010	65,000	202,658	267,658
2011	70,000	199,000	269,000
2012	70,000	195,206	265,206
2013	75,000	191,276	266,276
2014-2018	450,000	882,376	1,332,376
2019-2023	600,000	721,178	1,321,178
2024-2028	825,000	498,888	1,323,888
2029-2033	1,115,000	188,501	1,303,501
Total	<u>\$ 3,330,000</u>	<u>\$ 3,284,739</u>	<u>\$ 6,614,739</u>

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

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.

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.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE III – DETAILED NOTES ON ALL FUNDS (Continued)

Future debt service on the 2005 bonds at June 30, 2008, assuming no redemptions of the 2005 bonds other than scheduled mandatory sinking account redemption was:

Year ending June 30:	Principal	Interest	Total
2009	\$ -	\$ 846,644	\$ 846,644
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
2014-2018	3,520,000	3,523,322	7,043,322
2019-2023	4,425,000	2,604,335	7,029,335
2024-2028	5,600,000	1,390,500	6,990,500
2029-2030	2,650,000	134,250	2,784,250
Total	<u>\$ 17,995,000</u>	<u>\$ 11,793,357</u>	<u>\$ 29,788,357</u>

Loan from Other Government

The City entered into a \$1,000,000 loan agreement with the California Housing Finance Agency in September 2001. The agreement allows revolving borrowings by the City to finance acquisition of properties for affordable housing projects. The agreement provides for payment of 3% annual interest on outstanding balances. There is no specific payment schedule under this agreement through its expiration in 2011. During the year ended June 30, 2008, the City paid the outstanding balance and the balance at June 30, 2008 is \$0.

NOTE IV – OTHER INFORMATION

(a) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. ABAG Plan Corporation (ABAG PLAN) covers general liability claims in an amount up to \$5,000,000. The City has a deductible or uninsured liability of up to \$100,000 per claim. Once the City's deductible is met ABAG PLAN becomes responsible for payment of all claims up to the limit. The State Compensation Insurance Fund provides workers' compensation insurance with a \$1 million per occurrence coverage.

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 Basic Financial Statements
For the Year Ended June 30, 2008

NOTE IV – OTHER INFORMATION

Changes in the City’s claims liability during the fiscal years ended June 30, 2008 and 2007 were as follows:

	Claims Liability July 1	Current Year Claims and Changes in Estimates	Current Year Claims Payments	Claims Liability June 30
2007	\$ 355,000	\$ -	\$ 92,500	\$ 262,500
2008	262,500	147,500	-	410,000

The City will pay a settlement on one of the outstanding cases on July 3, 2008. The related liability in the amount of \$375,000 is recorded as part of the “accounts payable” financial statement caption in General Fund.

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.

(b) Operating Lease

The City leases building and office facility space under noncancellable operating leases. Total costs for such leases were \$415,159 for governmental activities and \$46,961 for business-type activities for the fiscal year ended June 30, 2008. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	Amount
2009	\$ 280,909
2010	271,409
2011	266,010
2012	260,909
2013	123,696
2014-2015	247,392
	\$ 1,450,325

(c) Joint Ventures

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

Through the operation of franchise agreements with each member, BFI Waste Systems of North America, Inc. collects fees charged for the use of the facilities and remits them to the SBWMA. Pursuant to an Operations Agreement with the SBWMA, BFI will operate the facilities and be paid compensation based on costs, a provision for profit and incentives for cost savings and performance.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE IV – OTHER INFORMATION (Continued)

The City does not maintain any equity interest in the SBWMA.

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.

Condensed financial information as of June 30, 2007 (the latest information available) for the SBWMA and the SFCJPA are presented below:

	The SBWMA	The SFCJPA
Total assets	\$ 43,147,315	\$ 121,837
Total liabilities	21,589,949	56,490
Total net assets	21,557,366	65,347
Total operating revenues	36,596,552	314,250
Total operating expenses	30,449,015	940,116
Total nonoperating revenues	454,541	575,210
Increase (decrease) in net assets	6,602,078	(50,656)

The respective financial statements of the SBWMA and the SFCJPA are available upon request from the City Finance Department.

(d) Retirement Plans

1. Plan Description 401(k)

Administration – The City maintains the East Palo Alto Retirement Plan (Plan), a single-employer, defined-contribution pension plan administered by the City.

General – On October 23, 1985, the City adopted a defined-contribution plan funded by employer and employee contributions. The contributions to the Plan are placed into the City of East Palo Alto Retirement Trust. The Plan was open to all eligible employees on their employment commencement date. As of January 1, 2001, this plan was replaced by California Public Employees Retirement System as the retirement plan for the City.

Contributions – The participants were permitted to defer a portion of compensation into the Plan. The deferral could be greater than 3.5%; however, the amount of deferral could not exceed 15% of compensation. The City no longer makes any contributions to the Plan on behalf of the employees. Participants forfeit their benefit from employer contributions to the extent that they terminate employment without becoming fully vested.

Participant Amounts – Each participant’s account is credited with the participant’s contribution, allocations of the City’s contribution, and the Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account.

Vesting – Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the City’s contribution portion of their accounts plus actual earnings thereon is 100 percent vested after five (5) years of credited services or if the participant reaches age 65 while an employee of the City or if the termination of employment with the City is due to death or complete disability.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE IV – OTHER INFORMATION (Continued)

Participant Notes Receivable – Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum \$50,000 or 50 percent of the vested interest of the participant's account. Each loan bears a reasonable rate of interest, which equals the rate of return commensurate with the prevailing interest rate charge on similar commercial loans. Loans shall be repaid within five (5) years from the date of the loan, unless the loan is used to acquire the participant's principal residence. All loans shall be repaid in amortized payments through payroll deduction. Each loan is secured by the participant's salary deferral account under the Plan.

Payment of benefits – Benefits under the Plan are distributable upon normal retirement at age 65 and termination of employment, disability, and death. Payments are made on single lump sum distribution equal to the value of the participant's vested interest in his or her account.

At June 30, 2008, there are 52 participants in the Plan. For the year ended June 30, 2008, \$29,630 was contributed by the employees to the Plan and total disbursement was \$166,758.

2. Internal Revenue Code Section 401(a) Plan

Effective January 1, 1997, the City established the Section 401(a) Plan (401(a) Plan), a qualified contribution plan. The City designated ICMA-RC, a third party administrator to administer the 401(a) Plan on behalf of the City. The employees vest upon joining the Plan. For the year ended June 30, 2008, no contribution was made to the 401(a) Plan by either the City or the employees, and total disbursement was \$14,404. At June 30, 2008, total 401(a) Plan assets were \$248,493.

3. California Public Employees Retirement System

Plan Description – In 2001 the City joined the California Public Employees Retirement System (CalPERS), and began to contribute to CalPERS's Miscellaneous 2.0% at 60 Risk Pool and Safety 2.0% at 55 Risk Pool, cost sharing multiple-employer defined benefit pension plans. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. CALPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CALPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

Funding Policy – Active plan members are required by State statute to contribute 7% of their annual covered salary. The City is required to contribute to the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CALPERS Board of Administration. The required employer contribution rate for fiscal year 2007-08 was 8.399% for miscellaneous employees and 13.027% for police employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The City's contributions to CALPERS for the years ended June 30, 2008, 2007 and 2006 were \$737,875, \$800,477, and \$794,025, respectively, equal to the required contributions for each year.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE IV – OTHER INFORMATION (Continued)

(e) ***Conduit Debt***

The Agency issued \$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 bonds are to be secured by the developer's project and related rental operations, and are not an obligation of the Agency. The balance outstanding as of June 30, 2008 is \$7,945,000.

(f) ***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, 2008, the Company paid lease payment, and franchise fee to the City in the amount of \$135,888, and \$163,835, respectively.

(g) ***Commitments and Contingencies***

Grant Programs

The City has received funds from various federal, state, and local grant programs. It is possible that at some future date it may be determined that the City was not in compliance with applicable grant requirements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

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 will pay to 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, 2008, the total commitment was \$3,865,386.

East Palo Alto Sanitary District – In 1988 the Agency entered into an agreement with the East Palo Alto Sanitary District (EPSD) whereby the Agency will pay to the EPSD 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 EPSD to provide wastewater transport facilities to the University Circle Project Area. At June 30, 2008, the total commitment was \$923,068.

CITY OF EAST PALO ALTO
Notes to Basic Financial Statements
For the Year Ended June 30, 2008

NOTE IV – OTHER INFORMATION (Continued)

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, 2008, the hotel collected \$3,858,217 in TOT, of which \$1,000,000 was sent to the City, leaving a net balance of \$2,858,217 million that was retained by the hotel developers. The Agency reimbursed the City's General Fund \$1,223,050 of the estimated \$2,858,217 current commitment, leaving a net commitment amount of approximately \$1,635,167. In 2009, the Agency budgeted to repay an additional \$668,000 of TOT to the City's General Fund.

NOTE V – SUBSEQUENT EVENTS

Investments in the San Mateo County Investment Pool

The credit crisis subsequent to June 30, 2008, moved beyond its origins in subprime mortgages and began to accelerate in September. The financial market experienced an unprecedented turbulence, and the values of most securities declined significantly. Given the volatility of the financial market, readers of financial statements must also consider the current financial information.

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) declared bankruptcy sending shockwaves throughout the global financial market. Its action had a direct, negative impact on the San Mateo County Investment Pool (County Pool) in an amount of approximately \$155 million as of September 30, 2008. The Lehman securities represented 6.0% of the \$2.6 billion County investment pool at cost as of September 30, 2008. The County Treasurer marked their investment in Lehman down to zero and charged all pool participant accounts a one-time expense based on their respective average daily cash balances to reflect the reduction in value. The City's share of this one-time expense is \$1,086,121.

Educational Revenue Augmentation Fund

On September 23, 2008, AB 1389 was signed into law requiring redevelopment agencies statewide to shift a one-time \$350 million of property tax increment to the State's Educational Revenue Augmentation Fund (ERAF) as a way to reduce the State's \$15.2 billion budget deficit for fiscal year 2008-09. The ERAF money will then be paid to schools and community colleges, relieving the State of payments. The Agency's share of this revenue shift is approximately \$671,000 and payment is to be made by May 10, 2009.

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CITY OF EAST PALO ALTO
 General Fund
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2008
 (Unaudited)

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund balance, beginning of year	\$ 12,674,812	\$ 12,758,937	\$ 14,533,905	\$ 1,774,968
Resources (inflows):				
Taxes and assessments	11,308,123	12,516,792	12,608,576	91,784
Licenses and permits	834,609	644,240	695,105	50,865
Intergovernmental	395,175	310,000	230,815	(79,185)
Charges for services	1,286,893	1,479,820	1,503,740	23,920
Interest	441,120	467,500	746,177	278,677
Contributions and donations	-	-	56,793	56,793
Other revenues	30,900	205,000	308,303	103,303
Transfers in	611,525	611,525	769,606	158,081
Amount available for appropriations	<u>14,908,345</u>	<u>16,234,877</u>	<u>16,919,115</u>	<u>684,238</u>
Charges to appropriations (outflows):				
Current:				
General government	2,701,773	2,722,724	3,013,614	(290,890)
Public safety	9,555,893	8,724,122	7,881,487	842,635
Culture and recreation	555,085	579,731	552,478	27,253
Public works	1,187,625	1,008,946	862,246	146,700
Community development	1,249,188	1,023,433	769,853	253,580
Capital outlay	156,500	148,562	24,124	124,438
Transfers out	296,644	1,390,184	266,079	1,124,105
Total charges to appropriations	<u>15,702,708</u>	<u>15,597,702</u>	<u>13,369,881</u>	<u>2,227,821</u>
Resources over (under) charges to appropriations	<u>(794,363)</u>	<u>637,175</u>	<u>3,549,234</u>	<u>2,912,059</u>
Fund balance, end of year	<u>\$ 11,880,449</u>	<u>\$ 13,396,112</u>	<u>\$ 18,083,139</u>	<u>\$ 4,687,027</u>

CITY OF EAST PALO ALTO
 Low and Moderate Income Housing Special Revenue Fund
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2008
 (Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Positive (Negative) Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Fund balance, beginning of year	\$ 9,616,232	\$ 9,616,232	\$ 9,616,232	\$ -
Resources (inflows):				
Taxes and assessments	1,424,735	1,521,560	1,571,513	49,953
Interest	-	-	199,276	199,276
Amount available for appropriations	<u>1,424,735</u>	<u>1,521,560</u>	<u>1,770,789</u>	<u>249,229</u>
Charges to appropriations (outflows):				
Current:				
Community development	248,361	216,841	218,359	(1,518)
Transfers out	<u>804,259</u>	<u>760,779</u>	<u>567,077</u>	<u>193,702</u>
Total charges to appropriations	<u>1,052,620</u>	<u>977,620</u>	<u>785,436</u>	<u>192,184</u>
Resources over charges to appropriations	<u>372,115</u>	<u>543,940</u>	<u>985,353</u>	<u>441,413</u>
Fund balance, end of year	<u>\$ 9,988,347</u>	<u>\$ 10,160,172</u>	<u>\$ 10,601,585</u>	<u>\$ 441,413</u>

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CITY OF EAST PALO ALTO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>NPDES Fees</u>	<u>Gas Tax</u>	<u>Federal and State Law Enforcement</u>	<u>Park in Lieu</u>
ASSETS				
Cash and investments	\$ 35,282	\$ 615,663	\$ -	\$ 928,773
Receivables:				
Taxes	-	145,956	-	-
Intergovernmental	-	-	985,993	-
Other	287	7,023	506	412,298
Deposits	-	-	-	-
Advances to other funds	-	-	-	-
Loans and notes receivable	-	-	-	-
Total assets	<u>\$ 35,569</u>	<u>\$ 768,642</u>	<u>\$ 986,499</u>	<u>\$ 1,341,071</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 778	\$ 54,543	\$ 300,039	\$ 5,221
Retention payable	-	-	-	-
Deferred revenue	-	-	355,070	412,298
Advances from other funds	-	-	-	-
Total liabilities	<u>778</u>	<u>54,543</u>	<u>1,238,296</u>	<u>417,519</u>
Fund balances:				
Reserved for:				
Advances from other funds	-	-	-	-
Encumbrances	-	-	-	-
Loans and notes receivable	-	-	-	-
Unreserved, reported in:				
Special revenue funds	34,791	714,099	(251,797)	923,552
Capital projects fund	-	-	-	-
Total fund balances	<u>34,791</u>	<u>714,099</u>	<u>(251,797)</u>	<u>923,552</u>
Total liabilities and fund balances	<u>\$ 35,569</u>	<u>\$ 768,642</u>	<u>\$ 986,499</u>	<u>\$ 1,341,071</u>

<u>Rent Stabilization</u>	<u>ISTEA Grant</u>	<u>Federal and State Grants</u>	<u>U.S. EPA</u>	<u>Housing in Lieu</u>	<u>Housing Assist</u>	<u>Public Improvements in Lieu</u>
\$ 422,718	\$ 639,807	\$ -	\$ -	\$ 320,103	\$ 54,891	\$ 357,295
-	-	-	-	-	-	-
-	-	462,594	4,075	-	-	-
3,243	-	130	-	2,670	-	1,427,077
-	-	-	-	12,944	-	-
-	-	-	-	-	-	-
-	-	-	-	-	345,152	-
<u>\$ 425,961</u>	<u>\$ 639,807</u>	<u>\$ 462,724</u>	<u>\$ 4,075</u>	<u>\$ 335,717</u>	<u>\$ 400,043</u>	<u>\$ 1,784,372</u>
\$ 27,384	\$ -	\$ 86,717	\$ -	\$ -	\$ -	\$ 6,233
-	-	-	-	-	-	-
-	-	27,938	-	-	-	1,427,077
-	-	-	-	-	-	-
<u>27,384</u>	<u>-</u>	<u>403,109</u>	<u>4,075</u>	<u>-</u>	<u>-</u>	<u>1,433,310</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	345,152	351,062
398,577	639,807	59,615	-	335,717	54,891	-
-	-	-	-	-	-	-
<u>398,577</u>	<u>639,807</u>	<u>59,615</u>	<u>-</u>	<u>335,717</u>	<u>400,043</u>	<u>351,062</u>
<u>\$ 425,961</u>	<u>\$ 639,807</u>	<u>\$ 462,724</u>	<u>\$ 4,075</u>	<u>\$ 335,717</u>	<u>\$ 400,043</u>	<u>\$ 1,784,372</u>

CITY OF EAST PALO ALTO
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2008

	Measure A	Local Grants	CYSFF Child/ Family	Lighting District
ASSETS				
Cash and investments	\$ 1,998,307	\$ 135,094	\$ 252,586	\$ 1,004,850
Receivables:				
Taxes	-	-	-	-
Intergovernmental	42,061	18,592	-	-
Other	17,353	-	1,957	9,184
Deposits	2,665	-	-	-
Advances to other funds	-	-	-	50,000
Loans and notes receivable	-	-	-	-
Total assets	<u>\$ 2,060,386</u>	<u>\$ 153,686</u>	<u>\$ 254,543</u>	<u>\$ 1,064,034</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,150	\$ 12,150	\$ -	\$ 23,923
Retention payable	62,454	-	-	-
Deferred revenue	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	<u>74,604</u>	<u>12,150</u>	<u>-</u>	<u>23,923</u>
Fund balances:				
Reserved for:				
Advances from other funds	-	-	-	-
Encumbrances	38,384	-	1,250	-
Loans and notes receivable	-	-	-	-
Unreserved, reported in:				
Special revenue funds	1,947,398	141,536	253,293	1,040,111
Capital projects fund	-	-	-	-
Total fund balances	<u>1,985,782</u>	<u>141,536</u>	<u>254,543</u>	<u>1,040,111</u>
Total liabilities and fund balances	<u>\$ 2,060,386</u>	<u>\$ 153,686</u>	<u>\$ 254,543</u>	<u>\$ 1,064,034</u>

<u>Drainage District</u>	<u>Measure C</u>	<u>Total Special Revenue</u>	<u>Capital Projects Capital Improvements</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 69,989	\$ 708,732	\$ 7,544,090	\$ 278,951	\$ 7,823,041
-	-	145,956	-	145,956
-	-	1,513,315	1,091,727	2,605,042
704	3,458	1,885,890	-	1,885,890
-	-	15,609	-	15,609
-	-	50,000	-	50,000
-	-	345,152	-	345,152
<u>\$ 70,693</u>	<u>\$ 712,190</u>	<u>\$ 11,500,012</u>	<u>\$ 1,370,678</u>	<u>\$ 12,870,690</u>
\$ 9,321	\$ 100	\$ 538,559	\$ 174,598	\$ 713,157
-	-	62,454	120,482	182,936
-	-	2,222,383	980,776	3,203,159
50,000	-	50,000	-	50,000
<u>59,321</u>	<u>100</u>	<u>3,749,112</u>	<u>1,275,856</u>	<u>5,024,968</u>
50,000	-	50,000	-	50,000
19,125	-	58,759	29,042	87,801
-	-	696,214	-	696,214
(57,753)	712,090	6,945,927	-	6,945,927
-	-	-	65,780	65,780
<u>11,372</u>	<u>712,090</u>	<u>7,750,900</u>	<u>94,822</u>	<u>7,845,722</u>
<u>\$ 70,693</u>	<u>\$ 712,190</u>	<u>\$ 11,500,012</u>	<u>\$ 1,370,678</u>	<u>\$ 12,870,690</u>

CITY OF EAST PALO ALTO
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008

	NPDES Fees	Gas Tax	Federal and State Law Enforcement	Park in Lieu
REVENUES:				
Taxes and assessments	\$ -	\$ 605,138	\$ -	\$ -
Intergovernmental	124,798	-	774,152	-
Charges for services	-	-	-	-
Interest	1,205	28,023	2,908	40,035
Contributions and donations	-	-	-	-
Other	-	-	-	-
Total revenues	<u>126,003</u>	<u>633,161</u>	<u>777,060</u>	<u>40,035</u>
EXPENDITURES:				
Current:				
General government	6,437	95,782	25,409	2,581
Public safety	-	-	946,167	-
Culture and recreation	-	-	-	5,221
Public works	104,528	649,003	-	-
Community development	-	-	110,491	-
Capital outlay	-	-	44,586	-
Debt service:				
Principal repayment	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>110,965</u>	<u>744,785</u>	<u>1,126,653</u>	<u>7,802</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,038</u>	<u>(111,624)</u>	<u>(349,593)</u>	<u>32,233</u>
Other financing uses:				
Transfers in	-	-	-	-
Transfers out	-	-	-	(40,035)
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,035)</u>
Net change in fund balances	15,038	(111,624)	(349,593)	(7,802)
Fund balances, beginning of year	<u>19,753</u>	<u>825,723</u>	<u>97,796</u>	<u>931,354</u>
Fund balances, end of year	<u>\$ 34,791</u>	<u>\$ 714,099</u>	<u>\$ (251,797)</u>	<u>\$ 923,552</u>

<u>Rent Stabilization</u>	<u>ISTEA Grant</u>	<u>Federal and State Grants</u>	<u>U.S. EPA</u>	<u>Housing in Lieu</u>	<u>Housing Assist</u>	<u>Public Improvements in Lieu</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	627,551	10,277	-	-	-
456,601	-	-	-	-	-	-
13,098	-	505	-	10,975	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>469,699</u>	<u>-</u>	<u>628,056</u>	<u>10,277</u>	<u>10,975</u>	<u>-</u>	<u>-</u>
164,486	-	73,246	10,277	-	-	-
-	-	34,883	-	-	-	-
-	-	40,845	-	-	-	-
-	-	373,296	-	-	-	-
222,077	-	-	-	12,944	-	-
-	-	29,330	-	-	-	13,522
-	-	-	-	-	-	-
-	-	-	-	-	12,446	-
<u>386,563</u>	<u>-</u>	<u>551,600</u>	<u>10,277</u>	<u>12,944</u>	<u>12,446</u>	<u>13,522</u>
83,136	-	76,456	-	(1,969)	(12,446)	(13,522)
-	-	-	-	111,153	43,774	-
-	-	(118,046)	-	-	-	-
-	-	(118,046)	-	111,153	43,774	-
83,136	-	(41,590)	-	109,184	31,328	(13,522)
<u>315,441</u>	<u>639,807</u>	<u>101,205</u>	<u>-</u>	<u>226,533</u>	<u>368,715</u>	<u>364,584</u>
<u>\$ 398,577</u>	<u>\$ 639,807</u>	<u>\$ 59,615</u>	<u>\$ -</u>	<u>\$ 335,717</u>	<u>\$ 400,043</u>	<u>\$ 351,062</u>

CITY OF EAST PALO ALTO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2008

	Measure A	Local Grants	CYSFF Child/ Family	Lighting District
REVENUES:				
Taxes and assessments	\$ -	\$ -	\$ -	\$ 251,623
Intergovernmental	462,450	-	-	-
Charges for current services	-	-	-	-
Interest	70,400	-	8,148	38,231
Contributions and donations	-	122,363	-	-
Other	-	-	-	67,966
Total revenues	<u>532,850</u>	<u>122,363</u>	<u>8,148</u>	<u>357,820</u>
EXPENDITURES:				
Current:				
General government	5,933	-	13,036	35,831
Public safety	-	-	-	-
Culture and recreation	34,924	60,058	-	-
Public works	28,946	44,715	-	338,566
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal repayment	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>69,803</u>	<u>104,773</u>	<u>13,036</u>	<u>374,397</u>
Excess (deficiency) of revenues over (under) expenditures	<u>463,047</u>	<u>17,590</u>	<u>(4,888)</u>	<u>(16,577)</u>
Other financing uses:				
Transfers in	-	-	115,675	-
Transfers out	-	-	(4,523)	-
Total other financing uses	<u>-</u>	<u>-</u>	<u>111,152</u>	<u>-</u>
Net change in fund balances	463,047	17,590	106,264	(16,577)
Fund balances, beginning of year	<u>1,522,735</u>	<u>123,946</u>	<u>148,279</u>	<u>1,056,688</u>
Fund balances, end of year	<u>\$ 1,985,782</u>	<u>\$ 141,536</u>	<u>\$ 254,543</u>	<u>\$ 1,040,111</u>

<u>Drainage District</u>	<u>Measure C</u>	<u>Total Special Revenue</u>	<u>Capital Projects Capital Improvements</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 67,768	\$ 702,840	\$ 1,627,369	\$ -	\$ 1,627,369
-	-	1,999,228	-	1,999,228
-	-	456,601	-	456,601
2,920	15,005	231,453	-	231,453
-	-	122,363	1,039,252	1,161,615
655	-	68,621	-	68,621
<u>71,343</u>	<u>717,845</u>	<u>4,505,635</u>	<u>1,039,252</u>	<u>5,544,887</u>
2,967	5,755	441,740	-	441,740
-	-	981,050	-	981,050
-	-	141,048	-	141,048
104,716	-	1,643,770	-	1,643,770
-	-	345,512	-	345,512
-	-	87,438	1,169,138	1,256,576
-	-	-	-	-
-	-	12,446	-	12,446
<u>107,683</u>	<u>5,755</u>	<u>3,653,004</u>	<u>1,169,138</u>	<u>4,822,142</u>
<u>(36,340)</u>	<u>712,090</u>	<u>852,631</u>	<u>(129,886)</u>	<u>722,745</u>
-	-	270,602	-	270,602
-	-	(162,604)	-	(162,604)
-	-	107,998	-	107,998
<u>(36,340)</u>	<u>712,090</u>	<u>960,629</u>	<u>(129,886)</u>	<u>830,743</u>
<u>47,712</u>	<u>-</u>	<u>6,790,271</u>	<u>224,708</u>	<u>7,014,979</u>
<u>\$ 11,372</u>	<u>\$ 712,090</u>	<u>\$ 7,750,900</u>	<u>\$ 94,822</u>	<u>\$ 7,845,722</u>