REDEVELOPMENT AGENCY OF
THE CITY OF PALO ALTO
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2007
# Table of Contents

**Financial Section:**

*Independent Auditor's Report* ................................................................. 1

*Management's Discussion and Analysis* ...................................................... 3

*Component Unit Financial Statements:*

  Agency-wide Financial Statements:

  *Statement of Net Assets* ........................................................................ 5

  *Statement of Activities* ....................................................................... 6

Fund Financial Statements:

  *Balance Sheet* ....................................................................................... 8

  *Statements of Revenues, Expenditures, and Changes in Fund Balance* .... 9

  *Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual* .................................................. 10

  *Notes to Component Unit Financial Statements* .................................. 11

*Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* .................. 15
INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
Redevelopment Agency of the City of Palo Alto
Palo Alto, California

We have audited the accompanying component unit financial statements of the governmental activities and major fund of the Redevelopment Agency of the City of Palo Alto, a component unit of the City of Palo Alto, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Agency’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in Government 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 as to whether the component unit financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued reports October 12, 2007 on our consideration of the Agency’s internal control structure and on its compliance with laws and regulations.

In our opinion the component unit financial statements referred to above present fairly in all material respects the financial position of the governmental activities and major fund of the Redevelopment Agency of the City of Palo Alto for the year ended June 30, 2007 and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management’s Discussion and Analysis is not a required part of the basic component unit financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However we did not audit the information and we express no opinion on it.

October 12, 2007
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Redevelopment Agency (Agency) of the City of Palo Alto, a component unit of the City of Palo Alto is controlled by the City of Palo Alto and was formed on October 9, 2001.

FISCAL 2007 FINANCIAL HIGHLIGHTS-AGENCY-WIDE BASIS AND FUND BASIS

GASB 34 requires the issuance of Agency-wide financial statements as well as fund financial statements.

During fiscal year 2007, the Agency incurred on-going costs in the amount of $6 thousand, a $3 thousand decrease from prior year. The Agency received a transfer from the City of Palo Alto in the amount $6 thousand to fund these costs, a $3 thousand decrease from prior year. As of June 30, 2007, the Agency had not yet adopted a project area nor received any tax increment revenues.

OVERVIEW OF THE AGENCY’S BASIC FINANCIAL STATEMENTS

The Basic Financial statements are in two parts:
1) Management’s Discussion and Analysis (this part),
2) The Basic Financial Statements, which include the Agency-wide and the Fund financial statements, along with the Notes to these financial statements.

The Basic Financial Statements


The Agency-wide Financial Statements provide a longer-term view of the Agency’s activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the Agency’s revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the Agency’s program. The Statement of Activities explains in detail the change in Net Assets for the year.

The Fund Financial Statements report the Agency’s operations in more detail that the Agency-wide statements and focus primarily on the short-term activities. The Fund Financial Statements measure only current assets, liabilities and fund balances.

Together, all these statements are now called the Basic Financial Statements.
ECONOMIC OUTLOOK AND MAJOR INITIATES

The economy of the City of Palo Alto and its major initiatives for the coming year are discussed in detail in the City’s Comprehensive Annual Financial Report.

CONTACTING THE AGENCY’S FINANCIAL MANAGEMENT

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency’s finances. Questions about these Statements should be directed to the Finance Department of the City of Palo Alto, 250 Hamilton Avenue, CA 94301.
THE REDEVELOPMENT AGENCY OF THE CITY OF PALO ALTO  
A COMPONENT UNIT OF THE CITY OF PALO ALTO  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

<table>
<thead>
<tr>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
</tr>
</tbody>
</table>

| NET ASSETS                   |
| Unrestricted                 |

See accompanying notes to financial statements
THE REDEVELOPMENT AGENCY OF THE CITY OF PALO ALTO
A COMPONENT UNIT OF THE CITY OF PALO ALTO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

EXPENSES
Planning and Community
Reimbursements to the City

Change in Net Assets

($6,000)

(6,000)

GENERAL REVENUES
Transfers from the City of Palo Alto

Net assets at the beginning of year

6,000

Net assets at the end of year

See accompanying notes to financial statements
The Redevelopment Agency (Agency) of the City of Palo Alto only has one fund in fiscal 2007.

REDEVELOPMENT AGENCY GENERAL FUND

This fund accounts for the activities of establishing and administering the Agency.
LIABILITIES

Due to the City of Palo Alto

FUND BALANCES

Unreserved, undesignated

Total Fund Balance

Total Liabilities and Fund Balance

See accompanying notes to financial statements
THE REDEVELOPMENT AGENCY OF THE CITY OF PALO ALTO
A COMPONENT UNIT OF THE CITY OF PALO ALTO
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

<table>
<thead>
<tr>
<th>Account Description</th>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers in from the City of Palo Alto (Note 2)</td>
<td>$6,000</td>
</tr>
<tr>
<td>Transfers (out) to the City of Palo Alto (Note 2)</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Fund balance at beginning of year</td>
<td></td>
</tr>
<tr>
<td>Fund balance at end of year</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
THE REDEVELOPMENT AGENCY OF THE CITY OF PALO ALTO
A COMPONENT UNIT OF THE CITY OF PALO ALTO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

<table>
<thead>
<tr>
<th>Budgeted Amount</th>
<th>Actual Amount</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adopted</td>
<td>Adjusted</td>
</tr>
<tr>
<td>OTHER FINANCING SOURCES (USES)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in from the City of Palo Alto</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Transfers out to the City of Palo Alto</td>
<td>(9,000)</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Total Other Financing Sources (Uses)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Fund balance at beginning of year

Fund balance at end of year

See accompanying notes to financial statements
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. Organization and Purpose

The Redevelopment Agency (Agency) of the City of Palo Alto was created on October 9, 2001 under the provisions of the Redevelopment Law (California Health and Safety Code). The City Council serves as the governing body of the Agency and the City Manager serves as the Executive Director.

The Agency is an integral part of the City of Palo Alto and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City’s basic financial statements.

B. Basis of Presentation

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

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

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

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

Fund Financial Statements: The fund financial statements provide information about the Agency. The Agency considers the Redevelopment Agency General Fund to be a major fund.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. Major funds are identified and presented separately in the fund financial statements.

The Agency reported the following major governmental fund in the accompanying financial statements:
REDEVELOPMENT AGENCY GENERAL FUND

This fund accounts for the activities of establishing and administering the Redevelopment Agency.

D. Basis of Accounting

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

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

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

Other revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

E. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Budget amounts in the financial statements are as originally adopted, or as amended by the Board.

Formal budgetary integration is employed as a management control device. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year.

F. Net Assets

Net Assets is the excess of all the Agency’s assets over all its liabilities, regardless of fund. Net Assets, which is determined only at the Agency-wide level, and is described below:

Unrestricted describes the portion of Net Assets which is not restricted as to use.
G. Fund Balances, Reserves and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund’s cash and receivables, less its liabilities.

NOTE 2 – TRANSACTIONS WITH THE CITY

During fiscal year 2001-02, the City established the Redevelopment Agency. The Agency and the City have an agreement whereby the City will advance funds to the Agency in support of start up and formation costs. However, the interfund advances have no specific repayment date. Generally accepted accounting principles require that such amounts be treated as transfers in the year made.
REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Redevelopment Agency
of the City of Palo Alto, California

We have audited the financial statements of the Redevelopment Agency of the City of Palo Alto as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We have conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. As part of our audits, we prepared and issued our separate Memorandum on Internal Control dated October 12, 2007. Items considered to be significant deficiencies are included in a Schedule of Significant Deficiencies in that Memorandum.
Compliance and Other Matters

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

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

October 12, 2007
### Housing Need Production Form

**Organization:** City of Palo Alto  
**Contact:** Roland Rivera  
**Title:** Senior Planner  
**Address:** 250 Hamilton Avenue, Department of Planning and Community Environment  
**City:** Palo Alto  
**Zip:** 94301  
**Email:** roland.rivera@cityofpaloalto.org  
**Phone:** (650)329-2541

**Report year:** 2006-2007

**Report time period:**  
- [ ] Calendar Year (January 1 – December 31)  
- [x] Fiscal Year (July 1 – June 30)

#### Unit Count of Housing Produced

<table>
<thead>
<tr>
<th>State Identified Affordability Categories (Percent of area median income (AMI))</th>
<th>Current RHNA Allocation</th>
<th>Units Added Current Year Unrestricted</th>
<th>Deed Restricted</th>
<th>Total Units Added Current Year</th>
<th>Units Added in Prior Years of RHNA Cycle</th>
<th>Total Units Added Current RHNA Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low (up to 50% AMI)</td>
<td>265</td>
<td>56</td>
<td></td>
<td>56</td>
<td>158</td>
<td>214</td>
</tr>
<tr>
<td>Low (51 – 80% AMI)</td>
<td>116</td>
<td>2</td>
<td></td>
<td>2</td>
<td>128</td>
<td>130</td>
</tr>
<tr>
<td>Moderate (81 – 120% AMI)</td>
<td>343</td>
<td>82</td>
<td></td>
<td>82</td>
<td>52</td>
<td>134</td>
</tr>
<tr>
<td>Above Moderate (over 120% AMI)</td>
<td>673</td>
<td></td>
<td></td>
<td></td>
<td>549</td>
<td>1,955</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,397</strong></td>
<td><strong>689</strong></td>
<td></td>
<td><strong>1,744</strong></td>
<td></td>
<td><strong>2,433</strong></td>
</tr>
</tbody>
</table>

*Number of units added determined by building permits.  
See reverse for definitions of income categories included in this form.*

#### Optional: Locally Identified Affordability Categories

(Alternative affordability levels tracked by some jurisdictions: Limit information to title and definition of locally identified category. Place production numbers for these categories in appropriate affordability category above.)
Housing Need Production Form Description

California State Law mandates that each jurisdiction annually submit a report on the effectiveness of its housing element, on or before October 1. Reports are to be submitted to the jurisdiction’s local governing body, the Governor’s Office of Planning and Research, and the Department of Housing and Community Development (HCD) pursuant to Government Code Section 65400(b).

The Housing Need Production Form is part of an Association of Bay Area Governments effort to provide a tool to local jurisdictions to streamline reporting on housing unit production.

Report Time Period
Jurisdictions can report their housing production by either calendar (January 1 – December 31) or fiscal (July 1 – June 30) year. Whether to report by calendar or fiscal year will depend on a number of factors including format of existing records, deadlines for other mandated reports, and staff availability.

Allowable Housing Units
The reporting of housing unit production is defined by the types of housing that HCD allows to be counted toward meeting the Regional Housing Need Allocation (RHNA). HCD counts housing as a new dwelling unit if it meets the Department of Finance (DOF) functional definition for new units. Group housing cannot be counted toward meeting RHNA numbers. The following, provided by HCD, defines a housing unit:

- Housing Unit - A house, an apartment, a mobile home or trailer, a group of rooms, or a single room occupied as separate living quarters, or if vacant, intended for occupancy as separate living quarters. Separate living quarters are those in which the occupants live separately from any other individuals in the building and which have direct access from outside the building or through a common hall. For vacant units, the criteria of separateness and direct access are applied to the intended occupants whenever possible.

- Household – A household includes all the people who occupy a housing unit as their usual place of residence.

- Group Quarters (which cannot be counted) - The Census Bureau classifies all people not living in households as living in group quarters. There are two types of group quarters: institutional (for example, correctional facilities, nursing homes, and mental hospitals) and non-institutional (for example, college dormitories, military barracks, group homes, missions, and shelters).


Affordability Categories
The categories included in the proposed Housing Need Production Form are those required as part of the RHNA statute and are determined by household income: very low, low, moderate, and above moderate. Each affordability category is defined as a percent of the county area median income:

- **Very low income** – 50% or below of area median income
- **Low income** – between 51% and 80% area median income
- **Moderate income** – between 81% and 120% area median income
- **Above moderate income** – greater than 120% area median income

To determine the income levels (by household size) for each affordability category for your county, go to [www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html](http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html) for the latest version of the yearly *Official State Income Limits Report* produced by the Department of Housing and Community Development (HCD).
The State identified categories are based on the United States Department of Housing and Urban Development's (HUD) income categories developed for Federal housing programs. The State report includes the 'extremely low' category used by HUD so that local communities can submit applications to relevant Federal programs. However, since the RHNA process does not require that housing need be distributed to an 'extremely low' income category; units produced in this category should be included in the 'very low' income category.

**Process to Determine the Number of Units**
The reporting of new housing units produced is to be based on the number of building permits issued. Jurisdictions may base their tracking process on either building permits issued or finaled building permits. State DOF requests that jurisdictions report building permits issued. The State RDA and the Federal Government request that jurisdictions report on finaled building permit. A jurisdiction may choose which type of building permit they use for the form depending on which of the State/Federal reports they already track production for.

**Reporting Number of Units Produced**
The table on the Housing Need Production Form contains headings for five categories. These headings have been modified so that the production form can be used in any year of any RHNA cycle.

- **Current RHNA Allocation** – The number of housing units allocated to a jurisdiction for the current housing element cycle.

- **Units Added Current Year** – The number of housing units produced during the current reporting year. This category contains two sub-categories: Unrestricted and Deed Restricted
  - Unrestricted – The number of housing units produced without affordability restrictions.
  - Deed Restricted – The number of housing units produced that achieve their affordability through some form of legally binding restriction on the income levels of owners or tenants.

- **Total Units Added Current Year** – The sum of the number of housing units reported in the “Unrestricted” and “Deed Restricted” categories.

- **Units Added Prior Years of RHNA Cycle** – The total number of housing units produced in the previous years of the current RHNA cycle.

- **Total Units Added Current RHNA Cycle** – The sum of the number of housing units reported in the “Total Units Added Current Year” and “Units Added in Prior Years of RHNA Cycle” categories.

**Optional: Locally Identified Affordability Categories**
This section of the Housing Need Production Form is added as an option. It is for those jurisdictions that have developed, and track housing production within, one or more alternative affordability categories.

All production numbers should be incorporated into the table on the proposed form. It is recommended that the information provided in this section be limited to the title and definition of the locally identified categories (including percent of Area Median Income).

*Note: There are a number of locally identified income categories that some communities find useful in monitoring housing production in relation to the needs of its residents. These are optional categories that most jurisdictions do not use. If your jurisdiction does track one or more of these categories, include the number of new units produced in the appropriate State identified category on the proposed form.*