

ACCOUNTANTS' REPORT
AND
COMBINED FINANCIAL STATEMENTS

CITY OF EAST PALO ALTO

JUNE 30, 1984

MORRIS, DAVIS & COMPANY
Certified Public Accountants

CITY OF EAST PALO ALTO

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MORRIS · DAVIS & COMPANY

Certified Public Accountants

City Council Members
City of East Palo Alto, California

We have examined the combined financial statements of the City of East Palo Alto (the City) as of and for the year ended June 30, 1984, as listed in the accompanying table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note 6, the City did not have historical cost records of its general fixed assets that were inherited from the dissolved Ravenswood Recreation and Park District and, accordingly, a complete statement of general fixed assets required by generally accepted accounting principles is not included in the combined financial statements.

The City Council of East Palo Alto did not adopt annual budgets for the fiscal year ended June 30, 1984 for the governmental fund types and therefore, the combined statement of revenue, expenditures, and changes in fund balances - budget and actual - general and special revenue fund types is not presented in the accompanying financial statements as required by generally accepted accounting principles.

In our opinion, except for the effect on the combined financial statements of not recording general fixed assets at historical cost and the omission of the combined statements of revenue, expenditures, and changes in fund balances - budget and actual - general and special revenue fund types as explained in the two preceding paragraphs, the aforementioned combined financial statements present fairly the financial position of the City of East Palo Alto at June 30, 1984, and the results of its operations and changes in fund balances for the year then ended, in conformity with generally accepted accounting principles.

Morris, Davis & Company
December 17, 1984

CITY OF EAST PALO ALTO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1984

ASSETS	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	ACCOUNT GROUPS	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	
Cash in bank	\$ 220,123	\$101,387	\$	\$	\$	\$ 321,510
Cash with County (Note 3)	837,874	443,157	17,006			1,298,037
Receivables:						
Local Taxes	6,556					6,556
Interest	21,373	11,524	411			33,308
State Taxes	8,222	30,369				38,591
Other	550	7,217				7,767
Due from County of San Mateo (Note 5)			114,569			114,569
Due From Other Funds	22,453			10,908		33,361
Prepaid Expenses	1,786					1,786
Land and Improvements (Note 6)					873,463	873,463
Equipment (Note 6)					6,306	6,306
TOTAL ASSETS	<u>\$1,118,937</u>	<u>\$593,654</u>	<u>\$131,986</u>	<u>\$10,908</u>	<u>\$879,769</u>	<u>\$2,735,254</u>

See accompanying notes to combined financial statements.

CITY OF EAST PALO ALTO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1984

<u>LIABILITIES AND FUND EQUITY</u>	<u>GOVERNMENTAL FUND TYPES</u>			<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	
Liabilities:						
Accounts Payable	\$ 17,281	\$ 73,515	\$	\$	\$	\$ 90,796
Accrued Liabilities	9,058	725				9,783
Due to Other Taxing Agencies				10,908		10,908
Due to Other Funds	<u>10,908</u>	<u>22,453</u>				<u>33,361</u>
TOTAL LIABILITIES	<u>37,247</u>	<u>96,693</u>	<u>-</u>	<u>10,908</u>	<u>-</u>	<u>144,848</u>
Fund Equity:						
Investment in General Fixed Assets					879,769	879,769
Fund Balances:						
Reserved for Encumbrances		29,004				29,004
Unreserved:						
Designated for subsequent Year's Expenditures			131,986			131,986
Undesignated	<u>1,081,690</u>	<u>467,957</u>				<u>1,549,647</u>
TOTAL FUND EQUITY	<u>1,081,690</u>	<u>496,961</u>	<u>131,986</u>	<u>-</u>	<u>879,769</u>	<u>2,590,406</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$1,118,937</u>	<u>\$593,654</u>	<u>\$131,986</u>	<u>\$10,908</u>	<u>\$879,769</u>	<u>\$2,735,254</u>

See accompanying notes to combined financial statements.

CITY OF EAST PALO ALTO
 COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total (Memorandum Only)</u>
Revenue:				
Tax Apportionments:				
Property taxes (Note 4)	\$ 193,093	\$	\$	\$ 193,093
Home owners property tax relief	6,730			6,730
Business inventory property tax relief	9,637			9,637
State aid	670,993	407,306		1,078,299
Interest	68,267	27,612	1,485	97,364
Franchise fees	39,557			39,557
County aid (Note 7)	477,000			477,000
Refuse disposal fees		279,123		279,123
Park and recreation fees	5,961			5,961
Rental and concession	1,090			1,090
Fines	2,009			2,009
Miscellaneous	6,084	9,965		16,049
	<u>\$1,480,421</u>	<u>\$724,006</u>	<u>\$1,485</u>	<u>\$2,205,912</u>
Total Revenue				

See accompanying notes to combined financial statements.

CITY OF EAST PALO ALTO
 COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total (Memorandum Only)</u>
Expenditures:				
Salaries and wages	\$ 145,379	\$ 1,538	\$	\$ 146,917
Employee benefits	23,274			23,274
Contributions - other agencies	675			675
Communications	2,371			2,371
Election expense	14,502			14,502
Household expense	1,064			1,064
Insurance	16,214			16,214
Maintenance of equipment	3,282			3,282
Maintenance of structures and improvements	8,836			8,836
Judgement damages	472			472
Memberships	3,089			3,089
Office expense	16,213	247		16,460
Professional & specialized services	230,243	355,188		585,431
Publication & legal notices	947	40		987
Rental or lease of equipment	5,622			5,622
Transportation & travel	8,311	232		8,543
Utilities	12,966			12,966
Equipment	8,380			8,380
Special district expense	16,896			16,896
Miscellaneous	827			827
Total Expenditures	<u>519,563</u>	<u>357,245</u>	<u>-</u>	<u>876,808</u>
Excess Revenue Over Expenditures	960,858	366,761	1,485	1,329,104
Other financing sources:				
Transfer in from Ravenswood Recreation and Park District	<u>120,832</u>	<u>130,200</u>	<u>130,501</u>	<u>381,533</u>
Fund Balance - June 30, 1984:				
Excess revenue and other sources over expenditures	<u>\$1,081,690</u>	<u>\$496,961</u>	<u>\$131,986</u>	<u>\$1,710,637</u>

See accompanying notes to combined financial statements.

CITY OF EAST PALO ALTO
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 1984

NOTE 1 - DEFINITION OF FINANCIAL STATEMENT EQUITY

City of East Palo Alto, (the City) was incorporated on July 1, 1983 pursuant to Government Code Section 56450-56451 of the Executive Officer of the Local Agency Formation Commission (LAFCO) of San Mateo County, California and County of San Mateo, Board of Supervisors Resolution No. 44269.

The aforementioned Commission and Board of Supervisors also called for the dissolution of Ravenswood Recreation and Park District (the District) and San Mateo County Service Area No. 5 effective July 2, 1983 with all assets, liabilities and fund equity of the District to be transferred to the City as of that date. Also as of that date, activities formerly supported by the District came under the direction of the newly elected five-member City Council of the City of East Palo Alto.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation - Fund Accounting

The Accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. The various funds are summarized by type in the financial statements. Fund types and the account group utilized by the City are described below.

Governmental funds

- o General Fund: Established to account for all transactions not recorded in other funds. The current operations of the City are financed from this fund.
- o Special Revenue: Created to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specific purposes.

CITY OF EAST PALO ALTO
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 1984

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- o Capital Projects: Created to account for all financial resources to be used for the acquisition, improvement, or construction of major capital facilities.

Fiduciary Funds

- o Trust and Agency: Established to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Account Group

- o General Fixed Assets Account Group: This account group is established to account for recorded fixed assets of the City.

(b) Basis of Accounting

The City utilized the modified accrual basis of accounting. Under the modified accrual basis, expenditures are recorded when the liability is incurred, and revenues are recorded when susceptible to accrual, i.e., both measurable and available.

(c) Fund Equity

Fund balance consist of reserved and unreserved amounts. Portions of unreserved-undesignated fund balances may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change and the designated amounts may never be legally appropriated or result in expenditures.

NOTE 3 - CASH WITH COUNTY

Some of the cash of the respective funds is held by the County of San Mateo and is part of a pooled investment fund managed by the County treasurer. Interest earnings are based on an average daily cash balance.

CITY OF EAST PALO ALTO
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 1984

NOTE 4 - PROPERTY TAXES

The property taxes allocated by the County of San Mateo to the City for fiscal year 1983-84 consisted of entitlements that would have otherwise gone to the Ravenswood Park and Recreation District, a special district that was dissolved upon incorporation of the new city and absorbed by it effective July 2, 1983.

The calculation of the amount of property taxes transferred from the dissolved district was made in accordance with Section 54790.3 of the California Government Code, and is included in Resolution Number 671, adopted by the San Mateo County Local Agency Formation Commission on January 31, 1983, and Resolution Numbers 44269 and 44583, adopted by the San Mateo County Board of Supervisors on February 24, 1983 and June 14, 1983 respectively.

NOTE 5 - DUE FROM COUNTY OF SAN MATEO

This represents the amount due to the City's Capital Projects Fund resulting from the dissolved Ravenswood Recreation and Park District which was not transferred to the City as of June 30, 1984.

NOTE 6 - LAND AND IMPROVEMENTS AND EQUIPMENT

As mentioned in Note 1 above, the City inherited all assets of the dissolved Ravenswood Recreation and Park District effective July 1, 1983. The dissolved District did not have property and equipment records reflecting the historical cost of property and equipment acquired as of July 1, 1983. As a result, some assets were not valued or recorded. However, values of land and improvements and equipment presented on the combined balance sheet are composed of the following:

CITY OF EAST PALO ALTO
 NOTES TO COMBINED FINANCIAL STATEMENTS
 JUNE 30, 1984

(a) Land and improvements inherited from the dissolved District:

	<u>Donated Properties Estimated Values at June 30, 1957</u>	<u>Net Additions at Cost</u>	<u>Total</u>
Property situated at:			
550 Bell Street, East Palo Alto	\$179,400	\$626,947	\$806,347
Property known as:			
Jack Farrell Park, East Palo Alto	52,500	14,616	67,116
Totals	<u>\$231,900</u>	<u>\$641,563</u>	<u>\$873,463</u>

(b) Equipment purchases during current
 fiscal year (at cost) \$ 6,306

NOTE 7 - COUNTY AID

This represents the amount granted by the County of San Mateo for general start up costs of the City of \$468,000 and \$9,000 for City Council Members' stipends.

NOTE 8 - PENDING LITIGATION

Wilks et al. V. Mouton et al.: This litigation is an election contest challenging the outcome of the election which authorized incorporation of the City of East Palo Alto. The City prevailed in this matter in the trial in the Superior Court of San Mateo County. The contestants appealed. The judgment of the trial court was reversed in substantial measure in a two to one decision of a three judge panel on the California District Court of Appeal. The City filed a Petition for Hearing with the California Supreme Court. The California Supreme Court has granted the Petition for Hearing. The matter has been briefed and is awaiting oral argument and decision.

The City is responding to the litigation by contesting it vigorously.