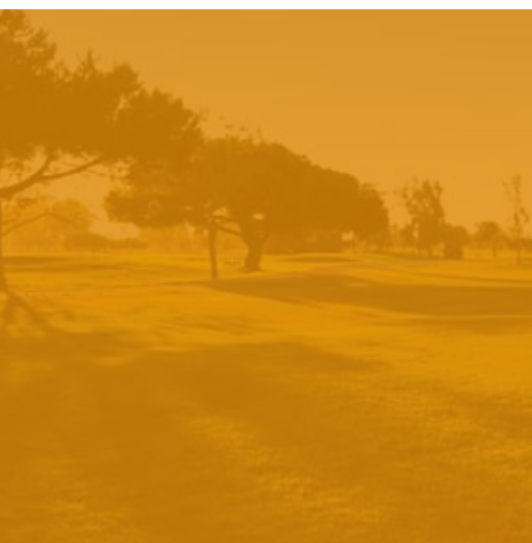
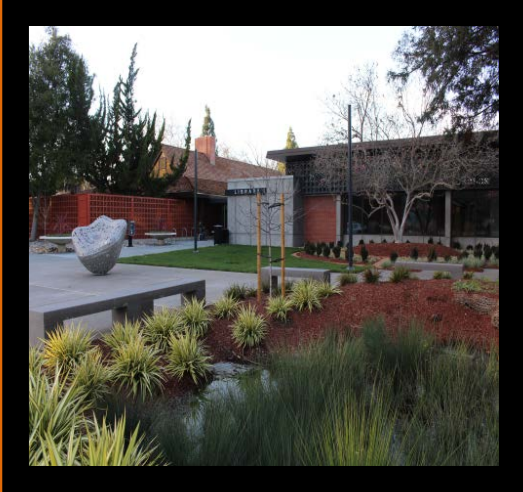


2015-2016 Comprehensive Annual Financial Report

City of Palo Alto, California

FISCAL YEAR ENDED: June 30, 2016





CITY OF PALO ALTO, CALIFORNIA



CITY OF
**PALO
ALTO**

2015-2016
Comprehensive
Annual
Financial Report
Fiscal Year Ended
June 30, 2016

Prepared by:
Administrative Services Department

CITY OF PALO ALTO
For the Year Ended June 30, 2016

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City of Palo Alto
Office of the City Manager

Transmittal Letter.....

November 2, 2016

THE HONORABLE CITY COUNCIL

Palo Alto, California

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

Members of the Council and Citizens of Palo Alto:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this CAFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Palo Alto's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants. The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). Macias Gini & O'Connell issued an unmodified opinion for the fiscal year ended June 30, 2016 audit. Their report is presented as the first component of the financial section of this report.

In addition, Macias Gini & O'Connell conducted the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, government's internal controls and compliance with legal requirements. These reports are included in the Single Audit section of the CAFR.

An overview of the City’s financial activities for the fiscal year is discussed in detail in the Management’s Discussion and Analysis (MD&A) section of the CAFR. MD&A complements this transmittal letter and should be read in conjunction with it.

CITY OF PALO ALTO PROFILE

Palo Alto was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, Palo Alto is a largely built-out community of approximately 67,000 residents. Palo Alto delivers a full range of municipal services and public utilities under the Council-Manager form of government, and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles, and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved state and national recognition for the excellence of its programs.



City Council: Council consists of nine members elected at-large for four year staggered terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council. Effective January 1, 2019, Council will be reduced from nine to seven members.

Finance Committee and Policy and Services Committee: While retaining the authority to approve all actions, Council has established two subcommittees to consider and make recommendations on matters relating to finance, budget, audits, capital planning and debt. Each of the subcommittees are comprised of four Council members. Staff provides the subcommittees and Council with reports such as the CAFR, quarterly budget-versus-actual results, and investment and performance measure reports, all of which are utilized in their review of the City’s financial position.

FISCAL/ECONOMIC CONDITIONS AND OUTLOOK

Employment Trends: The City of Palo Alto is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied and relatively stable employers such as Stanford University, Stanford Medical Center, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, Palantir and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. The City’s unemployment rate ended the year at 2.8 percent, 0.1 percent higher than the prior year. This compares to Santa Clara County’s unemployment rate of 4.0 percent, and the state’s unemployment rate of 5.7 percent.



Real Estate Market: In its most recent annual report, the Santa Clara County Assessor’s Office noted that Santa Clara County’s 2016/2017 assessment roll increased 7.9 percent, from \$388 billion to \$419 billion - “assessment roll growth during the past four years has exceeded the growth for the preceding ten years.” The assessment roll growth was balanced throughout the County, with the highest growth rates in Santa Clara and Mountain View. Palo Alto’s assessment roll growth rate was 8.6 percent, compared to 8.1 percent in the prior report. Property sales and new construction were the primary factors contributing to the robust growth. With its highly regarded school district, well-educated and high-income population, cultural amenities, and the presence of Stanford University, the City’s real estate activity continues to experience a pattern of high demand and short supply. The result of this continued pattern is reflected in the substantial increase in FY 2016 property tax revenue.

Local Trends: National, state, regional and local economic indicators point toward continuously improving economic growth. Economically sensitive revenue sources such as transient occupancy tax and documentary transfer tax remain strong, while sales tax revenue has levelled off. The robust local economy and job growth are also driving increases in other revenues, such as permit and license fees.

Looking forward, funding sources are sufficient to cover projected FY 2017 expenses, as written in the City’s Adopted Budget. The FY 2017 budget was balanced by utilizing several one-time solutions, with the goal of implementing long-term structural solutions as part of the FY 2018 budgeting process. Council adopted a General Fund budget with expenses of \$194.2 million for FY 2017, an increase of \$8.5 million, or 4.9 percent, from the prior year Adopted Budget. The increase is driven by increased investment in infrastructure, increased salary and benefits, and the addition of staff positions in response to community initiatives and Council priorities. In addition, a \$2.3 million cost for streetlight and traffic signal electricity has been shifted to the General Fund to increase alignment with fund purpose, and a Budget Uncertainty Reserve of \$2.0 million was created to provide flexibility for several capital and operating items that may require additional funding, such as the Golf Course renovation and rebuild of the Junior Museum and Zoo.

Pension and healthcare costs continue to dominate the conversation about long-term future costs. The most recent actuarial valuations show unfunded liabilities for pension and healthcare of \$495 million. The City has proactively taken steps over the past several years to mitigate increased costs by increasing employee contributions to the CalPERS retirement plan and capping the City’s share of healthcare premiums. Implementation of a second tier retirement plan in 2011 and adoption of the state-mandated third tier pension benefit plan in 2013 also helps mitigate future pension cost increases. New labor agreements include a provision for employees to start paying part of the City’s share of pension contributions in addition to the employee’s share. Further pension cost sharing with employees will be necessary to fund future cost increases. Council has approved the concept of funding a Section 115 Trust that is separate from CalPERS and would act as a mitigation reserve if the City were unable to meet its annual required contribution due to budget constraints in a given year.



As economic growth continues to flourish in this area of Silicon Valley, it also exacerbates the challenges of increased traffic and congestion, affordable housing, and demand for services. These issues were reflected in the setting of Council priorities for 2016:

- Built Environment: Housing, Parking, Livability, Mobility

- Infrastructure
- Healthy City, Healthy Community
- Completion of the Comprehensive Plan update

In keeping with these priorities, Council has approved implementation of strategies to address traffic congestion in the City: parking management (Residential Preferential Parking program, parking technology enhancements, garage wayfinding signage), transportation demand management (Transportation Management Association, enhanced shuttle services, CalTrain GoPass program for employees), and short and long-term parking supply strategies (valet parking, construction of new garages).

Council approved a \$125.8 million Infrastructure Plan, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. These projects will be funded partially by debt to be repaid with an increase in the transient occupancy tax (TOT) rate which went into effect in January 2015, TOT from newly opened hotels, and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The Plan was recently updated for scope increases and cost escalations, and a reserve of \$30 million for unanticipated costs and contingencies was added, resulting in a revised Infrastructure Plan of \$160 million. As a result of sound fiscal management and reserve policies, General Fund surpluses from FY 2012 through FY 2016 totaling \$32.6 million were transferred to the Infrastructure Reserve. An additional \$4.3 million from the FY 2016 surplus is proposed for transfer to the Infrastructure Reserve in FY 2017, for a total contribution of surplus funds of \$36.9 million over six years.

Rate increases will take effect in FY 2017 for electric, gas, water, wastewater, storm drain, and refuse services. Increases are necessary due to increased costs resulting from the prolonged drought and water conservation measures, treatment plant rehabilitation costs, and expanded recycling services.

Long Range Financial Forecast: The City produces a 10 year General Fund Long Range Financial Forecast (LRFF) annually. This comprehensive report analyzes local, state, and federal economic conditions, short and long-term revenue and expense trends, and addresses challenges such as funding long-term pension and healthcare liabilities and infrastructure needs. The forecast is designed to highlight finance issues which the City can address proactively. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time. It sets the tone for the annual budget process and is one of the many tools and reports that Council uses for financial planning.

The most recent LRFF indicates a financial shift downward for FY 2017 and out years due to rising pension and healthcare costs and increasing costs for Infrastructure Plan projects. The City maintains a General Fund Budget Stabilization Reserve (BSR) level of 15 to 20 percent of the General Fund operating budget, with a targeted goal of 18.5 percent. Council approval is required to set this reserve balance lower than 15 percent. As of June 30, 2016 the BSR balance is \$51.6 million, of which \$2.1 million has been approved by Council to set aside for establishment of a pension trust fund. Staff will bring forward recommendations for a further \$7.9 million of proposed BSR uses as part of the FY 2016 year-end close process. The remaining balance of \$41.6 million represents 21.4 percent of FY 2017 expenditures, and is \$5.7 million more than the 18.5 percent target balance for the BSR.



Both Moody’s and Standard and Poor’s (S&P) awarded their highest credit rating of Triple A to the City’s general obligation debt. This rating has been awarded to only a few cities in California.

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS



The City of Palo Alto is a community dedicated to meeting the social, cultural, recreational, educational, commercial and retail needs of its citizens and businesses. As such, open space, education, recreational facilities, cultural events and safe streets and neighborhoods are important aspects of the community and the City has been recognized for its accomplishments with a wide variety of awards and recognitions over the past year. Following is a sampling of those awards:

- Awarded gold level status as a Bicycle Friendly Community by the League of American Bicyclists based on a strong commitment to bicycling evidenced by major streets with bike lanes, high ratio of bike network mileage to road network mileage, and Bike to Work events;
- Earned a spot on the national Top 10 utility solar list compiled by the Smart Electric Power Alliance in recognition of third place for “Watts per Customer” installed in 2015; and
- Awarded Tree Line USA award by the National Arbor Day Foundation in recognition of the Utilities exceeding the standard criteria for quality tree care, annual worker training, tree planting and public education, a tree-based energy conservation program, and an Arbor Day celebration.

Awards: During the past year, the City received an award for the prior fiscal year CAFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2016 CAFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

Acknowledgments: This CAFR reflects the hard work, talent and commitment of the staff members of the Administrative Services Department. This document could not have been accomplished without their efforts and each contributor deserves sincere appreciation. Management wishes to acknowledge the support of Laura Kuryk, Accounting Manager, and the entire accounting staff for their high level of professionalism and dedication. Management would also like to express its appreciation to Macias Gini & O’Connell, the City’s independent external auditors, who assisted and contributed to the preparation of this Comprehensive Annual Financial Report.

Special acknowledgment must be given to City Council and the Finance and Policy and Services Committees for their dedication to directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,

LALO PEREZ,
Chief Financial Officer

JAMES KEENE,
City Manager

City of Palo Alto City Officials

City Council
Patrick Burt, **Mayor**
Gregory Scharff, **Vice-Mayor**
Marc Berman
Tom DuBois
Eric Filseth
Karen Holman
Liz Kniss
Greg Schmid
Cory Wolbach

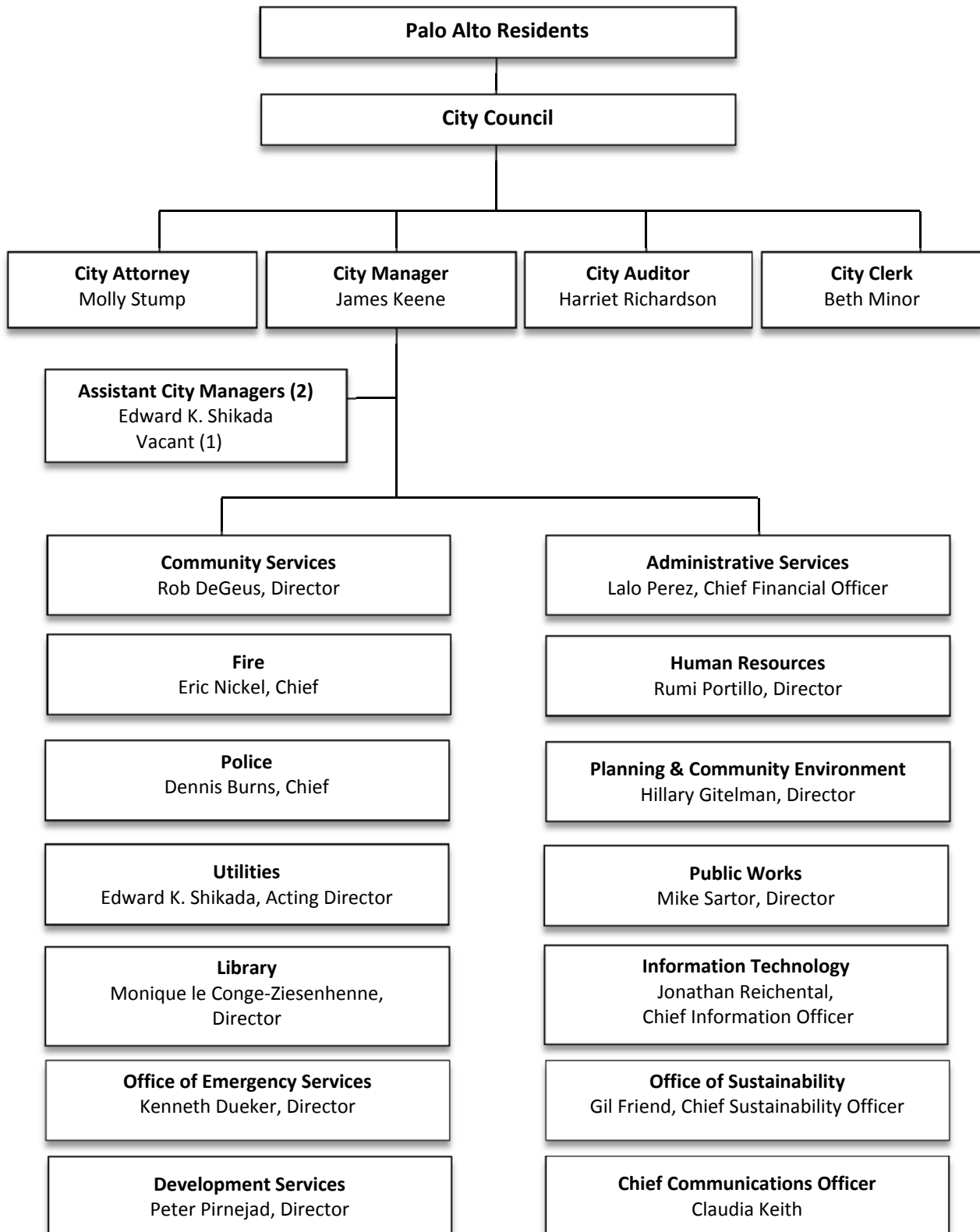
Finance Committee
Eric Filseth, **Chair**
Karen Holman
Greg Schmid
Cory Wolbach

Policy and Services Committee
Tom DuBois, **Chair**
Marc Berman
Liz Kniss
Gregory Scharff

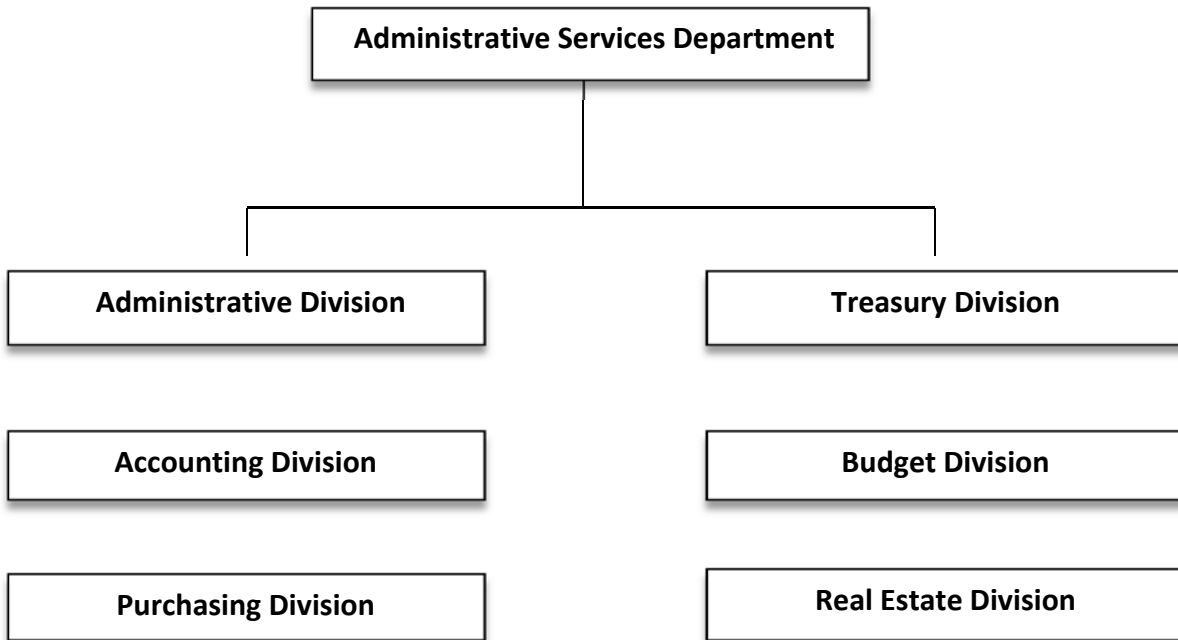
Council-Appointed Officers
City Manager
James Keene
City Attorney
Molly Stump
City Clerk
Beth Minor
City Auditor
Harriet Richardson



City of Palo Alto Organization



Administrative Services Organization



Mission Statement

To provide proactive administrative and technical support to City departments and decision makers, and to safeguard and facilitate the optimal use of City resources.



*Government Finance Officers Association of
the United States and Canada – Award*



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Palo Alto
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Independent Auditor's Report

Honorable Mayor and the Members
of the City Council of
City of Palo Alto, California

Report on the Financial Statements

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 Palo Alto, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in the net pension liability and related ratios and the schedules of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, statistical section and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*., are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 2, 2016

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Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's financial performance for the fiscal year ended June 30, 2016. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2016 by \$1,190.8 million. Of this amount, \$200.7 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of FY 2016, the City's governmental funds reported combined fund balances of \$245.7 million, an increase of \$21.1 million from prior year. Approximately 21.0 percent of this amount, or \$51.6 million, is unassigned fund balance and available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$59.8 million, or 33.3 percent of total general fund expenditures, including transfers.
- The City's total outstanding long-term debt decreased by \$11.4 million during the current fiscal year due to scheduled debt retirement in the amount of \$6.3 million and defeased debt of \$5.1 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal Letter and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to these statements
- Supplemental Information
- Statistical Information
- Single Audit



Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements and the Notes to these financial statements. This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

For certain entities and funds, the City acts solely as a depository agent. For example, the City has several Assessment Districts for which it produces fiduciary statements detailing the cash balances and activities of these districts. These entities are independent, and their balances are excluded from the City's government-wide financial statements.

Government-wide Financial Statements

The Government-wide Financial Statements provide a longer-term view of the City's activities as a whole. They include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes the City's capital assets and long-term liabilities on a full accrual basis of accounting similar to that used by private sector companies. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities provides information about the City's revenues and expenses on a full accrual basis, with an emphasis on measuring net revenues or expenses for each of the City's programs. The Statement of Activities explains in detail the change in net position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type Activities in order to provide a summary of each type of activity.

Governmental Activities - All of the City's basic services are considered to be governmental activities. Included in basic services are the City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, Human Resources, Public Works, Planning and Community Environment, Development Services, Public Safety, Community Services, and Library. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees and grants.

The City's governmental activities also include the activities of the Palo Alto Public Improvement Corporation, which is a separate legal entity financially accountable to the City.

Business-type Activities - All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges, except for the Airport which is currently supported by a long-term advance from the General Fund, as discussed in Note 4.

The Government-wide Financial Statements can be found on pages 29-31 of this report.



Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by Governmental Accounting Standards Board (GASB) Statement No. 34 and replaced the concept of combining like funds and presenting them in total. Therefore, each major fund is presented individually, with all non-major funds combined in a single column on each fund statement. Subordinate schedules display these non-major funds in more detail. Major funds present the major activities of the City for the year. The General Fund is always considered a major fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Their focus is primarily on the short-term activities of the City's General Fund and other major funds such as Capital Projects, Water Services, Electric Services, Fiber Optics, Gas Services, Wastewater Collection Services, Wastewater Treatment Services, Refuse Services and Storm Drainage Services.

Budget and actual financial comparison information is presented only for the General Fund.

Fund Financial Statements include Governmental, Enterprise, Internal Service and Agency Funds.

Governmental Funds

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2016, the City had two major governmental funds, the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental section of this report.

Because the focus of governmental funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Governmental Fund Financial Statements can be found on pages 33-37 of this report.

Proprietary Funds

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, similar to that used by private sector companies. These statements include all of their assets, deferred outflows and inflows of resources, and liabilities, both current and long-term.

Since the City's Internal Service Funds provide goods and services exclusively to the City's governmental and business-type activities, their activities are only reported in total at the fund level. Internal Service Funds, such as Technology and General Benefits, cannot be considered major funds because their revenues are derived from other City funds. Revenues between funds are eliminated in the Government-wide Financial



Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual net assets of the Internal Service Funds.

The Proprietary Fund Financial Statements can be found on pages 38-43 of this report.

Fiduciary Funds

The City is the fiduciary agent for certain assessment districts such as the University Avenue Area Off-Street Parking Assessment District. In this role, the City holds money collected from property owners and awaiting transfer to the districts' bond trustees. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position and the supplemental Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot utilize these assets to finance its own operations.

The Fiduciary Fund Financial Statements can be found on page 44 of this report.

Notes to the Financial Statements

The Notes provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 47-103 of this report.

Other Information

The Required Supplementary Information related to the City's pension plans is included after the Notes to the Financial Statements on pages 105-108. The combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information. Combining statements and individual fund statements and schedules can be found on pages 109-134 of this report.

Financial Analysis of Government-wide Financial Statements

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ending June 30, 2016. As noted earlier, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$1,190.8 million at the end of the fiscal year, an improvement in net position of \$59.1 million.

STATEMENT OF NET POSITION
As of June 30, 2016
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2016	2015	2016	2015	2016	2015
Cash and investments	\$ 295.0	\$ 280.9	\$ 244.7	\$ 253.7	\$ 539.7	\$ 534.6
Other assets	62.3	57.2	35.3	39.2	97.6	96.4
Capital assets	496.0	485.2	576.8	558.5	1,072.8	1,043.7
Total Assets	853.3	823.3	856.8	851.4	1,710.1	1,674.7
Unamortized loss from refunding	-	-	0.3	0.4	0.3	0.4
Pension related	21.2	19.2	9.4	8.1	30.6	27.3
Total Deferred Outflows of Resources	21.2	19.2	9.7	8.5	30.9	27.7
Net pension liabilities	230.1	208.8	89.5	81.1	319.6	289.9
Long-term debt	71.5	78.8	68.1	72.2	139.6	151.0
Other liabilities	48.1	54.3	24.0	24.7	72.1	79.0
Total Liabilities	349.7	341.9	181.6	178.0	531.3	519.9
Pension related	13.7	36.7	5.1	14.1	18.8	50.8
Total Deferred Inflows of Resources	13.7	36.7	5.1	14.1	18.8	50.8
Net Position						
Net investment in capital assets	425.2	405.9	512.9	490.9	938.1	896.8
Restricted	47.9	56.0	4.1	4.1	52.0	60.1
Unrestricted	37.9	2.0	162.8	172.8	200.7	174.8
Total Net Position	\$ 511.0	\$ 463.9	\$ 679.8	\$ 667.8	\$ 1,190.8	\$ 1,131.7

The largest portion of the City's net position (78.8 percent) is its investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (4.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$200.7 million, representing 16.8 percent of the City's net position, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive unrestricted net positions both for the government as a whole and for its separate governmental and business-type activities, except for the following three funds:

- Wastewater Treatment Fund \$2.1 million deficit due to pension related items;
- Airport Fund \$2.3 million deficit due to cumulative operating losses; and
- Printing and Mailing Services Fund \$0.3 million deficit due to pension related items.

Components of the \$59.1 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities – Net Position

The following analysis focuses on the net position and changes in net position of the City's Governmental Activities, presented in the Government-wide Statement of Net Position and Statement of Activities.

GOVERNMENTAL ACTIVITIES

Net Position at June 30

(in millions)

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 295.0	\$ 280.9	\$ 14.1
Other assets	62.3	57.2	5.1
Capital assets	<u>496.0</u>	<u>485.2</u>	<u>10.8</u>
Total Assets	<u>853.3</u>	<u>823.3</u>	<u>30.0</u>
Pension related	<u>21.2</u>	<u>19.2</u>	<u>2.0</u>
Total Deferred Outflows of Resources	<u>21.2</u>	<u>19.2</u>	<u>2.0</u>
Net pension liabilities	230.1	208.8	21.3
Long-term debt	71.5	78.8	(7.3)
Other liabilities	<u>48.1</u>	<u>54.3</u>	<u>(6.2)</u>
Total Liabilities	<u>349.7</u>	<u>341.9</u>	<u>7.8</u>
Pension related	<u>13.7</u>	<u>36.7</u>	<u>(23.0)</u>
Total Deferred Inflows of Resources	<u>13.7</u>	<u>36.7</u>	<u>(23.0)</u>
Net Position			
Net investment in capital assets	425.2	405.9	19.3
Restricted	47.9	56.0	(8.1)
Unrestricted	<u>37.9</u>	<u>2.0</u>	<u>35.9</u>
Total Net Position	<u>\$ 511.0</u>	<u>\$ 463.9</u>	<u>\$ 47.1</u>



The City's Governmental Activities total net position increased \$47.1 million to \$511.0 million as of June 30, 2016. This increase was a result of the following:

- Cash increased \$14.1 million due to a higher cash position in the Capital Projects Fund as a result of higher operating transfers in and lower capital expenditures due to completion of major Library projects in the prior year.
- Capital assets net of depreciation increased \$10.8 million due to major capital projects such as El Camino Park improvements, and street and sidewalk improvements throughout the City.
- Long-term debt decreased \$7.3 million due to scheduled debt repayments of \$2.2 million, and defeased payments of \$5.1 million on the General Obligation Bonds using funds from bond premium and project savings.
- Other liabilities decreased \$6.2 million due to lower accounts payable balances because of completion of Library projects, and to current year reduction of deposits held for Transfer Development Rights.
- Net investment in capital assets increased \$19.3 million to \$425.2 million. Restricted net position decreased \$8.1 million to \$47.9 million due primarily to expenditure of remaining bond proceeds for Library project expenses and defeasance of bonds. Unrestricted net position increased by \$35.9 million to \$37.9 million as a result of lower capital expenditures in the Capital Projects Fund and increased fund balance of \$7.7 million in the Housing-in-Lieu Funds. Unrestricted net position represents current net assets available to finance subsequent year operations and other expenditures approved by City Council.

Governmental Activities – Revenues

The table below shows that Governmental Activities revenues totaled \$193.3 million in FY 2016, an increase of \$7.5 million from prior year revenues of \$185.8 million.

GOVERNMENTAL ACTIVITIES			
Revenues for the Year Ended June 30			
(in millions)			
Revenues by Source	2016	2015	Increase/ (Decrease)
Program Revenues:			
Charges for services	\$ 67.4	\$ 63.5	\$ 3.9
Operating grants and contributions	2.2	5.3	(3.1)
Capital grants and contributions	0.3	0.6	(0.3)
Total Program Revenues	69.9	69.4	0.5
General Revenues:			
Property tax	41.2	38.8	2.4
Sales tax	30.0	29.7	0.3
Utility user tax	12.4	10.9	1.5
Transient occupancy tax	22.4	16.7	5.7
Documentary transfer tax	6.3	10.4	(4.1)
Other tax	1.6	1.5	0.1
Investment earnings	8.6	5.0	3.6
Rents and miscellaneous	0.9	3.4	(2.5)
Total General Revenues	123.4	116.4	7.0
Total Revenues	\$ 193.3	\$ 185.8	\$ 7.5

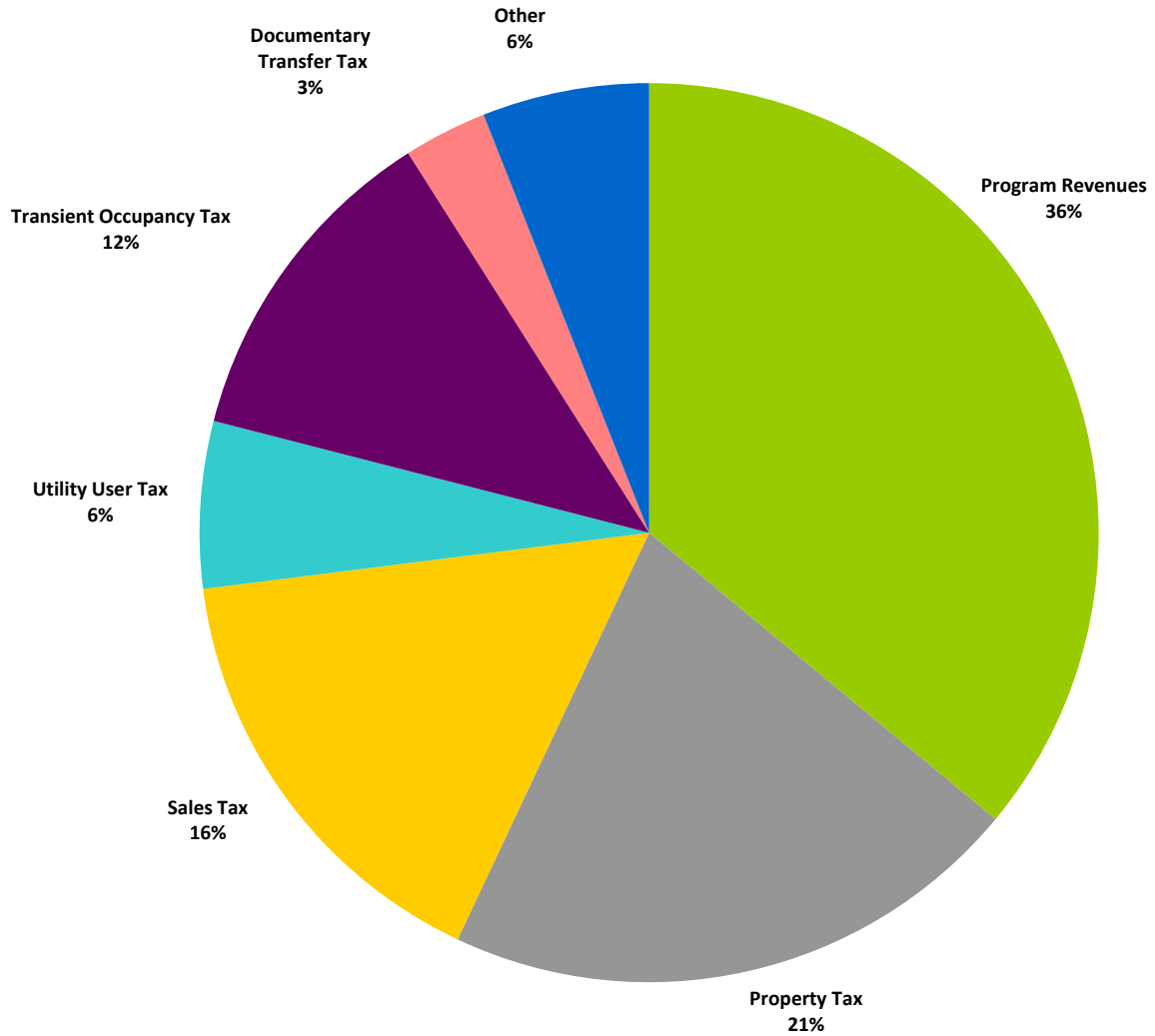
Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$0.5 million from the prior year.

General Revenues increased \$7.0 million, or 6.0 percent, from the prior year primarily due to increased General Fund tax revenues. Further analysis of general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.



Governmental Activities – Revenues by Source

The chart below presents revenues by source for Governmental Activities. General Revenues are composed of taxes and other revenues not specifically generated by, or restricted to, individual activities. All tax revenues and investment earnings are included in General Revenues.



Governmental Activities – Expenses

The table below presents a comparison of FY 2016 and FY 2015 expenses by function, along with interest and other expense. Total Governmental Activities functional expense was \$164.9 million in FY 2016, an increase of \$13.5 million.

GOVERNMENTAL ACTIVITIES
Expenses and Change in Net Position for the Year Ended June 30
(in millions)

<u>Activities</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
City Council	\$ 0.4	\$ 0.3	\$ 0.1
City Manager	2.7	2.2	0.5
City Attorney	2.5	1.8	0.7
City Clerk	0.6	0.7	(0.1)
City Auditor	0.4	0.4	0.0
Administrative Services	10.6	10.0	0.6
Human Resources	2.2	1.4	0.8
Public Safety	56.6	58.7	(2.1)
Planning and Community Environment	10.2	8.4	1.8
Development Services	11.2	10.4	0.8
Public Works	24.6	21.1	3.5
Community Services	28.5	24.7	3.8
Library	10.8	7.7	3.1
Interest and Other Expense	3.6	3.6	0.0
Total Functional Expense	<u>164.9</u>	<u>151.4</u>	<u>13.5</u>
Increase in Net Position before Transfers	28.4	34.4	(6.0)
Transfers in	<u>18.7</u>	<u>16.4</u>	<u>2.3</u>
Change in Net Position	47.1	50.8	(3.7)
Net Position, Beginning	<u>463.9</u>	<u>413.1</u>	<u>50.8</u>
Net Position, Ending	<u>\$ 511.0</u>	<u>\$ 463.9</u>	<u>\$ 47.1</u>

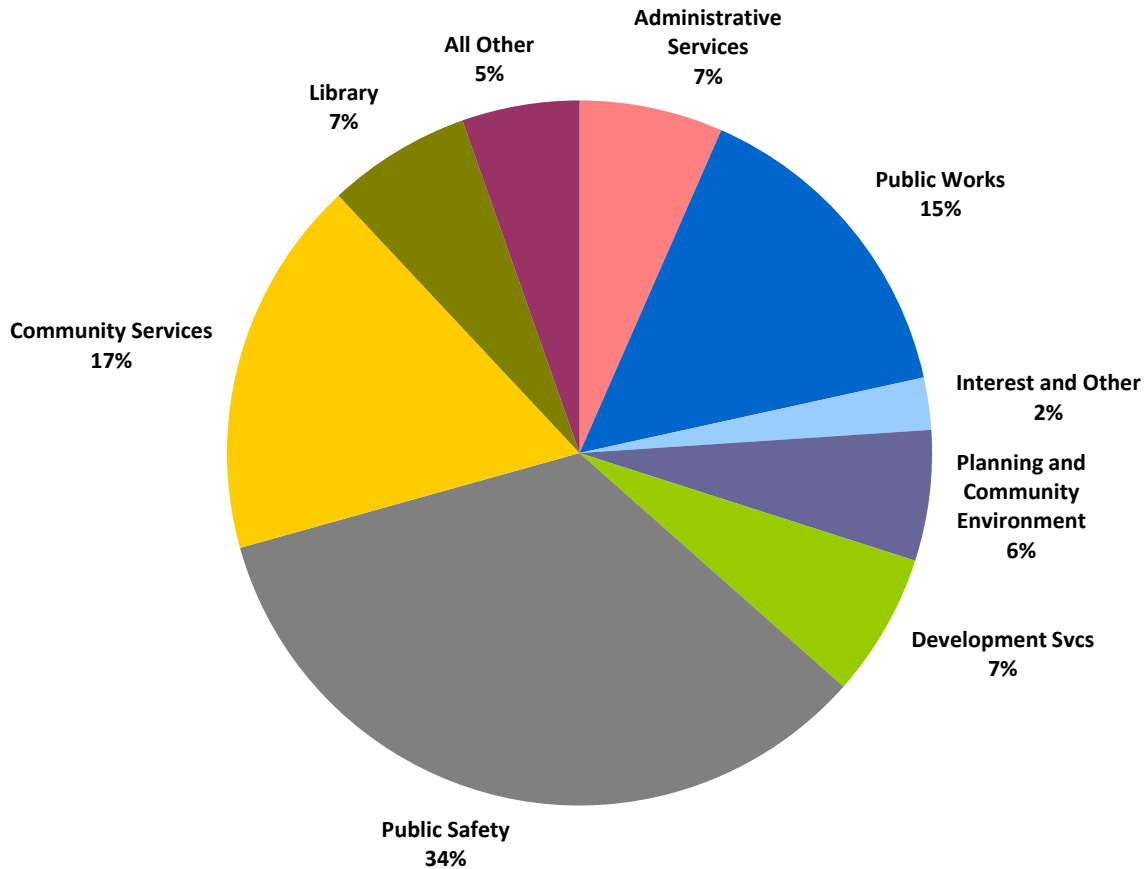


In addition to the variances at the fund level which are explained in the Financial Analysis of Governmental Funds section of the MD&A, year over year variances in Functional expenses at the government-wide level are due to the following:

- Change in pension related adjustments to defer current year contributions and expense prior year contributions as required by GASB 68 (\$0.4 million);
- Allocation of the Internal Service Funds net position (\$1.8 million);
- Capital asset activities such as depreciation and asset retirements (\$0.5 million); and
- Repayment of excess bond funds to University Avenue Area Off-Street Parking Assessment District (\$1.8 million).

Governmental Activities – Functional Expenses

The functional expenses chart below includes only current year expenses. It does not include capital outlays, as those are added to the City’s capital assets. Functions which comprise 1 percent or less of total expenses are combined into the All Other category in the chart below. All Other includes City Council, City Manager, City Attorney, City Clerk, City Auditor and Human Resources.



Business-type Activities – Net Position

The following analysis focuses on the net position and changes in net position of the City's Business-type Activities presented in the Government-wide Statement of Net Position and Statement of Activities.

BUSINESS-TYPE ACTIVITIES**Net Position at June 30**

(in millions)

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 244.7	\$ 253.7	\$ (9.0)
Other assets	35.3	39.2	(3.9)
Capital assets	<u>576.8</u>	<u>558.5</u>	<u>18.3</u>
Total Assets	<u>856.8</u>	<u>851.4</u>	<u>5.4</u>
Unamortized loss from refunding	0.3	0.4	(0.1)
Deferred pension contribution	<u>9.4</u>	<u>8.1</u>	<u>1.3</u>
Total Deferred Outflows of Resources	<u>9.7</u>	<u>8.5</u>	<u>1.3</u>
Net pension liabilities	89.5	81.1	8.4
Long-term debt	68.1	72.2	(4.1)
Other liabilities	<u>24.0</u>	<u>24.7</u>	<u>(0.7)</u>
Total Liabilities	<u>181.6</u>	<u>178.0</u>	<u>3.6</u>
Difference between expected and actual earnings on investments	<u>5.1</u>	<u>14.1</u>	<u>(9.0)</u>
Total Deferred Outflows of Resources	<u>5.1</u>	<u>14.1</u>	<u>(9.0)</u>
Net Position			
Net investment in capital assets	512.9	490.9	22.0
Restricted	4.1	4.1	0.0
Unrestricted	<u>162.8</u>	<u>172.8</u>	<u>(10.0)</u>
Total Net Position	<u>\$ 679.8</u>	<u>\$ 667.8</u>	<u>\$ 12.0</u>

The City's Business-type Activities total net position increased \$12.0 million to \$679.8 million as of June 30, 2016.

Cash and investments decreased \$9.0 million primarily due to Electric Fund decrease in net position of \$8.3 million.

Capital assets increased \$18.3 million to \$576.8 million in FY 2016 primarily due to capital improvements in the Gas Fund. This infrastructure improvement, in addition to the \$4.1 million reduction in long-term debt by Enterprise Funds, created the increase of \$22.0 million in the net investment in capital assets to \$512.9 million.

Unrestricted net position of \$162.8 million, a decrease of \$10.0 million from the prior year, represents liquid assets available to finance day-to-day operations and other expenditures approved by Council. The amount includes rate stabilization reserves (RSR) of \$44.7 million and operations reserves of \$49.9 million, along with the Electric special projects (Calaveras) reserve of \$51.8 million, and the hydro stabilization reserve of \$11.4 million. The positive balances in these reserves are offset by the GASB 68 adjustment pension reserve of \$85.1 million. Additional detail is included in Note 10.

Business-type Activities – Revenues

The table below presents the revenues for each of the City’s Business-type Activities or Enterprise Funds. The City operates the Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport Funds.

BUSINESS-TYPE ACTIVITIES			
Revenues for the Year Ended June 30			
(in millions)			
<u>Revenues by Source</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Program Revenues:			
Charges for services	\$ 272.9	\$ 270.9	\$ 2.0
Operating grants and contributions	0.7	0.5	0.2
Capital grants and contributions	1.1	2.1	(1.0)
Total Program Revenues	<u>274.7</u>	<u>273.5</u>	<u>1.2</u>
General Revenues:			
Investment earnings	7.3	4.9	2.4
Total General Revenues	<u>7.3</u>	<u>4.9</u>	<u>2.4</u>
Total Revenues	<u>\$ 282.0</u>	<u>\$ 278.4</u>	<u>\$ 3.6</u>

Business-type Activities revenues totaled \$282.0 million, an increase of \$3.6 million from the prior year. Program revenues increased \$1.2 million year over year. Revenues for all funds were relatively flat year over year with the exception of Water Fund which had increased revenue of \$1.7 million due to rate increases in July and September.

Investment earnings increased due to the unrealized gain which resulted from adjusting investments to market value at year-end, as required by GASB 31.

Business-type Activities – Expenses

The table below presents a comparison of the FY 2016 and FY 2015 expenses for the City's Business-type Activities. Encumbrances and reappropriations are not included.

BUSINESS-TYPE ACTIVITIES			
Expenses and Change in Net Position for the Year Ended June 30			
(in millions)			
<u>Business-type Activities</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Water	\$ 35.1	\$ 33.2	\$ 1.9
Electric	120.3	122.4	(2.1)
Fiber Optics	2.1	1.9	0.2
Gas	20.9	23.5	(2.6)
Wastewater Collection	15.2	14.6	0.6
Wastewater Treatment	22.5	21.6	0.9
Refuse	30.4	28.0	2.4
Storm Drainage	3.7	3.7	0.0
Airport	1.0	1.0	0.0
Total Functional Expense	<u>251.2</u>	<u>249.9</u>	<u>1.3</u>
Increase in Net Position before Transfers	30.7	28.4	2.3
Transfers out	<u>(18.7)</u>	<u>(16.4)</u>	<u>(2.3)</u>
Change in Net Position	12.0	12.0	0.0
Net Position, Beginning	<u>667.8</u>	<u>655.8</u>	<u>12.0</u>
Net Position, Ending	<u>\$ 679.8</u>	<u>\$ 667.8</u>	<u>\$ 12.0</u>

Business-type Activities expenses increased \$1.3 million for a total of \$251.2 million. Year over year expenses were significantly affected by the following events:

- Water Fund expenses increased \$1.9 million due to increased wholesale water rates to cover the cost of upgrades and improvements to the water supply distribution system.
- Electric Fund expenses decreased \$2.1 million due to decreased energy purchase costs. The availability of hydroelectric energy resources is lower than average due to the ongoing drought, which necessitates higher than average electricity purchases at market rates, but lower than expected market rates drove total purchase costs lower.
- Gas Fund expenses decreased \$2.6 million due to lower commodity prices.
- Refuse Fund expenses increased \$2.4 million due to the cost of providing expanded services for recycling and composting as a means to accomplish zero waste and reduced greenhouse gas emissions goals.



FUND FINANCIAL STATEMENTS

Financial Analysis of Governmental 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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance not yet limited to use for a particular purpose by either an external party, the City itself, or an entity that has been delegated authority by the City Council to assign resources for use.

As of June 30, 2016, the City's Governmental Funds reported combined fund balances of \$245.7 million, an increase of \$21.1 million from the prior year. Approximately 21.0 percent, or \$51.6 million, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$8.6 million); 2) restricted for particular purposes (\$47.1 million); 3) committed for particular purposes (\$65.7 million); or 4) assigned for particular purposes (\$72.7 million).

Governmental Fund revenues increased \$7.4 million, or 4.0 percent, from prior year to \$191.9 million. Revenues in the General Fund increased \$8.3 million and Capital Projects Fund revenue increased \$0.8 million. Other Governmental Funds revenue decreased by \$1.8 million due to reduced developer impact and housing-in-lieu fees.

Governmental Fund expenditures were \$186.2 million, a decrease of \$2.9 million from the prior year. General Fund expenditures increased \$6.4 million, Capital Projects Fund expenditures decreased by \$15.7 million, and Non-major Fund expenditures increased by \$6.4 million. Details of significant changes are discussed in the following sections.

**General Fund
Balance Sheet**

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$66.9 million, compared to \$62.5 million in the prior year. The fund balance has been classified as \$7.1 million non-spendable, \$8.3 million assigned, and \$51.6 million unassigned. The unassigned amount of \$51.6 million is designated by the Council for budget stabilization. Proposed uses are as follows:

- \$1.3 million for FY 2017 Budget Amendment Ordinances approved to date;
- \$1.3 million for Council approved reappropriations for various City departments;
- \$2.1 million to fund a Council approved pension trust fund; and
- \$5.3 million for transfer to Capital Projects Fund for deferred projects and reserved uses.

The remaining balance of \$41.6 million represents 21.4 percent of FY 2017 expenditures and operating transfers, which is \$5.7 million above the target reserve guideline of 18.5 percent set by Council. Staff will bring forward further recommendations as part of the year-end close process.

Statement of Revenues, Expenditures and Changes in Fund Balance
Revenues

The City's General Fund revenues totaled \$165.8 million in FY 2016. This represents an increase of \$8.3 million, or 5.3 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

GENERAL FUND
Revenues for the Year Ended June 30
(in millions)

<u>Revenues by Source</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 36.6	\$ 34.1	\$ 2.5
Sales tax	30.0	29.7	0.3
Utility user tax	12.5	10.9	1.6
Transient occupancy tax	22.4	16.7	5.7
Documentary transfer tax	6.3	10.4	(4.1)
Charges for services	23.9	25.9	(2.0)
Permits and licence	7.9	7.1	0.8
Rental income	15.8	14.9	0.9
All other	10.4	7.8	2.6
Total Revenues	<u>\$ 165.8</u>	<u>\$ 157.5</u>	<u>\$ 8.3</u>

Property tax revenue increased by \$2.5 million, or 7.3 percent, due to increased property assessment roll growth.

Utility user tax revenue increased \$1.6 million from prior year due to increased telephone utility user receipts.

Transient occupancy tax (TOT) ended the year \$5.7 million, or 34.1 percent, higher than prior year due to higher room rates, newly opened hotels that performed better than expected, and a new revenue stream from Airbnb rentals. Also, FY 2016 reflects a full year of the Council approved two percent increase in the TOT rate from 12 percent to 14 percent, compared to FY 2015 which only included six months of the increase that took effect January 1, 2015.

Documentary transfer tax decreased \$4.1 million to \$6.3 million due to the unusually high dollar commercial property transactions that occurred in FY 2015.

All other revenue increased from prior year by \$2.6 million primarily due to \$1.7 million in net proceeds from the sale of the former City Manager's house.

Expenditures

General Fund expenditures totaled \$145.2 million for FY 2016 compared to \$138.8 in the prior year. This amount excludes encumbrances and reappropriations. The year over year change for major functions is noted in the following table:

GENERAL FUND
Expenditures for the Year Ended June 30
 (in millions)

<u>Expenditures by Function</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Administrative Services	\$ 3.5	\$ 3.7	\$ (0.2)
Public Works	12.3	11.4	0.9
Planning and Community Environment	9.1	7.4	1.7
Development Services	10.6	11.1	(0.5)
Police	35.2	34.1	1.1
Fire	28.3	27.1	1.2
Community Services	24.3	23.0	1.3
Library	8.0	8.0	0.0
Non-Departmental	5.7	5.6	0.1
All other	<u>8.2</u>	<u>7.4</u>	<u>0.8</u>
Total Expenditures	<u>\$ 145.2</u>	<u>\$ 138.8</u>	<u>\$ 6.4</u>

Planning and Community Environment expenses increased \$1.7 million due to the addition of three full-time equivalent positions (\$0.5 million) and increased contract services expense related to initiatives such as Shuttle Service program enhancements, parking management, and Transportation Management Association initialization.

Police expenses increased \$1.1 million due to \$0.4 million increased salaries and benefits, and increased expenditures for training, travel and equipment.

Fire expenses increased \$1.2 million due to \$0.7 million overtime and \$0.4 million in allocated charges.

Community Services expenses increased \$1.3 million due to increased salaries and benefits of \$0.4 million, increased expenses for class activities, and increased allocated charges.

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Original budget compared to final budget

Revenues were originally budgeted at \$153.4 million and were revised upward by \$4.3 million. Revenue categories that were adjusted are shown in the table below.



GENERAL FUND
Budgeted Revenues for the Year Ended June 30
(in millions)

<u>Budgeted Revenues</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 35.1	\$ 36.0	\$ 0.9
Sales tax	27.6	28.4	0.8
Utility user tax	11.2	10.5	(0.7)
Transient occupancy tax	18.8	22.0	3.2
Documentary transfer tax	6.8	7.0	0.2
All other	<u>53.9</u>	<u>53.8</u>	<u>(0.1)</u>
	153.4	157.7	4.3
Charges to other funds	11.9	11.9	-
Prior year encumbrances and appropriations	<u>-</u>	<u>5.6</u>	<u>5.6</u>
Total Budgeted Revenues	<u>\$ 165.3</u>	<u>\$ 175.2</u>	<u>\$ 9.9</u>

Adjustments to the Adopted Budget were based on the following:

- Sales tax was increased by \$0.8 million due to higher than expected receipts.
- Property tax was increased by \$0.9 million due to receipt of excess funds from the Educational Revenue Augmentation Fund (ERAF).
- Transient occupancy tax was increased by \$3.2 million due to higher than expected receipts driven by higher room rates, newly opened hotels performing above expectations, and a new revenue stream from Airbnb rentals.
- Documentary transfer tax was increased by \$0.2 million based on year-to-date receipts tracking slightly higher than anticipated.

Actual revenues of \$164.4 million were \$6.8 million higher than final budgeted revenues of \$157.7 million due to the following:

- \$1.7 million net proceeds from the sale of former City Manager's house;
- \$0.9 million revenue from Cable Joint Powers Authority budgeted in operating transfers in;
- \$2.0 million higher than expected utility user tax; and
- \$1.6 million higher than anticipated sales tax revenue.

Expenditures were originally budgeted at \$162.9 million and were revised upward by \$7.9 million, including prior year encumbrances of \$5.6 million, for a final budgeted amount of \$170.8 million.

Current year budgeted expenditures and operating transfers include a draw of \$11.5 million from FY 2015 surplus that was approved in November 2015 as part of the FY 2015 year-end close City Manager Report #6251, and was incorporated into the FY 2016 mid-year budget changes.

The approved items are:

- \$1.0 million transfer to Technology Fund for the Radio Infrastructure Replacement Fund;
- \$6.0 million transfer to Capital Improvement Fund;
- \$1.0 million transfer to Capital Improvement Fund for Roth Building rehabilitation reserve;
- \$2.6 million to fund FY 2016 expenditures.

GENERAL FUND
Budgeted Expenditures for the Year Ended June 30
 (in millions)

<u>Budgeted Expenditures</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	<u>Actuals, plus Encumbrances</u>
Community Services	\$ 24.8	\$ 26.5	\$ 1.7	\$ 25.3
Police	36.8	36.9	0.1	36.1
Fire	27.6	29.1	1.5	28.9
Library	8.6	9.0	0.4	8.2
Planning and Community Environment	8.9	11.1	2.2	10.9
Public Works	15.0	15.9	0.9	15.1
Development Services	11.9	12.3	0.4	10.9
Non-departmental	8.7	7.0	(1.7)	6.2
All other	20.6	23.0	2.4	21.4
Total Budgeted Expenditures	<u>\$ 162.9</u>	<u>\$ 170.8</u>	<u>\$ 7.9</u>	163.0
Less: Charges to Other Funds				(11.6)
Less: Encumbrances				(6.2)
Net General Fund Expenditures				<u>\$ 145.2</u>

The final budgeted expenditure amount of \$170.8 million compares to the actual expenditures plus encumbrances of \$163.0 million, a difference of \$7.9 million, of which \$6.2 million is encumbrances carried forward to FY 2017. The lower than budgeted expenditures were primarily due to vacancy and benefits savings higher than expected.

Transfers out were originally budgeted at \$22.7 million, with the final budget number at \$35.0 million, an increase of \$12.3 million. The increase was due primarily to the additional \$8.0 million transferred to the Capital Improvement and Technology Funds as noted above, \$2.3 million additional TOT transferred to the Capital Improvement Fund, \$0.5 million additional to Residential Parking Fund, and \$0.5 million to the Vehicle Maintenance Fund. Actual transfers out for the year were \$34.5 million, a difference of \$0.5 million from final budget due to reclass of the Airport Fund transfer to interfund advance at year-end.

Capital Projects Fund

Capital Projects Fund expenditures and other uses were \$26.2 million in FY 2016, a decrease of \$15.8 million from the prior year driven by reduced construction and renovation costs for Library projects that were completed in FY 2015. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

Non-major Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Financial Analysis of Enterprise Funds

At June 30, 2016, the City's Enterprise Funds reported total net position of \$676.9 million, an increase of \$12.1 million or 1.8 percent from the prior year. The increase was primarily from the Electric and Gas Funds. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled \$159.9 million, a 5.8 percent decrease from FY 2015. Following is a table which compares the year over year change in net position for each of the Enterprise Funds:

ENTERPRISE FUNDS
Change in Net Position for the Year Ended June 30
 (in millions)

<u>Fund Name</u>	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Water	\$ 4.7	\$ 5.1	\$ (0.4)
Electric	(8.3)	(11.2)	2.9
Fiber Optics	3.0	3.1	(0.1)
Gas	3.4	1.7	1.7
Wastewater Collection	1.6	2.4	(0.8)
Wastewater Treatment	1.7	2.9	(1.2)
Refuse	2.6	4.8	(2.2)
Storm Drainage	3.3	2.7	0.6
Airport	0.1	(0.1)	0.2
Total Change in Net Position	<u>\$ 12.1</u>	<u>\$ 11.4</u>	<u>\$ 0.7</u>

The most significant factors in the year over year change in net position for Enterprise Funds are as follows:

- Electric change in net position increased \$2.9 million. Revenue was flat and the continued drought necessitated the purchase of electricity due to lower hydroelectric generation, but on peak energy prices were lower than prior year, resulting in lower overall costs.
- Gas change in net position increased \$1.7 million from the prior year due to lower commodity prices. The corresponding reduction in customer revenue (also commodity rate driven) was offset by increased consumption.
- Wastewater Collection decreased its change in net position by \$0.8 million. A rate increase to customers was offset by reduced revenue from service connections and increased administrative expenses.
- Wastewater Treatment decreased its change in net position by \$1.2 million due to significant operating expenses for bypass and emergency work, as well as engineering costs and chemical supplies.

- Refuse Fund change in net position decreased \$2.2 million from prior year. A residential rate increase was offset by reduced miscellaneous revenues and increased expense for expanded contract services for yard trimmings and food scraps.

CAPITAL ASSETS

GASB 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-type Activities. Further detail can be found in Note 6 to the financial statements.

CAPITAL ASSETS AT JUNE 30			
(in millions)			
	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Governmental Activities			
Capital Assets			
Land and improvements	\$ 78.5	\$ 79.0	\$ (0.5)
Street trees	15.1	15.1	0.0
Construction in progress	46.5	39.3	7.2
Buildings and improvements	220.9	221.7	(0.8)
Intangible assets	3.8	3.8	0.0
Equipment	12.9	12.3	0.6
Roadway network	308.6	299.2	9.4
Recreation and open space network	33.1	27.6	5.5
Less accumulated depreciation	(239.8)	(228.2)	(11.6)
Internal Service Fund Assets			
Construction in progress	1.8	1.4	0.4
Equipment	55.4	53.5	1.9
Less accumulated depreciation	(40.8)	(39.5)	(1.3)
Total Governmental Activities	<u>\$ 496.0</u>	<u>\$ 485.2</u>	<u>\$ 10.8</u>
Business-type Activities			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	93.9	89.9	4.0
Buildings and improvements	56.9	53.5	3.4
Transmission, distribution and treatment systems	746.7	717.6	29.1
Less accumulated depreciation	(325.7)	(307.5)	(18.2)
Total Business-type Activities	<u>\$ 576.8</u>	<u>\$ 558.5</u>	<u>\$ 18.3</u>

Governmental Activities' capital assets net of depreciation increased by \$10.8 million from the prior year. The increase was primarily due to El Camino Park improvements, and street and sidewalk improvements throughout the City.



Council approved a \$125.8 million Infrastructure Plan in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. Funding for these projects will come from a variety of sources, including TOT revenues, Stanford University Medical Center development agreement, and developer impact fees. The Plan was recently updated for cost escalations, scope increases and a \$30 million contingency reserve, resulting in a revised Infrastructure Plan of \$160 million. In the past five years, General Fund surpluses totaling \$32.6 million have been transferred to the Capital Projects Infrastructure Reserve, with an additional \$4.3 million committed from FY 2016 surplus funds.

Major Governmental Activities' capital projects that are currently in progress, including the remaining capital commitment of each, are as follows:

- Golf Course reconfiguration and Baylands Athletic Center - \$10.2 million
- Lucie Stern Buildings mechanical and electrical upgrades - \$2.8 million
- Bicycle and pedestrian transportation plan - \$2.6 million

Business-type Activities' capital assets net of depreciation increased by \$18.3 million over FY 2015. The increase is due primarily to Gas infrastructure improvements.

Major Business-type Activities' capital projects that are currently in progress, including the remaining capital commitment of each, are as follows:

- Seismic water system upgrades for Water Fund - \$4.4 million
- Channing Avenue/Lincoln Avenue storm drain improvement - \$3.6 million
- Wastewater Collection Fund rehabilitation/augmentation project - \$9.2 million

The City depreciates its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives are in Note 6.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. At June 30, 2016, the City's debt was comprised of the following:

LONG-TERM DEBT AT JUNE 30			
(in millions)			
	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Governmental Activities			
General Long-Term Obligations			
Certificates of Participation			
2002B Downtown Parking Improvements	\$ 1.1	\$ 1.3	\$ (0.2)
General Obligation Bonds			
2010	48.1	51.5	(3.4)
2013A	17.1	20.3	(3.2)
2011 Lease Purchase Agreement	1.3	1.6	(0.3)
Add: unamortized premium	3.9	4.1	(0.2)
Total Governmental	<u>\$ 71.5</u>	<u>\$ 78.8</u>	<u>\$ (7.3)</u>
Business-type Activities			
Enterprise Long-Term Obligations			
Utility Revenue Bonds			
1995 Series A	\$ 2.4	\$ 2.9	(0.5)
1999 Refunding	9.7	10.3	(0.6)
2009 Series A	29.7	30.7	(1.0)
2011 Refunding	12.3	13.3	(1.0)
Add: unamortized premium	0.8	0.9	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.6	0.7	(0.1)
Less: unamortized discount	(0.1)	(0.1)	-
State Water Resources Loan			
2007	5.9	6.3	(0.4)
2009	6.8	7.2	(0.4)
Total Business-type	<u>\$ 68.1</u>	<u>\$ 72.2</u>	<u>\$ (4.1)</u>

Long-term debt decreased a total of \$11.4 million due to scheduled debt repayments of \$6.3 million, and defeasance payments of \$5.1 million on the General Obligation Bonds. As noted in the Statistical Section of the CAFR, the combined direct debt ratio to assessed valuation for the General Fund is 0.25 percent compared to the allowable legal debt margin of 15 percent.



SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts throughout different parts of the City have also issued debt to finance infrastructure and facilities construction exclusively in their districts. As of June 30, 2016, the City had no special assessment district debt with City commitment outstanding.

ECONOMIC OUTLOOK

The economy of the City is discussed in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The CAFR is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Administrative Services Department, at 250 Hamilton Avenue, 4th Floor, Palo Alto, California. The Department can also be contacted by email at: adminsucs@cityofpaloalto.org. This report and other financial reports can be viewed on the City of Palo Alto website at: www.cityofpaloalto.org. On the home page, select Departments, select Administrative Services, and select Financial Reporting. Within Financial Reporting, there are links to reports by title and reporting date.

CITY OF PALO ALTO
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 294,051	\$ 240,570	\$ 534,621
Receivables, net:			
Accounts and intergovernmental	15,985	29,251	45,236
Interest receivable	1,363	1,053	2,416
Notes and loans receivable (Note 5)	19,243	-	19,243
Internal balances (Note 4)	(680)	680	-
Net OPEB asset (Note 12)	21,662	-	21,662
Due from other government agencies	-	3,900	3,900
Inventory of materials and supplies, prepaids and deposits	4,732	374	5,106
Restricted cash and investments with fiscal agents (Note 3)	959	4,115	5,074
Capital assets (Note 6):			
Nondepreciable	145,481	98,943	244,424
Depreciable, net of accumulated depreciation	350,506	477,864	828,370
Total assets	<u>853,302</u>	<u>856,750</u>	<u>1,710,052</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	324	324
Pension related	21,181	9,414	30,595
Total deferred outflows of resources	<u>21,181</u>	<u>9,738</u>	<u>30,919</u>
LIABILITIES:			
Accounts payable and accruals	7,272	15,348	22,620
Accrued salaries and benefits	4,346	1,986	6,332
Unearned revenue	1,895	-	1,895
Accrued compensated absences (Note 1):			
Due in one year	4,936	-	4,936
Due in more than one year	6,286	-	6,286
Claims payable (Note 14):			
Due in one year	5,237	-	5,237
Due in more than one year	18,142	-	18,142
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,618	6,618
Net pension liabilities (Note 11):	230,122	89,500	319,622
Long-term debt (Note 7):			
Due in one year	2,224	4,198	6,422
Due in more than one year	69,295	63,915	133,210
Total liabilities	<u>349,755</u>	<u>181,565</u>	<u>531,320</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension related	13,737	5,084	18,821
NET POSITION (Note 10):			
Net Investment in capital assets	425,179	512,918	938,097
Restricted for:			
Transportation, infrastructure and other	42,547	-	42,547
Debt service	3,855	4,115	7,970
Nonexpendable - Eyerly Family	1,505	-	1,505
Total restricted net position	<u>47,907</u>	<u>4,115</u>	<u>52,022</u>
Unrestricted	37,905	162,806	200,711
Total net position	<u>\$ 510,991</u>	<u>\$ 679,839</u>	<u>\$ 1,190,830</u>

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Statement of Activities
For the Year Ended June 30, 2016
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
City Council	\$ 352	\$ -	\$ -	\$ -	\$ (352)	\$ -	\$ (352)
City Manager	2,662	-	-	-	(2,662)	-	(2,662)
City Attorney	2,472	-	-	-	(2,472)	-	(2,472)
City Clerk	582	-	-	-	(582)	-	(582)
City Auditor	414	-	-	-	(414)	-	(414)
Administrative Services	10,637	9,444	-	344	(849)	-	(849)
Human Resources	2,224	-	-	-	(2,224)	-	(2,224)
Public Works	24,613	599	733	-	(23,281)	-	(23,281)
Planning and Community Environment	10,208	9,071	605	-	(532)	-	(532)
Development Services	11,158	12,570	-	-	1,412	-	1,412
Public Safety	56,653	13,945	765	-	(41,943)	-	(41,943)
Community Services	28,547	21,551	43	-	(6,953)	-	(6,953)
Library	10,825	198	18	-	(10,609)	-	(10,609)
Interest on long-term debt	3,552	-	-	-	(3,552)	-	(3,552)
Total Governmental Activities	164,899	67,378	2,164	344	(95,013)	-	(95,013)
Business-Type Activities:							
Water	35,120	37,588	637	641	-	3,746	3,746
Electric	120,319	120,743	-	-	-	424	424
Fiber Optics	2,107	4,505	-	-	-	2,398	2,398
Gas	20,879	30,212	-	-	-	9,333	9,333
Wastewater Collection	15,199	16,496	-	288	-	1,585	1,585
Wastewater Treatment	22,546	23,825	-	-	-	1,279	1,279
Refuse	30,370	32,169	12	-	-	1,811	1,811
Storm Drainage	3,735	6,520	-	-	-	2,785	2,785
Airport	970	826	95	132	-	83	83
Total Business-Type Activities	251,245	272,884	744	1,061	-	23,444	23,444
Total	\$ 416,144	\$ 340,262	\$ 2,908	\$ 1,405	(95,013)	23,444	(71,569)
General Revenues:							
Taxes:							
Property tax					41,189	-	41,189
Sales tax					30,018	-	30,018
Utility user tax					12,469	-	12,469
Transient occupancy tax					22,366	-	22,366
Documentary transfer tax					6,266	-	6,266
Other taxes					1,602	-	1,602
Investment earnings					8,639	7,282	15,921
Miscellaneous					894	-	894
Transfers (Note 4)					18,705	(18,705)	-
Total general revenues and transfers					142,148	(11,423)	130,725
Change in net position					47,135	12,021	59,156
Net position, beginning of year					463,856	667,818	1,131,674
Net position, end of year					\$ 510,991	\$ 679,839	\$ 1,190,830

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Governmental Funds
Balance Sheet
June 30, 2016
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments available for operations (Note 3)	\$ 53,113	\$ 71,461	\$ 89,433	\$ 214,007
Receivables, net:				
Accounts and intergovernmental	15,676	163	31	15,870
Interest receivable	640	-	382	1,022
Notes and loans receivable (Note 5)	513	-	18,730	19,243
Advance to other fund (Note 4)	2,211	-	-	2,211
Inventory of materials and supplies	4,364	-	-	4,364
Restricted cash and investments with fiscal agents (Note 3)	-	711	248	959
Total assets	<u>\$ 76,517</u>	<u>\$ 72,335</u>	<u>\$ 108,824</u>	<u>\$ 257,676</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 3,832	\$ 1,809	\$ 354	\$ 5,995
Accrued salaries and benefits	3,859	176	46	4,081
Unearned revenue	1,895	-	-	1,895
Total liabilities	<u>9,586</u>	<u>1,985</u>	<u>400</u>	<u>11,971</u>
Fund balances (Note 10):				
Nonspendable:				
Notes and loans receivable	513	-	-	513
Inventories	4,364	-	-	4,364
Advance to other fund	2,211	-	-	2,211
Eyerly family	-	-	1,505	1,505
Restricted for:				
Transportation mitigation	-	-	10,841	10,841
Federal revenue	-	-	4,569	4,569
Street improvement	-	-	1,308	1,308
Local law enforcement	-	-	180	180
Library bond project	-	711	-	711
Public benefit	-	-	25,649	25,649
Debt service	-	-	3,855	3,855
Committed for:				
Roth Building Rehabilitation	-	3,953	-	3,953
Cubberley Improvements	-	2,634	-	2,634
Developer impact fees	-	-	14,169	14,169
Housing in-lieu	-	-	41,251	41,251
Special districts	-	-	3,704	3,704
Downtown business	-	-	34	34
Assigned for:				
Unrealized gains on investments	2,066	-	1,358	3,424
Capital projects	-	63,052	-	63,052
Other general government purposes	6,195	-	1	6,196
Unassigned for:				
Budget Stabilization	51,582	-	-	51,582
Total fund balances	<u>66,931</u>	<u>70,350</u>	<u>108,424</u>	<u>245,705</u>
Total liabilities and fund balances	<u>\$ 76,517</u>	<u>\$ 72,335</u>	<u>\$ 108,824</u>	<u>\$ 257,676</u>

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Position - Governmental Activities
June 30, 2016
(Amounts in thousands)

Total fund balances reported on the governmental funds balance sheet	\$ 245,705
<p>Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:</p>	
<p>Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>	
Deferred outflows of resources	21,181
Deferred inflows of resources	(13,737)
<p>Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)</p>	
	495,987
<p>Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources and net pension liabilities reported herein)</p>	
	64,766
<p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:</p>	
Interest payable	(1,270)
Net pension liabilities (Note 11)	(230,122)
Long-term debt (Note 7)	(71,519)
	510,991
Net position of governmental activities	\$ 510,991

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
REVENUES:				
Property tax	\$ 36,607	\$ -	\$ 4,582	\$ 41,189
Special assessments	-	-	100	100
Sales tax	30,018	-	-	30,018
Utility user tax	12,469	-	-	12,469
Transient occupancy tax	22,366	-	-	22,366
Documentary transfer tax	6,266	-	-	6,266
Other taxes and fines	2,238	-	1,570	3,808
Charges for services	23,910	-	-	23,910
From other agencies	3,190	861	366	4,417
Permits and licenses	7,912	-	3,316	11,228
Investment earnings	2,494	1,102	2,898	6,494
Rental income	15,769	-	6	15,775
Other revenue	2,591	3,596	7,640	13,827
Total revenues	<u>165,830</u>	<u>5,559</u>	<u>20,478</u>	<u>191,867</u>
EXPENDITURES:				
Current:				
City Council	330	-	-	330
City Manager	2,567	-	-	2,567
City Attorney	2,212	-	-	2,212
City Clerk	488	-	-	488
City Auditor	313	-	-	313
Administrative Services	3,545	-	203	3,748
Human Resources	1,843	-	-	1,843
Public Works	12,315	-	797	13,112
Planning and Community Environment	9,059	-	663	9,722
Development Services	10,643	-	-	10,643
Police	35,247	-	225	35,472
Fire	28,312	-	-	28,312
Community Services	24,280	-	1,231	25,511
Library	7,960	-	-	7,960
Non-Departmental	5,680	1,790	598	8,068
Capital outlay	-	24,457	-	24,457
Debt service:				
Principal	395	-	6,735	7,130
Interest and fiscal charges	36	-	4,230	4,266
Total expenditures	<u>145,225</u>	<u>26,247</u>	<u>14,682</u>	<u>186,154</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>20,605</u>	<u>(20,688)</u>	<u>5,796</u>	<u>5,713</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (Note 4)	18,317	36,702	6,816	61,835
Transfers out (Note 4)	(34,461)	(3,018)	(9,013)	(46,492)
Total other financing sources (uses)	<u>(16,144)</u>	<u>33,684</u>	<u>(2,197)</u>	<u>15,343</u>
Change in fund balances	4,461	12,996	3,599	21,056
FUND BALANCES, BEGINNING OF YEAR	<u>62,470</u>	<u>57,354</u>	<u>104,825</u>	<u>224,649</u>
FUND BALANCES, END OF YEAR	<u>\$ 66,931</u>	<u>\$ 70,350</u>	<u>\$ 108,424</u>	<u>\$ 245,705</u>

See accompanying notes to the basic financial statements.

CITY OF 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 Year Ended June 30, 2016
(Amounts in thousands)

Net change in fund balances - total governmental funds \$ 21,056

Amounts reported for governmental activities in the statement of activities are different from those reported in the governmental funds because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. Therefore, the activities associated with capital assets are as follows:

Capital outlay added back to fund balance for current year additions	24,694
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$2,525 (Note 6), which has already been allocated through the internal service fund activities below	(14,539)
Disposal of capital assets	(508)

Pension contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	18,516
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Pension 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	(15,320)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt and amortization of premiums do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with long-term debt are as follows:

Principal paid during the year	7,130
Change in interest payable	556
Amortization of bond premium	158

Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net revenue of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

	<u>5,392</u>
Change in net position of governmental activities	<u>\$ 47,135</u>

CITY OF PALO ALTO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016
(Amounts in thousands)

	Budgeted Amounts		Actual, plus Encumbrances	Variance with Final Budget Positive (Negative)
	Adopted	Final		
REVENUES:				
Sales tax	\$ 27,630	\$ 28,430	\$ 30,018	\$ 1,588
Property tax	35,067	35,967	36,607	640
Transient occupancy tax	18,791	21,991	22,366	375
Documentary transfer tax	6,852	7,052	6,266	(786)
Utility user tax	11,189	10,489	12,469	1,980
Other taxes, fines and penalties	2,180	2,180	2,238	58
Charges for services	25,399	24,768	23,910	(858)
Permits and licenses	8,211	8,211	7,912	(299)
Investment earnings	824	824	1,104	280
Rental income	15,296	15,299	15,769	470
From other agencies	1,659	659	3,190	2,531
Other revenues	323	1,801	2,591	790
	<u>153,421</u>	<u>157,671</u>	<u>164,440</u>	<u>6,769</u>
Charges to other funds	11,930	11,929	11,576	(353)
Prior year encumbrances	-	5,573	5,606	33
	<u>165,351</u>	<u>175,173</u>	<u>181,622</u>	<u>6,449</u>
EXPENDITURES:				
Current:				
City Attorney	3,101	3,719	3,186	533
City Auditor	1,175	1,261	1,159	102
City Clerk	1,328	1,373	1,058	315
City Council	455	502	451	51
City Manager	3,431	4,121	4,092	29
Administrative Services	7,635	7,957	7,615	342
Community Services	24,804	26,517	25,262	1,255
Police	36,859	36,924	36,096	828
Fire	27,583	29,223	28,909	314
Human Resources	3,555	4,029	3,849	180
Library	8,555	8,971	8,217	754
Planning and Community Environment	8,900	11,146	10,912	234
Development Services	11,901	12,281	10,872	1,409
Public Works	15,017	15,828	15,084	744
Non-Departmental	8,662	6,955	6,234	721
	<u>162,961</u>	<u>170,807</u>	<u>162,996</u>	<u>7,811</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,390</u>	<u>4,366</u>	<u>18,626</u>	<u>14,260</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	18,589	19,141	18,317	(824)
Transfers out	(22,711)	(35,057)	(34,461)	596
	<u>(4,122)</u>	<u>(15,916)</u>	<u>(16,144)</u>	<u>(228)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	<u>\$ (1,732)</u>	<u>\$ (11,550)</u>	<u>2,482</u>	<u>\$ 14,032</u>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			1,390	
Current year encumbrances			6,195	
Prior year encumbrances			(5,606)	
CHANGE IN FUND BALANCE, GAAP BASIS			<u>4,461</u>	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			<u>62,470</u>	
FUND BALANCE AT END OF YEAR, GAAP BASIS			<u>\$ 66,931</u>	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Net Position
June 30, 2016
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 35,832	\$ 100,414	\$ 25,069	\$ 25,289
Accounts receivable, net of allowance of \$478	5,337	13,008	864	2,105
Interest receivable	159	462	102	105
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents (Note 3)	3,299	-	-	816
Total current assets	<u>44,627</u>	<u>113,884</u>	<u>26,035</u>	<u>28,315</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposit	-	49	-	-
Prepaid expense	108	-	-	-
Capital assets (Note 6):				
Nondepreciable	18,832	24,244	1,719	3,066
Depreciable, net	101,398	163,415	6,195	99,469
Net OPEB asset (Note 12)	-	-	-	-
Total noncurrent assets	<u>120,338</u>	<u>187,708</u>	<u>7,914</u>	<u>102,535</u>
Total assets	<u>164,965</u>	<u>301,592</u>	<u>33,949</u>	<u>130,850</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized loss from refunding	129	-	-	168
Pension related	1,218	3,173	201	1,327
Total deferred outflows of resources	<u>1,347</u>	<u>3,173</u>	<u>201</u>	<u>1,495</u>
LIABILITIES:				
Current liabilities:				
Accounts payable and accruals	5,082	4,242	418	829
Accrued salaries and benefits	265	696	40	279
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,510	100	-	575
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	<u>6,857</u>	<u>5,038</u>	<u>458</u>	<u>1,683</u>
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 9)	-	-	-	-
Net pension liabilities (Note 11)	12,100	28,893	1,777	12,941
Long term debt, net of unamortized discounts/premiums (Note 7)	34,780	468	-	6,682
Total noncurrent liabilities	<u>46,880</u>	<u>29,361</u>	<u>1,777</u>	<u>19,623</u>
Total liabilities	<u>53,737</u>	<u>34,399</u>	<u>2,235</u>	<u>21,306</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension related	727	1,564	85	752
Total deferred inflows of resources	<u>727</u>	<u>1,564</u>	<u>85</u>	<u>752</u>
NET POSITION (Note 10):				
Net Investment in capital assets	84,069	187,091	7,914	95,446
Restricted for debt service	3,299	-	-	816
Unrestricted (deficit)	24,480	81,711	23,916	14,025
Total net position	<u>\$ 111,848</u>	<u>\$ 268,802</u>	<u>\$ 31,830</u>	<u>\$ 110,287</u>

Some amounts reported for Business-type Activities in the statement of net position are different because certain Internal Service Fund net positions are included with Business-type Activities
Net position reported in Business-type Activities

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 14,718	\$ 13,757	\$ 14,511	\$ 10,562	\$ 418	\$ 240,570	\$ 80,044
1,922	2,021	3,273	674	47	29,251	115
66	57	60	41	1	1,053	341
-	300	-	-	-	300	-
-	-	-	-	-	-	368
-	-	-	-	-	4,115	-
16,706	16,135	17,844	11,277	466	275,289	80,868
-	3,600	-	-	-	3,600	-
-	-	-	-	-	49	-
-	217	-	-	-	325	-
26,002	10,978	2,524	10,526	1,052	98,943	1,829
53,386	29,962	2,768	21,271	-	477,864	14,637
-	-	-	-	-	-	21,662
79,388	44,757	5,292	31,797	1,052	580,781	38,128
96,094	60,892	23,136	43,074	1,518	856,070	118,996
-	-	-	27	-	324	-
723	1,930	429	309	104	9,414	1,440
723	1,930	429	336	104	9,738	1,440
938	654	2,759	264	162	15,348	7
149	385	87	58	27	1,986	265
-	-	-	-	-	-	4,936
85	1,318	-	610	-	4,198	-
-	-	-	-	-	-	5,237
1,172	2,357	2,846	932	189	21,532	10,445
-	-	-	-	-	-	6,286
-	-	-	-	-	-	18,142
-	-	-	-	2,211	2,211	-
-	-	6,618	-	-	6,618	-
7,255	18,042	4,987	3,050	455	89,500	12,675
734	15,895	-	5,356	-	63,915	-
7,989	33,937	11,605	8,406	2,666	162,244	37,103
9,161	36,294	14,451	9,338	2,855	183,776	47,548
418	1,013	334	182	9	5,084	725
418	1,013	334	182	9	5,084	725
78,569	27,627	5,292	25,858	1,052	512,918	16,466
-	-	-	-	-	4,115	-
8,669	(2,112)	3,488	8,032	(2,294)	159,915	55,697
\$ 87,238	\$ 25,515	\$ 8,780	\$ 33,890	\$ (1,242)	676,948	\$ 72,163
					2,891	
					\$ 679,839	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2016
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
Sales to:				
Customers	\$ 33,967	\$ 104,458	\$ 3,532	\$ 27,555
City departments	1,602	3,127	855	1,110
Service connection charges and miscellaneous	903	2,756	86	961
Charges for services	-	-	-	-
Other	1,116	10,402	32	586
Total operating revenues	<u>37,588</u>	<u>120,743</u>	<u>4,505</u>	<u>30,212</u>
OPERATING EXPENSES:				
Retail purchase of utilities	17,626	73,440	-	8,127
Administrative and general	4,813	6,395	363	3,329
Engineering (operating)	409	1,592	-	426
Resource management and energy efficiency	594	5,765	-	1,037
Operations and maintenance	5,440	11,524	1,360	4,153
Rent	1,677	4,991	71	568
Depreciation and amortization	2,719	7,607	328	2,795
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Compensated absences and other benefits	-	-	-	-
Total operating expenses	<u>33,278</u>	<u>111,314</u>	<u>2,122</u>	<u>20,435</u>
Operating income (loss)	4,310	9,429	2,383	9,777
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	1,144	3,126	726	712
Interest expense	(1,822)	(8,889)	-	(249)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(70)	(74)	-	(187)
Other nonoperating revenues	637	-	-	-
Total nonoperating revenues (expenses)	<u>(111)</u>	<u>(5,837)</u>	<u>726</u>	<u>276</u>
Income (loss) before transfers and capital contributions	4,199	3,592	3,109	10,053
Capital contributions	641	-	-	-
Transfers in (Note 4)	222	259	-	-
Transfers out (Note 4)	(364)	(12,110)	(121)	(6,670)
Change in net position	4,698	(8,259)	2,988	3,383
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>107,150</u>	<u>277,061</u>	<u>28,842</u>	<u>106,904</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 111,848</u>	<u>\$ 268,802</u>	<u>\$ 31,830</u>	<u>\$ 110,287</u>

Some amounts reported for Business-type Activities in the statement of activities are different because certain Internal Service Fund activities are included with Business-type Activities
Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 15,572	\$ 14,759	\$ 27,763	\$ 5,961	\$ 459	\$ 234,026	\$ -
76	8,818	787	364	-	16,739	-
506	-	-	-	-	5,212	-
-	-	-	-	-	-	85,810
342	248	3,619	195	367	16,907	37
16,496	23,825	32,169	6,520	826	272,884	85,847
8,770	-	16,251	-	-	124,214	-
1,205	-	1,794	669	705	19,273	12,743
347	2,056	208	407	-	5,445	-
-	-	-	290	-	7,686	-
2,635	16,962	8,962	1,212	231	52,479	25,287
293	-	2,452	39	-	10,091	-
1,933	2,958	77	743	-	19,160	2,525
-	-	-	-	-	-	3,132
-	-	-	-	-	-	54
-	-	-	-	-	-	42,538
15,183	21,976	29,744	3,360	936	238,348	86,279
1,313	1,849	2,425	3,160	(110)	34,536	(432)
475	370	426	293	10	7,282	2,156
(47)	(497)	(565)	(373)	(38)	(12,480)	-
-	-	-	-	-	-	185
(5)	-	-	-	-	(336)	-
-	-	12	-	95	744	40
423	(127)	(127)	(80)	67	(4,790)	2,381
1,736	1,722	2,298	3,080	(43)	29,746	1,949
288	-	-	-	132	1,061	-
-	-	356	234	-	1,071	5,888
(396)	(12)	(97)	(6)	-	(19,776)	(2,526)
1,628	1,710	2,557	3,308	89	12,102	5,311
85,610	23,805	6,223	30,582	(1,331)		66,852
<u>\$ 87,238</u>	<u>\$ 25,515</u>	<u>\$ 8,780</u>	<u>\$ 33,890</u>	<u>\$ (1,242)</u>		<u>\$ 72,163</u>

(81)

\$ 12,021

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2016
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 34,553	\$ 107,967	\$ 3,991	\$ 28,734
Cash refunds to customers	-	-	-	-
Cash payments to suppliers for goods and services	(23,779)	(99,593)	(1,408)	(14,864)
Cash payments to employees	(5,100)	(6,921)	(384)	(3,560)
Internal activity- receipts (payments) from (to) other funds	1,602	3,127	855	1,110
Other receipts	1,116	10,402	32	586
Net cash provided by operating activities	8,392	14,982	3,086	12,006
Cash flows from noncapital financing activities:				
Receipt of loans from other funds	-	-	-	-
Operating grants and contributions	111	-	-	-
Interest subsidy received from Build America Bonds	526	-	-	-
Transfers in	222	259	-	-
Transfers out	(364)	(12,110)	(121)	(6,670)
Net cash flows provided by (used in) noncapital financing activities	495	(11,851)	(121)	(6,670)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(9,085)	(14,127)	(634)	(3,298)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	641	-	-	-
Principal paid on long-term debt	(1,457)	(100)	-	(553)
Interest paid on long-term debt	(1,822)	(8,888)	-	(248)
Net cash flows used in capital and related financing activities	(11,723)	(23,115)	(634)	(4,099)
Cash flows from investing activities:				
Interest received	1,146	3,211	715	719
Net cash flows provided by investing activities	1,146	3,211	715	719
Net change in cash and cash equivalents	(1,690)	(16,773)	3,046	1,956
Cash and cash equivalents, beginning of year	40,821	117,187	22,023	24,149
Cash and cash equivalents, end of year	<u>\$ 39,131</u>	<u>\$ 100,414</u>	<u>\$ 25,069</u>	<u>\$ 26,105</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 35,832	\$ 100,414	\$ 25,069	\$ 25,289
Restricted cash and investments with fiscal agent	3,299	-	-	816
Cash and cash equivalents, end of year	<u>\$ 39,131</u>	<u>\$ 100,414</u>	<u>\$ 25,069</u>	<u>\$ 26,105</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 4,310	\$ 9,429	\$ 2,383	\$ 9,777
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,719	7,607	328	2,795
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	(317)	753	373	218
Inventory of materials and supplies	-	-	-	-
Deposit	9	65	-	-
Net OPEB asset	-	-	-	-
Deferred outflow of resources - pension plans	(171)	(459)	(20)	(176)
Accounts payable and accruals	1,958	(2,346)	23	(553)
Accrued salaries and benefits	(9)	102	5	47
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Accrued claims payable	-	-	-	-
Net Pension liability	1,076	2,789	185	1,183
Deferred inflow of resources - pension plans	(1,183)	(2,958)	(191)	(1,285)
Net cash provided by operating activities	<u>\$ 8,392</u>	<u>\$ 14,982</u>	<u>\$ 3,086</u>	<u>\$ 12,006</u>

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 16,522	\$ 15,719	\$ 27,823	\$ 5,883	\$ 838	\$ 242,030	\$ 86,230
-	-	-	-	-	-	(54)
(11,621)	(18,988)	(27,152)	(1,935)	(163)	(199,503)	(25,986)
(1,256)	(332)	(1,881)	(732)	(737)	(20,903)	(54,853)
76	8,818	787	364	-	16,739	(3,589)
342	248	3,971	195	462	17,354	40
4,063	5,465	3,548	3,775	400	55,717	1,788
-	-	-	-	516	516	-
-	-	-	-	-	111	-
-	-	-	-	-	526	-
-	-	356	234	-	1,071	5,888
(396)	(12)	(97)	(6)	-	(19,776)	(2,526)
(396)	(12)	259	228	516	(17,552)	3,362
(5,305)	(3,020)	(2,139)	(1,086)	(670)	(39,364)	(3,713)
-	-	-	-	-	-	221
288	300	12	-	132	1,373	-
(82)	(1,283)	-	(575)	-	(4,050)	-
(44)	(496)	(565)	(372)	(38)	(12,473)	-
(5,143)	(4,499)	(2,692)	(2,033)	(576)	(54,514)	(3,492)
474	373	418	287	9	7,352	2,133
474	373	418	287	9	7,352	2,133
(1,002)	1,327	1,533	2,257	349	(8,997)	3,791
15,720	12,430	12,978	8,305	69	253,682	76,253
\$ 14,718	\$ 13,757	\$ 14,511	\$ 10,562	\$ 418	\$ 244,685	\$ 80,044
\$ 14,718	\$ 13,757	\$ 14,511	\$ 10,562	\$ 418	\$ 240,570	\$ 80,044
-	-	-	-	-	4,115	-
\$ 14,718	\$ 13,757	\$ 14,511	\$ 10,562	\$ 418	\$ 244,685	\$ 80,044
\$ 1,313	\$ 1,849	\$ 2,425	\$ 3,160	\$ (110)	\$ 34,536	\$ (432)
1,933	2,958	77	743	-	19,160	2,525
-	-	-	-	95	95	40
444	960	60	(12)	379	2,858	665
-	-	-	-	-	-	2
-	16	-	-	-	90	-
-	-	-	-	-	-	1,209
(73)	(280)	(40)	(43)	(42)	(1,304)	(298)
424	14	1,073	13	68	674	(1,634)
77	72	14	6	5	319	77
-	-	-	-	-	-	466
-	-	-	(66)	-	(66)	-
-	-	-	-	-	-	(739)
668	1,695	400	273	64	8,333	1,174
(723)	(1,819)	(461)	(299)	(59)	(8,978)	(1,267)
\$ 4,063	\$ 5,465	\$ 3,548	\$ 3,775	\$ 400	\$ 55,717	\$ 1,788

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Fiduciary Net Position
June 30, 2016
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 2,647
Restricted cash and investments with fiscal agents (Note 3)	2,550
Account receivable	505
Interest receivable	12
Total assets	\$ 5,714
 LIABILITIES:	
Due to bondholders	\$ 4,565
Due to other governments	1,149
Total liabilities	\$ 5,714

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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Notes are essential to present fairly the information contained in the overview level of the basic financial statements. Narrative explanations are intended to communicate information that is not readily apparent or cannot be included in the statements themselves, and to provide additional disclosures as required by the Governmental Accounting Standards Board.

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CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Palo Alto (the City) was incorporated in 1894 and operates as a charter city, having had its first charter granted by the State of California in 1909. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), public works, electric, fiber optics, water, gas, wastewater, storm drain, refuse, airport, golf course, planning and zoning, general administration services, library, open space and science, recreational and human services.

(a) Reporting Entity

The City is governed by a nine-member council, elected by City residents. The City is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees, and sue or be sued. The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although a separate legal entity, a blended component unit is, in substance, part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit described below is blended.

The Palo Alto Public Improvement Corporation (the Corporation) provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt that allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects that are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Board of Directors of the Corporation is composed of the same members as the City Council. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Downtown Parking Improvement Debt Service Fund.

Financial statements for the Corporation may be obtained from the City of Palo Alto, Administrative Services Department, 4th Floor, 250 Hamilton Avenue, Palo Alto, CA 94301.

(b) Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These standards require that the financial statements described below be presented:

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund goods and services transactions have not been eliminated in the consolidation process. These statements distinguish between the governmental and business-type activities of the City.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

(c) Major Funds and Other Funds

The City's major governmental and enterprise funds need to be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund type.

Major funds are defined as funds that have assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to at least 10 percent of their fund type total and at least 5 percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds on a qualitative basis.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund – This fund accounts for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

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

Water Services Fund – This fund accounts for all financial transactions relating to the City’s water service. Services are on a user-charge basis to residents and business owners located in the City.

Electric Services Fund – This fund accounts for all financial transactions relating to the City’s electric service. Services are on a user-charge basis to residents and business owners located in the City.

Fiber Optics Fund – This fund accounts for all financial transactions relating to the City’s fiber optics service. Services are on a user-charge basis to licensees located in the City.

Gas Services Fund – This fund accounts for all financial transactions relating to the City’s gas service. Services are on a user-charge basis to residents and business owners located in the City.

Wastewater Collection Services Fund – This fund accounts for all financial transactions relating to the City’s wastewater collection service. Services are on a user-charge basis to residents and business owners located in the City.

Wastewater Treatment Services Fund – This fund accounts for all financial transactions relating to the City’s wastewater treatment. Services are on a user-charge basis to residents and business owners located in the City.

Refuse Services Fund – This fund accounts for all financial transactions relating to the City’s refuse service. Services are on a user-charge basis to residents and business owners located in the City.

Storm Drainage Services Fund – This fund accounts for all financial transactions relating to the City’s storm drainage service. Services are on a user-charge basis to residents and business owners located in the City.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

The City also reports the following funds:

Airport Fund – This non-major enterprise fund accounts for all financial transactions relating to the Palo Alto Airport (PAO). The City assumed control over operation of PAO from the County of Santa Clara, effective August 11, 2014.

Internal Service Funds – These funds account for fleet replacement and maintenance, technology, central duplicating, printing and mailing services, administration of compensated absences and health benefits, and the City's self-insured workers' compensation and general liability programs, all of which are provided to other departments on a cost-reimbursement basis. Also included is the Retiree Health Benefits Internal Service Fund, which accounts for benefits to retirees.

Vehicle Replacement and Maintenance – This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is from reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

Technology – This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is from reimbursement of costs for support provided to other departments.

Printing and Mailing Services – This fund accounts for central duplicating, printing and mailing services provided to all City departments. The source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

General Benefits – This fund accounts for the administration of compensated absences and health benefits.

Workers' Compensation Insurance Program – This fund accounts for the administration of the City's self-insured workers' compensation program.

General Liability Insurance Program – This fund accounts for the administration of the City's self-insured general liability program.

Retiree Health Benefits – This fund accounts for retiree health benefits.

Fiduciary Funds – These funds account for assets held by the City, an agent for assessment districts, and members of the Cable Joint Powers Authority. These funds are custodial in nature and do not involve measurement of results of operations. The City maintains three agency funds. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

California Avenue Parking Assessment District – This fund accounts for the receipts and disbursements associated with the 1993 Parking District No. 92-13 Assessment Bonds.

Cable Joint Powers Authority – This fund accounts for the activities of the cable television system on behalf of the members.

University Avenue Area Off-Street Parking Assessment District – This fund accounts for the receipts and disbursements associated with the 2012 Limited Obligation Refunding Improvement Bonds.

(d) Basis of Accounting

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

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers revenues susceptible to accrual reported in the governmental funds to be available if the revenues are collected within ninety days after year-end, except for property taxes, which are available if 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*.

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

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities. Transactions representing the exchange of interfund goods and services have also been included.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Cash Equivalents

Restricted and unrestricted pooled cash and investments held in the City Treasury, and other unrestricted investments invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City’s cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities of less than three months at the time of purchase are considered cash equivalents for purposes of the statement of cash flows.

(f) Investments

The City’s investments are carried at fair value, and its fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles.

(g) Inventory of Materials and Supplies

Materials and supplies are held for consumption and are valued at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures at the time inventory items are used, rather than purchased.

(h) Prepaid items

Prepaid items are recorded at cost. Using the consumption method, prepaid items are recorded as expenditures over the period that service is provided.

(i) Compensated Absences

The liability for compensated absences includes the vested portion of vacation, sick leave, and overtime compensation pay. The City’s liability for accrued compensated absences is recorded in the General Benefits Internal Service Fund. The fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay are recognized as an expense or expenditure in the proprietary and governmental fund types when earned because the City has provided financial resources for the full amount through its budgetary process. Vested accumulated sick pay is paid in the event of termination due to disability and, under certain conditions, is specified in employment agreements.

During the fiscal year ended June 30, 2016, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 10,756
Additions	6,133
Payments	<u>(5,667)</u>
Ending balance	<u>\$ 11,222</u>
Current portion	<u>\$ 4,936</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property Tax

Santa Clara County (the County) assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

The County assesses property values, levies bills and collects taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	January 01	January 01
Levy Dates	October 01	July 01
Due Dates	50% on November 01 50% on February 01	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined previously within sixty days after year-end.

(k) Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period.

(l) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) Plans and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(m) Rounding

All amounts included in the basic financial statements and footnotes are presented to the nearest thousand.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements

As of July 1, 2015, the City implemented the following GASB Statements:

In February 2015 GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining fair value measurement for financial reporting purposes and for applying fair value to certain investments, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). See Note 3 for more information.

In June 2015 GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and amendments to certain provisions of GASB Statements No. 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. It amends certain provisions of Statement No. 68 for pension plans and pensions that are within its scope. The Statement also clarifies the application of certain provisions of Statement No. 68. This Statement is effective for the City's fiscal year ending June 30, 2016, except for those provisions that address employers and government nonemployer contribution entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017. The Statement did not have a significant impact on the City's financial statements.

GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes Statement No. 55. This statement is effective for the City's fiscal year ending June 30, 2016. The Statement did not have a significant impact on the City's financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. This statement is effective for the City's fiscal year ending June 30, 2016. The Statement did not have a significant impact on the City's financial statements.

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement is effective for the City's fiscal year ending June 30, 2017.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement is effective for the City's fiscal year ending June 30, 2018.

In August 2015 GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement defines tax abatement agreements and requires certain disclosures regarding the tax abatement in its financial statements. This statement is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments. This statement is effective for the City's fiscal year ending June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, *The Financial Reporting Entity*, as amended. This statement is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The Statement addresses issues raised with respect to GASB Statements No. 67, 68 and 73, regarding: (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This is effective for the City's fiscal year ending June 30, 2017, except for the requirements for selection of assumptions which will be effective during the City's fiscal year ending June 30, 2018.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual and accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The Budget is approved with the adoption of a budget ordinance for all funds except Agency Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Additional appropriations to departments in the General Fund, or to total appropriations for all other budgeted funds, or transfers of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Special Revenue and Debt Service Funds.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses are not recognized as investment earnings on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

NOTE 3 – CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except restricted bond proceeds with fiscal agents, and invests its pooled idle cash according to State of California law and the City's Investment Policy. The basic principles underlying the City's investment philosophy are to ensure the safety of public funds, ensure that sufficient funds are available to meet current expenditures, and achieve a reasonable rate of return on investments.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

Policies

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the City employs the trust department of a bank as the custodian of certain City managed investments.

Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 294,051	\$ 240,570	\$ 2,647	\$ 537,268
Held with fiscal agents	959	4,115	2,550	7,624
Total cash and investments	<u>\$ 295,010</u>	<u>\$ 244,685</u>	<u>\$ 5,197</u>	<u>\$ 544,892</u>

Investments Authorized by the City’s Investment Policy and Debt Agreements

The table below identifies the investment types that are authorized by the California Government Code (Code) and the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk and concentration of credit risk. The table addresses investment of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City’s Investment Policy.

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The Code requires these funds to be invested in accordance with City ordinance, bond indentures or state statute. All of these funds have been invested as permitted under the Code and the investment policy approved by the City Council.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
				10% of the par value of portfolio
Certificates of Deposit	10 years (*)	N/A	20%	\$5 million
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$3 million (B)
Commercial Paper	270 days	A-1	15%	\$50 million per account
Local Agency Investment Fund	N/A	N/A	No Limit	No Limit
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California				
Municipal Agencies	10 years (*)	AA/AA2	10%	No Limit

(A) Callable and multi-step securities are limited to no more than 25% of the par value of the portfolio, provided that: 1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, 3) the entire face value of the security is redeemable at the call date.

(B) The lesser of \$3 million or 10% of outstanding commercial paper of any one institution.

Debt Agreements:

(C) Utility Revenue Bonds 2011 Refunding and 1999 Refunding allow general obligations of states with a minimum credit quality rating of A2/A by Moody's and Standard & Poor's.

(D) Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of A-1/P-1 by Moody's and Standard & Poor's and maturing after no more than 360 days. Utility Revenue Bonds 1995 Series A limit the maximum maturity to 365 days.

(E) Water Revenue Bonds 2009 Series A, Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of AAAM or AAAM-G by Standard & Poor's.

(F) Utility Revenue Bonds 2011 Refunding, General Obligation Bonds 2010 and 2013A, and University Avenue Parking Bond 2012 are allowed to invest in the California Asset Management Program.

(*) The maximum maturity is based on the Investment Policy that is approved by the City Council and is less restrictive than the California Government Code.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. All of the investments are measured using level 2 inputs, except for investments in money market mutual funds, California Asset Management Program and Local Agency Investment Fund, which are not subject to the fair value hierarchy.

Investment securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

The following is a summary of the fair value measurements of the City as of June 30, 2016:

<u>Type of Investment</u>	<u>June 30, 2016</u>	<u>Level 2</u>
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 382,730	\$ 382,730
U.S. Treasury Notes	11,607	11,607
Local Government Bonds	32,408	32,408
Negotiable Certificates of Deposit	34,273	34,273
Corporate Bonds	15,571	15,571
Total investments by fair value hierarchy	<u>476,589</u>	<u>\$ 476,589</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	6,754	
California Asset Management Program	3,247	
Local Agency Investment Fund	57,487	
Total investments not subject to fair value hierarchy	<u>67,488</u>	
Total investments measured at fair value	<u>\$ 544,077</u>	

Local Agency Investment Fund

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2016, LAIF had a weighted average maturity of 167 days.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2016, the fair value approximated the City’s cost. CAMP had a weighted average maturity of 45 days at June 30, 2016.

Fidelity Institutional Asset Management

Money market mutual funds are available for withdrawal on demand and at June 30, 2016, had a weighted average maturity of 34 days.

Interest Rate Risk

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

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 66,280	\$ 116,905	\$ 77,049	\$ 122,496	\$ 382,730
U.S. Treasury Notes	-	8,589	3,018	-	11,607
Local Government Bonds	-	263	9,025	23,120	32,408
Corporate Bonds	-	2,915	12,656	-	15,571
Money Market Mutual Funds	6,754	-	-	-	6,754
Negotiable Certificates of Deposit	246	9,751	15,262	9,014	34,273
California Asset Management Program	3,247	-	-	-	3,247
Local Agency Investment Fund	57,487	-	-	-	57,487
Total Investments	\$ 134,014	\$ 138,423	\$ 117,010	\$ 154,630	544,077
Cash in bank and on hand					815
Total Cash and Investments					\$ 544,892

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2016, the City’s investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities in the amount of \$107.4 million that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided in the previous page). These securities are subject to early redemption at par in a period of declining interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as provided by Standard & Poor’s investment rating system as of June 30, 2016, for each investment type (in thousands):

<u>Type of Investment</u>	<u>Rating</u>	<u>Total</u>
U.S. Federal Agency Securities	AA+	\$ 382,730
Corporate Bonds	AAA	15,571
Local Government Bonds	AAA	32,408
Money Market Mutual Funds	AAAm	<u>6,754</u>
Total Investments		437,463
Not Applicable:		
U.S. Treasury Notes		11,607
Not Rated:		
California Asset Management Program		3,247
Local Agency Investment Fund		57,487
Negotiable Certificates of Deposit		34,273
Cash in bank and on hand		<u>815</u>
Total Cash and Investments		<u>\$ 544,892</u>

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2016 (in thousands):

<u>Investments</u>	<u>Reporting Type</u>	<u>Fair Value at Year-End</u>
Federal Home Loan Bank	U.S. Federal Agency Securities	\$ 120,065
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	104,357
Federal National Mortgage Corporation	U.S. Federal Agency Securities	44,843
Federal Farm Credit Bank	U.S. Federal Agency Securities	72,407
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	27,354

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the City’s cash on deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for these deposits. Under California Law, this collateral is considered held in the City’s name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City’s Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third-party custodian.

NOTE 4 – INTERFUND TRANSACTIONS

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during FY 2016 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
General Fund	Nonmajor Governmental Funds	\$ 422 A	
	Electric Services Fund	11,659 A	
	Gas Services Fund	6,194 A	
	Internal Service Funds	42 A	
	Capital Projects Fund	30,367 B	
Capital Projects Fund	Nonmajor Governmental Funds	5,674 B	
	Water Services Fund	113 B	
	Electric Services Fund	273 B	
	Fiber Optics Fund	17 B	
	Gas Services Fund	101 B	
	Wastewater Collection Fund	58 B	
	Refuse Services Fund	69 B	
	Internal Service Funds	30 B	
	Nonmajor Governmental Funds	General Fund	946 A
		Capital Projects Fund	3,018 F
Nonmajor Governmental Funds		2,816 A	
Water Services Fund		5 A	
Electric Services Fund		12 A	
Fiber Optics Fund		1 A	
Gas Services Fund		4 A	
Wastewater Collection Fund	2 A		
Internal Service Funds	12 A		
	Subtotal	<u>61,835</u>	

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
Water Services Fund	Gas Services Fund	\$ 111 B
	Wastewater Collection Fund	111 B
Electric Services Fund	General Fund	33 D
	Fiber Optics Fund	102 D
	Internal Service Funds	124 C
Refuse Services Fund	General Fund	40 D
	Nonmajor Governmental Funds	101 D
	Internal Service Funds	215 C
Storm Drainage Services Fund	General Fund	234 C
Internal Service Funds	General Fund	2,841 E
	Water Services Fund	247 B
	Electric Services Fund	166 B
	Fiber Optics Fund	1 B
	Gas Services Fund	260 B
	Wastewater Collection Fund	224 B
	Wastewater Treatment Fund	12 B
	Refuse Services Fund	28 B
	Storm Drainage Services Fund	6 B
	Internal Service Funds	2,103 E
	Subtotal	6,959
	Total	\$ 68,794

The reasons for these transfers are set forth below:

- (A) Transfer to fund governmental funds for services provided.
- (B) Allocation of funds to construct, purchase or maintain capital assets.
- (C) Transfer to refund replacement charges.
- (D) Transfer to fund Utility funds for services provided.
- (E) Transfer to fund Internal Service funds for services provided.
- (F) Transfer remaining bond proceeds to debt service.

Long-Term Interfund Advance

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from County of Santa Clara to the City. Council approved the following General Fund advances to the Airport Fund:

\$ 610,000	Due June 2019
325,000	Due July 2023
760,000	Due July 2024
516,000	Due July 2025

All advances bear interest equal to the average return yield on the City's investment portfolio. As of June 30, 2016, the total outstanding principal amount is \$2.2 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

Internal Balances

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 – NOTES AND LOANS RECEIVABLE

At June 30, 2016, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Oak Manor Townhouse	\$ 68
Tree House Apartments	5,343
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	750
Home Rehabilitation Loans	52
Executive Relocation Assistance Loans	513
Below Market Rate Assessment Loans	54
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LLC	1,000
Colorado Park Housing Corporation	204
	<hr/>
Total Notes and Loans	33,880
Less: Valuation Allowance	<u>(14,637)</u>
Total Notes and Loans, Net	<u><u>\$ 19,243</u></u>

Housing Loans

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. These loans have been offset by restricted or committed fund balances, as they are not expected to be repaid immediately.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Some of these loans contain forgiveness clauses that provide for the amount loaned to be forgiven if the third party maintains compliance with the terms of the loan and associated regulatory agreements. Since some of these loans are secured by trust deeds that are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result of the forgiveness clauses and nature of these housing projects and associated cash flows, a portion of the outstanding balances of the loans has been offset by a valuation allowance.

Oak Manor Townhouse

On January 7, 1991, the City loaned \$2.1 million to Palo Alto Housing Corporation Apartments, Inc. to assist in the acquisition of an apartment complex to be used to provide rental housing for low and very low income households. This loan bears interest at 3 percent, is due in annual installments until 2017 and is collateralized by a subordinated deed of trust. Under the terms of the loan agreement, annual loan payments are forgiven if the Corporation meets the objective of this project. During the year ended June 30, 2016, the objective was met and the annual loan payment was forgiven.

Tree House Apartments

In March 2009, the City agreed to loan \$2.8 million to Tree House Apartments, L.P. (THA) for the purchase of the real property located at 488 West Charleston Road. The loan accrues simple interest at the rate of 3 percent per annum. The loan was funded with \$1.8 million of Community Development Block Grant (CDBG) funds and \$1.0 million of residential housing funds. An additional development loan in the amount of \$2.5 million was approved by the City on October 18, 2010. As of June 30, 2016, the outstanding balance for THA in aggregate is \$5.3 million. Principal and interest payments will be deferred, however if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is December 31, 2067.

Emerson Street Project

On November 8, 1994, the City loaned \$375,000 to Palo Alto Housing Corporation (PAHC) for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low income households in the City. This loan is collateralized by a second deed of trust. The loan bears interest at 3 percent.

Alma Single Room Occupancy Development

On December 13, 1996, the City loaned \$2.2 million to Alma Place Associates, L.P. for development of a 107-unit single room occupancy development. This loan bears interest at 3 percent and is collateralized by a subordinated deed of trust. The principal balance is due in 2041.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Barker Hotel

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

In July 2004, the City agreed to loan up to \$41,000 to PAHC to rehabilitate the interior of the Barker Hotel. The loan was funded with CDBG funds and is collateralized by a deed of trust on the property. Annual loan payments are deferred until certain criteria defined in the loan agreement are reached. The loan will be forgiven if the borrower satisfactorily complies with all terms and conditions of the loan agreement.

Sheridan Apartments

On December 8, 1998, the City loaned \$2.5 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing. The loan was funded with \$1.6 million in CDBG funds, and \$825,000 of Housing In-Lieu funds. The note bears interest at 9 percent when available surplus cash from the project equals or exceeds 25 percent of interest calculated using 9 percent. When available surplus cash falls below this level, the note bears interest at 3 percent. The note is collateralized by a second deed of trust and an affordability reserve account held by PAHC. As of June 30, 2016, principal payments totaling \$228,000 have been made, and interest has also been paid. The remaining principal balance is due in 2033.

Oak Court Apartments, L.P.

On August 18, 2003, in connection with the loan to Oak Court Apartments, L.P. discussed in the next section, the City loaned \$5.9 million to PAHC for the purchase of land on which Oak Court Apartments, L.P. constructed a 53-unit rental apartment complex for low and very low income households with children. The note bears interest of 5 percent and is secured by a deed of trust. Note payments are due annually after 55 years, or beginning in 2058, unless PAHC elects to extend the note until 2102, as defined in the regulatory agreement.

On August 18, 2003, the City loaned \$1.9 million to Oak Court Apartments, L.P. for the construction of a 53-unit rental apartment complex for low and very low-income households with children, which was completed in April 2005. The note bears no interest until certain criteria defined in the note are satisfied, at which time the note will bear an interest rate not to exceed 3 percent. The note is secured by a subordinate deed of trust. The principal balance is due in 2060.

Palo Alto Gardens Apartments

On April 22, 1999, the City loaned \$1 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. Principal and interest payments began in FY 2008. The principal balance of \$100,000 is due in 2039.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Community Working Group, Inc.

On May 13, 2002, the City loaned \$1.3 million to Community Working Group, Inc. for predevelopment, relocation and acquisition of land for development of an 89-unit complex and homeless service center for very low income households. The loan was funded with \$1.3 million of CDBG funds. The note bears no interest and is secured by a first deed of trust. No repayment of the \$1.3 million will be required, provided that compliance with the City's agreement is maintained. After 89 years of compliance with the regulatory agreement, the City's loan would convert to a grant and its deed of trust would be re-conveyed.

Opportunity Center Associates, L.P.

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term.

Home Rehabilitation Loans

The City administers a closed housing rehabilitation loan program initially funded with CDBG funds. Under this program, individuals with incomes below a certain level are eligible to receive low interest loans for rehabilitation work on their homes. These loans are secured by deeds of trust, which may be subordinated to subsequent encumbrances upon said real property with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred, or a combination of both.

Executive Relocation Assistance Loans

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of 1 percent. Principal and interest payments are due bi-weekly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. As of June 30, 2016, the City had one outstanding home loan from the current City Manager.

The original purchase cost for the current City Manager's home was \$1.9 million and the City holds a 75 percent equity share. The loan balance owed as of June 30, 2016 is \$403,000. During FY 2011, the Council authorized a capital improvement loan of \$125,000. Loans for capital improvements are made on a dollar for dollar matching basis, with an equal equity contribution made by the City Manager. The loan balance owed as of June 30, 2016 was \$110,000.

Below Market Rate Assessment Loans

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3 percent and are secured by a deed of trust on each property. Loan payments are deferred until 2032. In 2016, the City did not receive interest payments.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Oak Manor Townhouse Water System

On May 12, 2003, the City Council approved an allocation of \$114,000 to Palo Alto Housing Corporation Apartments, Inc (PAHCA, Inc) to replace the water pipes. Repayment of the loan will not be required unless the property is sold, the program is terminated or purpose of the program is changed without City's approval prior to July 1, 2033. The loan for this project is subordinated to the existing City loan with PAHCA, Inc dated January 7, 1991 for the acquisition of the project site, which is discussed earlier in this section.

Lytton Gardens Assisted Living

In June 2005, the City loaned \$101,000 to Community Housing, Inc. to upgrade and modernize the existing kitchens at the senior residential facility known as Lytton Gardens Assisted Living. The loan was funded with CDBG funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

Emergency Housing Consortium

In November 2005, the City agreed to loan up to \$75,000 to Emergency Housing Consortium to cover architectural expenses that will be incurred in rehabilitating and expanding the property. The loan was funded with CDBG funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

Alma Garden Apartments

In March 2006, the City agreed to loan up to \$1.2 million to Community Working Group, Inc. to acquire a 10-unit multi-family housing complex known as Alma Garden Apartments. The loan was funded with CDBG funds. Principal and interest payments are deferred until July 1, 2061 as long as the borrower complies with all terms and conditions of the agreement.

2811-2825 Alma Street Acquisition

On October 9, 2011, the City agreed to loan \$1.3 million to PAHC Properties Corporation (PAHC) to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. On June 29, 2015, the City loaned PAHC an additional \$0.6 million, and entered into an Amended and Restated Acquisition and Development Agreement which combined the two loans for a total loan of \$1.9 million. The loan term expires on December 8, 2066 with an option to extend the term for an additional 44 years. The loan bears simple interest of 3 percent, however in the event of default interest will accrue at the lesser of 8 percent or the highest rate permitted by law. Principal and interest payments are payable during the term of the agreement on a "residual receipt" basis as described in the agreement. All principal and interest is due in the event of an unauthorized transfer, a default or the expiration of the term. As of June 30, 2016, the outstanding balance was \$1.9 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Palo Alto Family Housing, 801 Alma Street

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2016, the outstanding amount is \$6.4 million.

Palo Alto Senior Housing Project

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. The loan remains outstanding and is due at the end of the 55-year term.

Colorado Park Housing Corporation

On September 8, 2014, the City entered into an affordable housing fund loan agreement with Colorado Park Housing Corporation (CPHC), a California nonprofit public benefit corporation, in the principal amount of \$204,000. The loan bears no interest except in the event of default. The principal and any accrued interest is due and payable on the earlier of (a) expiration of the term, or (b) a default by CPHC which has not been cured as provided for in the agreement.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6 – CAPITAL ASSETS

Valuation

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City’s policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

Proprietary fund capital assets are recorded at cost including significant interest costs incurred under restricted tax-exempt borrowings, which finance the construction of capital assets. These interest costs, net of interest earned on investment of proceeds of such borrowings, are capitalized and added to the cost of capital assets during the construction period. Maintenance and repairs are expensed as incurred.

The City has recorded all its public domain capital assets, consisting of roadway and recreation and open space, in its government-wide financial statements. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the “modified approach” may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed unless they are additions or improvements. The City has elected to use the depreciation method for its capital assets. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of those assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of capital assets.

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

<u>Governmental Activities</u>	<u>Years</u>
Buildings and structures	20 - 30
Equipment:	
Computer equipment	3 - 5
Office machinery and equipment	5
Machinery and equipment	5 - 30
Intangible assets - software	5-20
Roadway network:	
Includes pavement, striping and legends, curbs, gutters and sidewalks, parking lots, traffic signage, and bridges	5 - 40
Recreation and open space network:	
Includes major park facilities, park trails, bike paths and medians	25 - 40
 <u>Business-type Activities</u>	
Buildings and structures	25 - 60
Vehicles and heavy equipment	3 - 10
Machinery and equipment	10 - 50
Transmission, distribution and treatment systems	10 - 100

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6 – CAPITAL ASSETS (Continued)

General Capital Assets

Changes in the City's general capital assets during the year ended June 30, 2016 were (in thousands):

	Balance July 1, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 79,047	\$ -	\$ (566)	\$ -	\$ 78,481
Street trees	15,077	-	-	-	15,077
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	39,333	24,361	(349)	(16,818)	46,527
Total nondepreciable capital assets	<u>137,024</u>	<u>24,361</u>	<u>(915)</u>	<u>(16,818)</u>	<u>143,652</u>
Depreciable capital assets:					
Buildings and structures	221,696	25	(1,898)	1,087	220,910
Intangible assets - Software	279	-	-	-	279
Equipment	12,265	308	-	286	12,859
Roadway network	299,242	-	-	9,330	308,572
Recreation and open space network	27,632	-	(669)	6,115	33,078
Total depreciable capital assets	<u>561,114</u>	<u>333</u>	<u>(2,567)</u>	<u>16,818</u>	<u>575,698</u>
Less accumulated depreciation:					
Buildings and structures	(76,179)	(6,020)	2,974	-	(79,225)
Intangible assets - Software	(206)	(59)	-	-	(265)
Equipment	(7,944)	(426)	-	-	(8,370)
Roadway network	(134,027)	(7,069)	-	-	(141,096)
Recreation and open space network	(9,908)	(965)	-	-	(10,873)
Total accumulated depreciation	<u>(228,264)</u>	<u>(14,539)</u>	<u>2,974</u>	<u>-</u>	<u>(239,829)</u>
Depreciable capital assets, net	<u>332,850</u>	<u>(14,206)</u>	<u>407</u>	<u>16,818</u>	<u>335,869</u>
Internal service fund capital assets					
Construction in progress	1,350	3,704	-	(3,225)	1,829
Equipment	53,419	9	(1,241)	3,225	55,412
Less accumulated depreciation	(39,454)	(2,525)	1,204	-	(40,775)
Net internal service fund capital assets	<u>15,315</u>	<u>1,188</u>	<u>(37)</u>	<u>-</u>	<u>16,466</u>
Governmental activities capital assets, net	<u>\$ 485,189</u>	<u>\$ 11,343</u>	<u>\$ (545)</u>	<u>\$ -</u>	<u>\$ 495,987</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6 – CAPITAL ASSETS (Continued)

Business-type Capital Assets

Changes in the City's enterprise fund capital assets during the year ended June 30, 2016 were (in thousands):

	Balance July 1, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	89,909	39,088	(1,566)	(33,461)	93,970
Total nondepreciable capital assets	<u>94,882</u>	<u>39,088</u>	<u>(1,566)</u>	<u>(33,461)</u>	<u>98,943</u>
Depreciable capital assets:					
Buildings and structures	53,505	-	-	3,424	56,929
Transmission, distribution and treatment systems	717,669	269	(1,323)	30,037	746,652
Total depreciable capital assets	<u>771,174</u>	<u>269</u>	<u>(1,323)</u>	<u>33,461</u>	<u>803,581</u>
Less accumulated depreciation:					
Buildings and structures	(10,606)	(970)	-	-	(11,576)
Transmission, distribution and treatment systems	(296,917)	(18,210)	986	-	(314,141)
Total accumulated depreciation	<u>(307,523)</u>	<u>(19,180)</u>	<u>986</u>	<u>-</u>	<u>(325,717)</u>
Depreciable capital assets, net	<u>463,651</u>	<u>(18,911)</u>	<u>(337)</u>	<u>33,461</u>	<u>477,864</u>
Business-type activities capital assets, net	<u>\$ 558,533</u>	<u>\$ 20,177</u>	<u>\$ (1,903)</u>	<u>\$ -</u>	<u>\$ 576,807</u>

Capital Asset Contributions

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. Generally accepted accounting principles require that these contributions be accounted for as revenues at the time the capital assets are contributed.

Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 37	Water	\$ 2,743
City Attorney	3	Electric	7,601
Administrative Services	2	Fiber Optics	328
Community Services	1,814	Gas	2,827
Public Safety	334	Wastewater Collection	1,932
Public Works	9,863	Wastewater Treatment	2,956
Planning and Community Environment	166	Refuse	77
Library	2,320	Storm Drainage	716
Internal Service Funds	2,525		
	<u>\$ 17,064</u>		<u>\$ 19,180</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2016 is comprised of the following (in thousands):

<u>Governmental Activities</u>	<u>Expended to June 30, 2016</u>
California Avenue-Transit Hub Corridor	\$ 6,703
City Hall First Floor Renovation	4,307
Magical Bridge Playground	3,554
Traffic Signal Upgrades	2,529
Furniture/Technology for Library Bond Project	2,324
Highway 101 Pedestrian/Bicycle Overpass	1,918
Telephone Infrastructure and Network	1,582
Transportation and Parking Improvements	1,413
Safe Routes To School	1,148
Bicycle Boulevards Implementation Project	1,127
Golf Reconfig and Baylands Athletic Center	1,119
Curb & Gutter Repairs	1,104
Charleston/Arastradero Corridor	1,023
Park Trails	960
Parks Master Plan	852
Eleanor Pardee Park Imp	739
Newell Road Bridge/SFC Bridge Replacemen	719
Library & Comm Center Temp Facilities	657
Benches/Signage/Fencing/Walkways	596
Interior Finishes Construction	584
Temporary Main Library	536
Other Construction In Progress	12,862
Total Governmental Activities Construction In Progress	<u>\$ 48,356</u>
<u>Business-type Activities</u>	<u>Expended to June 30, 2016</u>
Water system extension replacements and improvements	\$ 10,928
Gas system extension replacements and improvements	2,184
Sewer system rehabilitation and extensions	6,765
Electric distribution system improvements	7,753
Water quality control plant equipment replacement and lab facilities	3,612
Storm drainage structural and water quality improvements	3,097
Other electrical improvements projects	1,430
Other construction in progress	58,201
Total Business-type Activities Construction In Progress	<u>\$ 93,970</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

Allocations of business-type activity administration and general expenses of \$12.0 million have been capitalized and included in amounts expended to June 30, 2016.

Major governmental capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Golf Course reconfiguration and Baylands Athletic Center - \$10.2 million
- Lucie Stern Buildings mechanical and electrical upgrades - \$2.8 million
- Bicycle and pedestrian transportation plan - \$2.6 million

Major business-type capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Seismic water system upgrades for Water fund - \$4.4 million
- Channing Avenue/Lincoln Avenue storm drain improvement - \$3.6 million
- Wastewater Collection Fund rehabilitation/augmentation - \$9.2 million

Vehicle Registration Fees (VRF)

In FY 2016, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for Alma/Middlefield Resurfacing Project (Project PE-86070):

Starting VRF balance July 1, 2015	\$	-
VRF revenue		406,022
VRF interest		4,300
VRF expense		(410,322)
Ending VRF balance June 30, 2016	\$	-

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS

Long-Term Obligations

Bond premiums and discounts of long-term debt issues are amortized over the life of the related debt.

The City's long-term debt issues and transactions, other than special assessment debt discussed in Note 8, are as follows (in thousands):

	Original Issue Amount	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Governmental Activities Debt:						
<i>General Long-Term Obligations:</i>						
2002B Downtown Parking Improvements, Certificates of Participation, 6.50%, due 03/01/2022	\$ 3,555	\$ 1,285	\$ -	\$ 150	\$ 1,135	\$ 160
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	55,305	51,470	-	3,380	48,090	1,110
2011 Lease-Purchase Agreement	3,222	1,643	-	395	1,248	406
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	20,325	-	3,205	17,120	390
Add: Unamortized Premium	-	4,084	-	158	3,926	158
Total Governmental Activities Debt	\$ 82,777	\$ 78,807	\$ -	\$ 7,288	\$ 71,519	\$ 2,224

	Original Issue Amount	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Business-type Activities Debt:						
<i>Enterprise Long-Term Obligations:</i>						
Utility Revenue Bonds						
1995 Series A, 5.00-6.25%, due 06/01/2020	\$ 8,640	\$ 2,860	\$ -	\$ 505	\$ 2,355	\$ 535
1999 Refunding, 3.25-5.25%, due 06/01/2024	17,735	10,345	-	665	9,680	700
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	30,700	-	955	29,745	990
2011 Refunding, 3-4%, due 06/01/2035	17,225	13,320	-	1,005	12,315	1,045
Add: Unamortized Premium	-	840	-	70	770	-
Energy Tax Credit Bonds						
2007 Series A, 0%, Due 12/15/2021	1,500	700	-	100	600	100
Less: Unamortized Discount	-	(38)	-	(5)	(33)	-
State Water Resources Loans						
2007, 1.02%, due 06/30/2029	9,000	6,300	-	450	5,850	450
2009, 2.6%, due 11/30/2030	8,500	7,200	-	369	6,831	378
Total Business-type Activities Debt	\$ 97,615	\$ 72,227	\$ -	\$ 4,114	\$ 68,113	\$ 4,198

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

Description of Long-Term Debt Issues

2002B Downtown Parking Improvements Project Certificates of Participation (COPs) – On January 16, 2002, the City issued \$3.6 million of COPs to finance the construction of certain improvements to the non-parking area contained in the City’s Bryant/Florence Garage complex. Principal payments are due annually on March 1 and interest payments semi-annually at 6.5 percent on March 1 and September 1, and are payable from lease revenues received by the Corporation from the City’s available funds.

2010 General Obligation Bonds (GO bonds) – On June 30, 2010, the City issued \$55.3 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 3.25 percent to 5 percent, and are payable from property tax revenues.

On June 28, 2016, the City defeased \$2.3 million of 2010 GO bonds using funds from bond premiums received at time of issue by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The economic gain associated with interest savings is estimated at \$0.9 million. The City legally remains the primary obligor on the \$2.3 million of defeased bonds until they are paid on August 1, 2020.

2013A General Obligation Bonds (GO bonds) – On June 30, 2013, the City issued \$20.7 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues.

On June 28, 2016, the City defeased \$2.8 million of 2013A GO bonds using funds remaining at completion of the project by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The economic gain associated with interest savings is estimated at \$0.7 million. The City legally remains the primary obligor on the \$2.8 million of defeased bonds until they are paid on August 1, 2023.

The City’s 2010 and 2013A GO bonds are payable from pledged ad valorem property taxes until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2016, the City received \$4.6 million in ad valorem property taxes for principal of \$1.4 million and interest of \$3.2 million for both 2010 and 2013A GO bonds.

2011 Lease-Purchase Agreement – On August 2, 2011, the City entered into a master lease-purchase agreement with JP Morgan Chase Bank, N.A. to finance redemption of the 1998 Golf Course COPs. The lease is secured by a first priority security interest in twenty-one Fire Department emergency vehicles. Lease proceeds were \$3.2 million. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1 at a rate of 2.49 percent, payable from General Fund revenues.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

1995 Utility Revenue Bonds, Series A – The City issued \$8.6 million of Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City’s Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Services Fund, Fiber Optics Fund and Airport Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.9 million 6.3 percent term bond is due June 1, 2020.

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$685,340 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$2.4 million principal and \$0.4 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2016, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$241.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$186.8 million. Net Revenues available for debt service amounted to \$54.7 million, which represented coverage of 80 times over the \$0.7 million in debt service.

1999 Utility Revenue and Refunding Bonds – The City issued \$17.7 million of Utility Revenue Bonds on June 1, 1999, to refund the 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, and to finance rehabilitation of two Wastewater Treatment sludge incinerators. The 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, were subsequently retired.

The 1999 Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon certain net revenues derived by the City’s sewer system and its storm and surface water system (the “Storm Drain System”). As of June 30, 2001, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds: Wastewater Collection (10.2 percent), Wastewater Treatment (64.6 percent) and Storm Drainage (25.2 percent). Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$3.1 million 5.3 percent term bond and a \$5.1 million 5.3 percent term bond are due June 1, 2021 and 2024, respectively.

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$1,647,300 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$9.7 million principal and \$2.7 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2016, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$48.0 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$34.9 million. Net Revenues available for debt service amounted to \$13.1 million, which represents coverage of 10.8 times over the \$1.2 million in debt service.

2007 Electric System Clean Renewable Energy Tax Credit Bonds, Series A – In October 2007, the City issued \$1.5 million of Electric Utility Clean Renewable Energy Tax Credit Bonds (CREBs), 2007 Series A, to finance the City’s photovoltaic solar panel project. The CREBs do not bear interest. In lieu of receiving periodic interest payments, bondholders are allowed annual federal income tax credits in an amount equal to a credit rate for such CREBs multiplied by the outstanding principal amount of the CREBs owned by the bondholders. The CREBs are payable solely from and secured solely by a pledge of the Net Revenues of the Electric system and the other funds pledged under the Indenture.

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.6 million remaining debt service on the bonds, which is scheduled to occur in FY 2022. For FY 2016, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$123.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$103.7 million. Net Revenues available for debt service amounted to \$20.2 million, which represented coverage of 202 times over the \$0.1 million in debt service.

2009 Water Revenue Bonds, Series A – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to \$526 thousand, which represents 32.6 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$29.7 million principal and \$19.0 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2016, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$38.7 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$30.6 million. Net Revenues available for debt service amounted to \$8.1 million, which represented coverage of 3.19 times over the \$2.6 million in debt service.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

2011 Utility Revenue Refunding Bonds – On September 8, 2011, the City issued \$17.2 million in Lease Revenue Bonds (2011 Bonds) to refund the outstanding 2002 Series A Utility Revenue Bonds (2002 Bonds) on a current basis. The 2002 Bonds were issued to finance improvement to the City’s municipal water utility system and the natural gas utility system. Principal of the 2011 Bonds is payable annually on June 1, and interest on the 2011 Bonds is payable semi-annually on June 1 and December 1. The 2011 Bonds are secured by net revenues generated by the Water Services and Gas Services Funds.

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$12.3 million principal and \$2.3 million interest as remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2016, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$69.7 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$48.2 million. Net Revenues available for debt service amounted to \$21.5 million, which represented coverage of 14.7 times over the \$1.5 million in debt service.

2007 State Water Resources Loan – In October 2007, the City approved a \$9 million loan agreement with State Water Resources Control Board (SWRCB) to finance the City’s Mountain View/Moffett Area reclaimed water pipeline project. Under the terms of the contract, the City has agreed to repay \$9 million to the State in exchange for receiving \$7.5 million in proceeds to be used to fund the Project. The difference of \$1.5 million between the repayment obligation and proceeds represents in-substance interest on the outstanding balance. Principal payments are payable annually on June 30.

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements.

2009 State Water Resources Loan – In October 2009, the City approved an \$8.5 million loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30.

Debt Service Requirements (in thousands):

Debt service requirements are shown below for all long-term debt.

For the Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 2,066	\$ 3,032	\$ 5,098	\$ 4,198	\$ 2,818	\$ 7,016
2018	2,156	2,942	5,098	4,363	2,656	7,019
2019	2,251	2,844	5,095	4,533	2,484	7,017
2020	1,920	2,758	4,678	4,713	2,300	7,013
2021	1,985	2,674	4,659	4,899	2,118	7,017
2022-2026	10,355	12,045	22,400	23,204	7,704	30,908
2027-2031	12,775	9,296	22,071	12,569	4,382	16,951
2032-2036	15,920	6,108	22,028	8,895	1,361	10,256
2037-2041	17,615	2,050	19,665	-	-	-
2042-2046	550	11	561	-	-	-
Total	<u>\$ 67,593</u>	<u>\$ 43,760</u>	<u>\$ 111,353</u>	<u>\$ 67,374</u>	<u>\$ 25,823</u>	<u>\$ 93,197</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

Debt Call Provisions

Long-term debt as of June 30, 2016 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<i>Governmental Activities Long-Term Debt</i>		
2002B Certificates of Participation	03/01/11	(2)
2010 General Obligation Bonds		
\$6.595 million due 08/01/2032	08/01/31	(3)
\$4.890 million due 08/01/2034	08/01/33	(3)
\$17.725 million due 08/01/2040	08/01/35	(3)
<i>Business-Type Activities Long-Term Debt</i>		
Utility Revenue Bonds		
1999 Refunding	06/01/09	(1)
2011 Refunding	06/01/21	(1)

- (1) Callable in inverse numerical order of maturity at par plus a premium of 2 percent beginning on the initial call date. The call price declines subsequent to the initial date.
- (2) Callable in any order specified by the City at par plus a premium of 1 percent beginning on the initial call date. The call price declines subsequent to the initial date.
- (3) Callable in any order specified by the City at par value plus any accrued interest beginning on the initial call date.

Leasing Arrangements

COPs and Capital Leases are issued for the purpose of financing the construction or acquisition of projects defined in each leasing arrangement. Projects are leased to the City for lease payments which, together with unspent proceeds of the leasing arrangement, will be sufficient to meet the debt service obligations of the leasing arrangement. At the termination of the leasing arrangement, title to the project will pass to the City.

Leasing arrangements are similar to debt in that they allow investors to participate in a share of guaranteed payments made by the City. Because they are similar to debt, the present value of the total payments to be made by the City is recorded as long-term debt. The City's leasing arrangements are included in long-term obligations discussed above.

Conduit Financing

On December 15, 1996, the City acted as a financial intermediary in order to assist Lytton Gardens Health Care Center in issuing Insured Revenue Refunding Bonds. The Bonds are payable solely from revenues collected by Lytton Gardens Health Care Center. The City has not included these bonds in its basic financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 2016, the amount of bonds outstanding was \$1.2 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 8 – SPECIAL ASSESSMENT DEBT

Special Assessment Debt with no City Commitment

The California Avenue Parking Assessment District No. 92-13 issued Assessment Bonds of 1993, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2016, the debt has been fully paid off.

On February 29, 2012, the University Avenue Area Off-Street Parking Assessment District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2016, the District's outstanding debt amounted to \$25.1 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022.

NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE

The 126 acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty year post-closure related activities was approved by state and local regulatory agencies in 2014. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2016 are \$6.6 million. The City is required by state and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES

Net Position

Net Position is the excess of the City's assets and deferred outflows of resources over its liabilities and deferred inflows of resources. Net position is divided into three categories that are described below:

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

Restricted describes the portion of net position that is reduced by liabilities related to restricted assets. Generally a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted describes the portion of net position which is not restricted as to use.

Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

Nonspendable – This category is comprised of amounts that are: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: prepaid items. The corpus of the permanent fund is contractually required to be maintained intact.

Restricted – This category is comprised of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed – This category is comprised of amounts that can only be used for the specific purposes determined by the action that constitutes the most binding constraint (i.e. ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned – This category is comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or the City Manager, to whom the City Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – This category is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may report negative unassigned fund balance, which occurs when a fund has a residual deficit after allocation of fund balance to the nonspendable, restricted or committed categories.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

The fund balances of all governmental funds are presented by the above mentioned categories on the face of the financial statements. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance categories, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

The General Fund Budget Stabilization Reserve (BSR) is established by authority of the General Fund Reserve Policy, which is approved by the City Council and included in the City's annual adopted budget. The BSR is maintained in the range of 15 to 20 percent of General Fund expenditures and operating transfers, with a target of 18.5 percent. Any reserve level below 15 percent requires City Council approval. At the discretion of the City Manager, a reserve balance above 18.5 percent may be transferred to the Infrastructure Reserve within the Capital Projects Fund. The purpose of the General Fund BSR is to fund unbudgeted, unanticipated one-time costs. The BSR is not meant to fund ongoing, recurring General Fund expenditures.

As of June 30, 2016 total outstanding encumbrances related to governmental activities were \$6.2 million for the General Fund, \$30.6 million for the Capital Projects Fund, and \$0.5 million for the Special Revenue Funds. General Fund encumbrances are reserved for the following governmental activities: Planning & Community Environment \$1.8 million, Development Services \$0.1 million, Public Works \$0.8 million, Community Services \$0.9 million, Fire \$0.6 million, Library \$0.3 million, and the remaining City departments \$1.7 million.

Enterprise Funds

At June 30, 2016, Enterprise Fund unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ 9,011	\$ -	\$ 409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,420
Distribution	1,877	-	24,329	5,610	342	(2,365)	6,147	1,760	(2,393)	35,307
	<u>1,877</u>	<u>9,011</u>	<u>24,329</u>	<u>6,019</u>	<u>342</u>	<u>(2,365)</u>	<u>6,147</u>	<u>1,760</u>	<u>(2,393)</u>	<u>44,727</u>
Operations										
Supply	-	15,642	-	-	-	-	-	-	-	15,642
Distribution	14,607	6,208	-	10,296	3,211	-	-	-	-	34,322
	<u>14,607</u>	<u>21,850</u>	<u>-</u>	<u>10,296</u>	<u>3,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,964</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	51,838	-	-	-	-	-	-	-	51,838
Reappropriations	10,530	6,239	158	5,346	1,842	12,225	43	5,210	18	41,611
Commitments	6,349	5,209	91	909	9,246	2,614	1,203	3,985	442	30,048
Underground loan	-	729	-	-	-	-	-	-	-	729
Notes and loans	-	-	-	-	-	559	-	-	-	559
Landfill corrective action	-	-	-	-	-	-	719	-	-	719
Hydro stabilization reserve	-	11,400	-	-	-	-	-	-	-	11,400
Public benefit program	-	1,839	-	-	-	-	-	-	-	1,839
Central Valley Project	-	-	-	-	-	-	-	-	-	-
CIP reserve	2,726	880	-	3,820	978	-	-	-	-	8,404
Geng Road Reserve	-	-	-	-	-	-	268	-	-	268
GASB 68 Pension reserve	(11,609)	(27,284)	(1,662)	(12,365)	(6,950)	(17,125)	(4,892)	(2,923)	(361)	(85,171)
Total	<u>\$ 24,480</u>	<u>\$ 81,711</u>	<u>\$ 23,916</u>	<u>\$ 14,025</u>	<u>\$ 8,669</u>	<u>\$ (2,112)</u>	<u>\$ 3,488</u>	<u>\$ 8,032</u>	<u>\$ (2,294)</u>	<u>\$ 159,915</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

The City Council has set aside unrestricted net position for general contingencies, and future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

Internal Service Funds

At June 30, 2016, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 3,088	\$ 2,317	\$ 13	\$ 239	\$ 7	\$ 37	\$ -	\$ 5,701
Future catastrophic losses	-	-	-	-	2,913	3,263	-	6,176
Retiree health care	-	-	-	-	-	-	25,750	25,750
Capital projects	4,849	3,774	-	-	-	-	-	8,623
GASB68 pension reserve	(2,589)	(9,080)	(292)	-	-	-	-	(11,961)
Available	3,573	15,537	9	2,289	-	-	-	21,408
Total	<u>\$ 8,921</u>	<u>\$ 12,548</u>	<u>\$ (270)</u>	<u>\$ 2,528</u>	<u>\$ 2,920</u>	<u>\$ 3,300</u>	<u>\$ 25,750</u>	<u>\$ 55,697</u>

Commitments represent the portion of net position set aside for open purchase orders.

Future catastrophic losses represent the portion of net position to be used for unforeseen future losses.

Retiree health care represents the portion of net position set aside to defer future costs of retiree health care coverage.

Capital projects represent the portion of net position set aside for adopted capital projects.

GASB68 pension reserve is the portion of net position required to be set aside to meet defined benefit pension obligations.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS

(a) General Information about the Pension Plans

Plan Descriptions - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

Benefits Provided - CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service (equal to one year of full-time employment), age at retirement and final compensation. The death benefit is one of the following: the 1959 Survivor Benefit, or the pre-retirement option 2W Death Benefit for local fire members only.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2013.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
	On or after June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Hire Date	Prior to June 8, 2012	2012	2012	2013
Benefit formula ¹	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 ¹	55 ¹	57 ¹
Monthly benefit as % of eligible compensatio	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	41.932%	41.932%	41.932%	41.932%

	Miscellaneous Plan		
	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
	Hire Date	Prior to July 17, 2010	2010
Benefit formula	2.7% at 55 ²	2% at 60 ²	2% at 62 ³
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 ²	60 ²	62 ³
Monthly benefit as % of eligible compensatio	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	27.694%	27.694%	27.694%

¹ Employees can retire at age 50 with reduced benefits of 2.4% - 2.88% if hired before Jan 1, 2013, or 2.0% - 2.6% if hired on or after Jan 1, 2013.

² Employees can retire at age 50 with reduced benefits of 2.0% - 2.56% if hired before July 17, 2010, or 1.092% - 1.874% if hired on or after July 17, 2010.

³ Employees can retire at age 52 with reduced benefits of 1.0% - 1.9%

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

Employees Covered – Based on the Actuarial Valuation Report as of June 30, 2015, the following employees were covered by the benefits terms for each Plan:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Inactive employees or beneficiaries currently receiving benefits	1,027	414
Inactive employees entitled to but not yet receiving benefits	714	98
Active employees	796	179
Total	<u>2,537</u>	<u>691</u>

Contributions –Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Further detail can be found in the Required Supplemental Information Schedule of Contributions.

(b) Net Pension Liability

The City’s net pension liability for both Plans is measured as the total pension liability, less the plan’s fiduciary net position. Net pension liability is measured as of June 30, 2015 (measurement date), using the Actuarial Valuation Report as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. At June 30, 2016, the City reported a net pension liability of \$319.6 million for both plans. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

Actuarial Assumptions - The total pension liabilities were determined using the following actuarial assumptions in the Accounting Valuation Report:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Investment Rate of Return ¹	7.50%	7.50%
Retirement Age	Probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.	
Mortality ²	Derived using CalPERS membership data for all funds.	

¹ Net of pension plan investment and administrative expenses, including inflation.

² Mortality table used was developed based on CalPERS Experience Study for period 1997 to 2007. Pre- and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Further details of the Experience Study can be found on the CalPERS website.

Change in Assumptions - GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2015 measurement date. The stress test results are presented in a detailed report that can be obtained from the CalPERS website under GASB Statement No. 68 section.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for both Miscellaneous and Safety Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹ An expected inflation of 2.5% used for this period.

² An expected inflation of 3.0% used for this period.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

(c) Changes in the Net Pension Liability

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Miscellaneous Plan (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2015	\$ 663,471	\$ 476,363	\$ 187,108
Changes for the year:			
Service cost	12,183	-	12,183
Interest on total pension liability	49,345	-	49,345
Differences between expected and actual experiences	3,507	-	3,507
Changes in assumptions	(11,552)	-	(11,552)
Contributions from employer	-	18,610	(18,610)
Contributions from employees	-	5,730	(5,730)
Net investment income	-	10,597	(10,597)
Benefit payments, including refunds of employee contributions	(32,980)	(32,980)	-
Administrative expense	-	(538)	538
Net changes	<u>20,503</u>	<u>1,419</u>	<u>19,084</u>
Balances reported at June 30, 2016	<u>\$ 683,974</u>	<u>\$ 477,782</u>	<u>\$ 206,192</u>

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Safety Plan (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2015	\$ 367,403	\$ 264,579	\$ 102,824
Changes for the year:			
Service cost	5,959	-	5,959
Interest on total pension liability	27,047	-	27,047
Differences between expected and actual experiences	75	-	75
Changes in assumptions	(6,327)	-	(6,327)
Contributions from employer	-	8,617	(8,617)
Contributions from employees	-	2,047	(2,047)
Net investment income	-	5,774	(5,774)
Benefit payments, including refunds of employee contributions	(21,148)	(21,148)	-
Administrative expense	-	(290)	290
Net changes	<u>5,606</u>	<u>(5,000)</u>	<u>10,606</u>
Balances reported at June 30, 2016	<u>\$ 373,009</u>	<u>\$ 259,579</u>	<u>\$ 113,430</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.65 percent, compared to a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent). Amounts shown below are in thousands:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plan:			
Plan's Net Pension Liability/(Asset)	\$ 293,361	\$ 206,192	\$ 133,730
Safety Plan:			
Plan's Net Pension Liability/(Asset)	\$ 160,809	\$ 113,430	\$ 74,244

Plan Fiduciary Net Position – Detailed information about the Plan’s fiduciary net position is available in the separately issued CalPERS financial report: Schedule of Changes in Fiduciary Net Position by Rate Plan.

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized a pension expense of \$14.7 million and \$7.9 million for the Miscellaneous and Safety Plan respectively. At June 30, 2016, the City reported pension related deferred outflows of resources and deferred inflows of resources from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 28,203	\$ -
Change of assumptions	-	12,168
Difference between expected and actual experience	2,392	-
Net difference between projected and actual earnings on plan investments	-	6,653
Total	<u>\$ 30,595</u>	<u>\$ 18,821</u>

The \$28.2 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2015 through June 30, 2016 which is subsequent to the City’s measurement date of June 30, 2015 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11 – PENSION PLANS (Continued)

The net differences reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows (in thousands):

<u>Year Ended June 30,</u>	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>	<u>Total</u>
2017	\$ (5,732)	\$ (3,623)	\$ (9,355)
2018	(5,732)	(3,623)	(9,355)
2019	(3,050)	(2,519)	(5,569)
2020	5,053	2,797	7,850
	<u>\$ (9,461)</u>	<u>\$ (6,968)</u>	<u>\$ (16,429)</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 12 – RETIREE HEALTH BENEFITS

In addition to providing pension benefits, the City participates in the California Public Employees’ Medical and Health Care Act program to provide certain health care benefits for retired employees. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits provided to retirees are noted in the following tables:

Unit	Hired Before	Retiree Coverage ¹	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional ²	1/1/2004	100%	100%	5/1/2011	Flat rate ⁴
Police Management ²	1/1/2004	100%	100%	6/1/2012	Flat rate ⁵
Fire Fighters ²	1/1/2004	100%	100%	12/1/2011	10%
Fire Chiefs Association ²	1/1/2004	100%	100%	1/1/2013	10%
SEIU	1/1/2005	100%	100%	5/1/2011	Flat rate ⁴
Police Officers ³	1/1/2006	100%	100%	4/1/2015	10%
Utilities Managers & Professional ²	1/1/2004	100%	100%	5/1/2011	10%

¹ 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.

² Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.

³ Effective 7/1/2014 plan capped at the second highest CalPERS Bay Area Basic plan premium.

⁴ Effective 4/1/2014 City pays \$688 for employee, \$1,375 for employee +1, \$1,788 for family. Effective 1/1/2015 City pays \$708 for employee, \$1,415 for employee +1, \$1,840 for family.

⁵ Effective 1/1/2015 City pays \$708 for employee, \$1,415 for employee +1, \$1,840 for family. Effective 1/1/2016 City pays \$743 for employee, \$1,485 for employee +1, \$1,931 for family.

Retiree contributions for units with the following hire dates are determined by Government Code Section 22893, 20 year graduated schedule:

Unit	Hired on or After	Retiree Coverage ¹	Dependent Coverage ²
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
Utilities Managers & Professional	1/1/2004	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

¹ Employees with ten years of CalPERS service, at least five of which are at the City of Palo Alto, receive 50% of the specified employer contribution, with the City portion increasing by 5% for each additional year of service credit.

² Maximum of 90% once employee completes 20 years of service.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 12 – RETIREE HEALTH BENEFITS (Continued)

In FY 2008, the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The Trust, California Employers’ Retirees Benefit Trust (CERBT), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council. This Trust is not considered a component unit of the City.

Funding Policy and Actuarial Assumptions

The City’s policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution. The annual required contribution (ARC) was determined as part of a June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions include: (a) 7.6125 percent investment rate of return, (b) 3.25 percent projected annual salary increase, (c) market value of assets, (d) inflation rate of 3 percent, and (e) health care cost trend data as noted in the following table:

<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>
2015	8.0%	8.3%
2016	7.5%	7.8%
2017	7.0%	7.2%
2018	6.5%	6.7%
2019	6.0%	6.1%
2020	5.5%	5.6%
2021+	5.0%	5.0%

The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the City and Plan members to that point. Actuarially determined amounts are subject to revision at least biennially as results are compared to past expectations and new estimates are made about the future. The City’s unfunded actuarial accrued liability for retiree health benefits is being amortized as a level percentage of projected payroll using a 30 year closed amortization period.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 12 – RETIREE HEALTH BENEFITS (Continued)

Generally accepted accounting principles permit assets to be treated as other post employment benefit (OPEB) assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the year ended June 30, 2016, the City made contributions and amortized the Net OPEB asset to fund the current year annual required contribution (ARC). As a result, the City has calculated and recorded the Net OPEB Asset, representing the difference between the ARC, amortization and contributions, as presented below (in thousands):

Annual required contribution	\$	14,767
Amortization of the Net OPEB Asset		2,183
Interest on the Net OPEB Asset		<u>(1,658)</u>
Annual OPEB Cost		<u>15,292</u>
Contributions made:		
Contributions to OPEB Trust		2,442
Contributions to Retirees		7,921
Implicit rate subsidy		2,102
City portion of current year premiums paid*		<u>1,618</u>
Total contributions made		<u>14,083</u>
Change in Net OPEB Asset		(1,209)
Net OPEB Asset, beginning of year		<u>22,871</u>
Net OPEB Asset, end of year	\$	<u><u>21,662</u></u>

* FY 2016 premiums for 920 retirees.

Shortly after year-end, the City contributed an additional \$2.8 million to the Trust.

The Plan’s annual OPEB cost and actual contributions for the past three years ended June 30 are set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost	Net OPEB Obligation (Asset)
June 30, 2014	\$ 13,255	\$ 14,014	106%	\$ (22,610)
June 30, 2015	14,773	15,034	102%	(22,871)
June 30, 2016	15,292	14,083	92%	(21,662)

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 12 – RETIREE HEALTH BENEFITS (Continued)

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below (in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Payroll
June 30, 2011	\$ 168,053	\$ 44,774	\$ 123,279	26.6%	\$ 80,664	152.8%
June 30, 2013	203,642	60,070	143,572	29.5%	81,785	175.5%
June 30, 2015	234,795	78,578	156,217	33.5%	87,586	178.4%

NOTE 13 – DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under City sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these Plans, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 14 – RISK MANAGEMENT

Coverage

The City provides dental coverage to employees through a City plan, which is administered by a third party service agent. The City is self-insured for dental claims.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$500,000 in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5,000 deductible and coverage up to \$1.0 million per loss. The Chief Financial Officer and City Manager each have coverage up to \$4.0 million per loss.

The City's property, boiler, and machinery insurance policy has various deductibles and coverage based on the type of property.

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$100 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

ACCEL was established for the purpose of creating a risk management pool for central California municipalities. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. The board controls the operations of ACCEL, including selection of claims management, general administration and approval of the annual budget.

The City's deposits with ACCEL equal the ratio of the City's payroll to the total payroll of all entities. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the year ended June 30, 2016, the City paid \$0.9 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11th Floor, San Francisco, California 94110.

Claims Liability

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 14 – RISK MANAGEMENT (Continued)

The City’s liability for uninsured claims is limited to dental, general liability, and workers’ compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense. General and workers’ compensation liabilities are based on the results of actuarial studies, and include amounts for claims incurred but not reported as follows as of June 30 (in thousands):

	Year Ended June 30	
	2016	2015
Beginning balance	\$ 24,118	\$ 26,753
Liability for current and prior fiscal years claims and claims incurred but not reported (IBNR)	2,850	574
Claims paid	(3,589)	(3,209)
Ending balance	\$ 23,379	\$ 24,118
Current portion	\$ 5,237	\$ 5,317

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, nor have there been any significant reductions in insurance coverage.

NOTE 15 – JOINT VENTURES

General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs, including the long-term debt in which the City participates in repayment, are not obligations and liabilities of the City, and are not reported on the City’s financial statements.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

Northern California Power Agency

The City is a member of Northern California Power Agency (NCPA), a joint powers agency which operates under a joint powers agreement among fifteen public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and enter into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 15 – JOINT VENTURES (Continued)

During the year ended June 30, 2016, the City incurred expenses totaling \$73.4 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$7.8 million at June 30, 2016. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

Geothermal Projects

A purchased power agreement with NCPA obligated the City for 6.2 percent and 6.2 percent, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam-powered generating plants, Project Number 2 and Project Number 3.

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 2016 is \$78.9 million. The City's participation in this project was 6.2 percent, or \$4.9 million.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2016, the book value of this Project's plant, equipment and other assets was \$435 million, while its long-term debt totaled \$356 million and other liabilities totaled \$70 million. The City's share of the Project's long-term debt amounted to \$81.5 million at that date.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 15 – JOINT VENTURES (Continued)

Geothermal Public Power Line

In 1983, NCPA, the Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (Joint Owners) initiated studies for a Geothermal Public Power Line (GPPL), which would carry power generated at several existing and planned geothermal plants in The Geysers area to a location where the Joint Owners could receive it for transmission to their load centers. NCPA has an 18.5 percent share of this Project and the City has an 11.1 percent participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in The Geysers.

However, because the project financing provided funding for an ownership interest in a Pacific Gas & Electric (PG&E) transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16 million in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 11.1 percent share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2016, the book value of this Project's plant, equipment and other assets was zero, and its long-term debt totaled zero.

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

Transmission Agency of Northern California (TANC)

The City is a member of a joint powers agreement with 14 other entities in Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City was obligated to pay 4 percent of TANC's debt-service and operating costs. However, a Resolution was approved authorizing the execution of a Long-Term Layoff Agreement (LTLA) between the Cities of Palo Alto and Roseville. These two agencies desired to "layoff" their entitlement rights to the California-Oregon Transmission Project (COTP) (and Roseville's South of Tesla entitlement rights) for a period of 15 years to those acquiring members (Sacramento Municipal Utility District, Turlock Irrigation District, and Modesto Irrigation District). The effective date of this Agreement was February 1, 2009. As a result, the City is not obligated to pay TANC's debt-service and operating costs starting February 1, 2009, for a period of fifteen years.

TANC's financial statements can be obtained from TANC, P.O. Box 15129, Sacramento, CA 95851.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 15 – JOINT VENTURES (Continued)

Bay Area Water Supply and Conservation Agency (BAWSCA)

The City is a member of a regional water district with 26 other entities, the Bay Area Water Supply and Conservation Agency (BAWSCA). BAWSCA was created on May 27, 2003 to represent the interests of 24 cities and water districts and two private utilities in Alameda, Santa Clara and San Mateo counties that purchase water on a wholesale basis from the San Francisco regional water system. It has the power to issue debt and plan, finance, construct, and operate water supply, transmission, reclamation, and conservation projects on behalf of its members.

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the San Francisco Public Utilities Commission (SFPUC) water supply contract. During the fiscal year, the City paid its share of the annual debt service of \$1.9 million, which will vary based on annual water purchases of the City compared to other BAWSCA agencies.

BAWSCA’s financial statements can be obtained from BAWSCA, 155 Bovet Road, Suite 650, San Mateo, California 94402.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Palo Alto Unified School District – The City leases a portion of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD). The lease is part of a larger agreement, which includes a mechanism for a joint planning process between the City and PAUSD to develop a long-term master plan for the Cubberley site. The City will pay \$1.86 million annually into a separate fund to be used for repairing, renovating and/or improving the infrastructure at the Cubberley site. The lease term expired on December 31, 2014, and the City exercised its option to extend for 5 years, with a new expiration date of 12/31/2019. The lease provides for one more five-year option to extend from 1/1/2020 to 12/31/2024. The City’s rent and infrastructure payment for the facilities is \$7.3 million per year plus insurance, repairs and maintenance. The rent may vary from year to year depending on the actual number of days used. Should any new law or regulation require the expenditure of work in excess of \$250,000, per the terms of the lease, the City and PAUSD may renegotiate the lease. This lease is cancelable upon 90 days’ written notice in the event funds are not appropriated by the City. In addition, the lease is contingent upon authorization by the Palo Alto electorate if it exceeds the City’s Proposition 4 (GANN) appropriations limitation in any fiscal year. Lease expenditures for the year ended June 30, 2016 amounted to \$7.4 million. Future minimum annual lease and infrastructure payments are as follows (in thousands):

Year Ending	Payment
June 30	
2017	\$ 7,565
2018	7,736
2019	7,912
2020	4,001
	<u>\$ 27,214</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

GreenWaste of Palo Alto – GreenWaste of Palo Alto is the City’s contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2021. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In FY 2016 payments to GreenWaste were \$10.5 million.

City of Palo Alto Regional Water Quality Control Plant – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant, which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years’ notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Treatment Enterprise Fund’s capital assets balance. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the capital assets.

Solid Waste Materials Recovery and Transfer Station (SMaRT Station) – On June 9, 1992, the City, along with the City of Mountain View, signed a Memorandum of Understanding (MOU) with the City of Sunnyvale (Sunnyvale) to participate in the construction and operation of the SMaRT station, which recovers recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has a capacity share of 21.3 percent of this facility and reimburses its proportionate capacity share of design, construction and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24.6 million in revenue bonds to finance the design and construction costs of the SMaRT Station. In the fiscal year ended June 30, 2003, the 1992 bonds were refunded by issuing the 2003 Solid Waste Revenue Bonds in the amount of \$20.6 million. Even though these bonds are payable from and secured by the net revenues of Sunnyvale’s Utilities Enterprise, the City is obligated to reimburse Sunnyvale 21.3 percent of total debt service payments related to these bonds. The City’s portion of remaining principal balance for SMaRT revenue bonds as of June 30, 2016, is \$0.4 million. During the year ended June 30, 2016, the City paid \$0.4 million as its portion of current debt service.

In FY 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. The City’s portion of the Bonds amounts to \$0.9 million as of June 30, 2016. During the year ended June 30, 2016, the City paid \$0.2 million as its portion of current debt service.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

UTILITIES ENERGY RESOURCE MANAGEMENT

Electric Power Supply Purchase Agreements – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2016, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

Fiscal Year	Projected Obligation
2017	\$64.7 million
2018	\$64.2 million
2019	\$64.7 million
2020	\$65.3 million
2021	\$66.1 million

Contractual Commitments beyond 2021 (Electricity) – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2021 and 2051 and provide for power under various terms and conditions. The City estimates that its annual minimum commitments under the contracts, assuming the energy is delivered, ranges between \$67.3 million in 2022 and \$48.9 million in 2043. The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year after 2014 at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City expects the Western contract to be extended for another 20 years beyond 2024, although likely at a slightly lower percent share of the total energy output.

Gas Accord V – The City is a party to the Gas Accord V, a natural gas transportation contract between Pacific Gas and Electric Company (PG&E) and its gas transportation customers. New rates are determined through a proceeding at the California Public Utilities Commission. A final CPUC decision on Pacific Gas and Electric Company’s (PG&E) Gas Transmission and Storage Case was issued June 2016. Although several appeals are underway, Palo Alto’s gas transmission rates increased by 230% and Palo Alto’s local transmission rates increased by \$2 million on August 1, 2016.

San Francisco Public Utilities Commission – The City purchases water to deliver to the customers of its water utility from the San Francisco Public Utilities Commission (SFPUC) under a contract terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The City is prohibited from purchasing from other water suppliers under this contract, though it is not prohibited from using ground water. The City’s cost of water under this contract is projected to increase by 74% by 2021 as the SFPUC completes an upgrade to its regional water system facilities under its Water System Improvement Program (WSIP).

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, claims or assessments that are likely to have a materially adverse effect on the City's financial condition.

A class action lawsuit for refund of telephone users tax was filed against the City in August 2015. At this time, the City Attorney is of the opinion that a potential loss is neither probable nor can it be reasonably estimated.

A class action lawsuit for refund of allegedly illegal charges to gas and electrical customers was filed against the City in October 2016. At this time, the City Attorney is of the opinion that a potential loss is neither probable nor can it be reasonably estimated.

Grant Programs

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act amendments of 1996 and applicable State requirements. No costs were questioned as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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CITY OF PALO ALTO
Required Supplemental Information (Unaudited)
For the Year Ended June 30, 2016

I. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – MISCELLANEOUS PLAN
(Calculated as of June 30, 2015 and reported as of June 30, 2016, in thousands)

Fiscal year	<u>2015-16</u>	<u>2014-15</u>
Measurement Period	2014-15	2013-14
Total pension liability		
Service cost	\$ 12,183	\$ 12,442
Interest	49,345	46,963
Changes of assumptions	(11,552)	-
Difference between expected and actual experience	3,507	-
Benefit payments, including refunds of employee contributions	<u>(32,980)</u>	<u>(31,781)</u>
Net change in total pension liability	20,503	27,624
Total pension liability - beginning	663,471	635,847
Total pension liability - ending (a)	<u>\$ 683,974</u>	<u>\$ 663,471</u>
Plan fiduciary net position		
Contributions - employer	\$ 18,610	\$ 17,400
Contributions - employee	5,730	6,345
Net investment income	10,597	70,989
Benefit payments, including refunds of employee contributions	(32,980)	(31,781)
Administrative expense	<u>(538)</u>	<u>-</u>
Net change in fiduciary net position	1,419	62,953
Plan fiduciary net position - beginning	476,363	413,410
Plan fiduciary net position - ending (b)	<u>\$ 477,782</u>	<u>\$ 476,363</u>
Plan net pension liability/(asset) - Ending (a) - (b)	<u>\$ 206,192</u>	<u>\$ 187,108</u>
Plan fiduciary net position as a percentage of total pension liability	69.9%	71.8%
Covered-employee payroll	\$ 69,837	\$ 66,373
Plan net pension liability/(asset) as a percentage of covered employee payroll	295.2%	281.9%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2013 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

Changes in assumptions - The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent

CITY OF PALO ALTO
Required Supplemental Information (Unaudited)
For the Year Ended June 30, 2016

II. SCHEDULE OF CONTRIBUTIONS— MISCELLANEOUS PLAN
(Paid as of June 30, 2016 and deferred to June 30, 2017, in thousands)

Fiscal Year	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Contractually required contribution (actuarially determined)	\$ 18,808	\$ 17,958	\$ 16,209
Actual contribution	<u>(18,808)</u>	<u>(17,958)</u>	<u>(16,209)</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 70,415	\$ 68,744	\$ 65,889
Contributions as percentage of covered-employee payroll	26.71%	26.12%	24.60%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016 contribution rates are as follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method/period	For details, see June 30, 2013 Actuarial Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2013 Actuarial Valuation Report
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expense, includes inflation
Retirement age	Probabilities of retirement are based on the 2010 CalPERS experience study of the period 1997 to 2007
Mortality	Probabilities of mortality are based on the 2010 CalPERS experience study of the period 1997 to 2007. Pre- and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF PALO ALTO
Required Supplemental Information (Unaudited)
For the Year Ended June 30, 2016

III. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – SAFETY PLAN
(Calculated as of June 30, 2015 and reported as of June 30, 2016, in thousands)

Fiscal Year	<u>2015-16</u>	<u>2014-15</u>
Measurement Period	2014-15	2013-14
Total pension liability		
Service cost	\$ 5,959	\$ 6,221
Interest	27,047	26,113
Changes of assumptions	(6,327)	-
Difference between expected and actual experience	75	-
Benefit payments, including refunds of employee contributions	<u>(21,148)</u>	<u>(19,985)</u>
Net change in total pension liability	5,606	12,349
Total pension liability - beginning	<u>367,403</u>	<u>355,054</u>
Total pension liability - ending (a)	<u>\$ 373,009</u>	<u>\$ 367,403</u>
Plan fiduciary net position		
Contributions - employer	\$ 8,617	\$ 7,616
Contributions - employee	2,047	2,762
Net investment income	5,774	40,033
Benefit payments, including refunds of employee contributions	(21,148)	(19,985)
Administrative expense	<u>(290)</u>	<u>-</u>
Net change in fiduciary net position	(5,000)	30,426
Plan fiduciary net position - beginning	<u>264,579</u>	<u>234,153</u>
Plan fiduciary net position - ending (b)	<u>\$ 259,579</u>	<u>\$ 264,579</u>
Plan net pension liability/(asset) - Ending (a) - (b)	<u>\$ 113,430</u>	<u>\$ 102,824</u>
Plan fiduciary net position as a percentage of total pension liability	69.59%	72.01%
Covered-employee payroll	\$ 21,912	\$ 21,896
Plan net pension liability/(asset) as a percentage of covered employee payroll	517.66%	469.60%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2013 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

Changes in assumptions - the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

CITY OF PALO ALTO
Required Supplemental Information (Unaudited)
For the Year Ended June 30, 2016

IV. SCHEDULE OF CONTRIBUTIONS – SAFETY PLAN
(Paid as of June 30, 2016 and deferred to June 30, 2017, in thousands)

Fiscal Year	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 9,395	\$ 9,036	\$ 8,323
Actual contribution	<u>(9,395)</u>	<u>(9,036)</u>	<u>(8,323)</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 23,229	\$ 22,860	\$ 24,886
Contributions as percentage of covered-employee payroll	40.45%	39.53%	33.44%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2016 contribution rates are as follows:

Valuation Date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method/period	For details, see June 30, 2013 Actuarial Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2013 Actuarial Valuation Report
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expense, includes inflation
Retirement age	Probabilities of retirement are based on the 2010 CalPERS experience study of the period 1997 to 2007
Mortality	Probabilities of mortality are based on the 2010 CalPERS experience study of the period 1997 to 2007. Pre- and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2016
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
ASSETS:				
Cash and investments:				
Available for operations	\$ 84,373	\$ 3,561	\$ 1,499	\$ 89,433
Cash and investments with fiscal agents	-	248	-	248
Receivables, net:				
Accounts	7	24	-	31
Interest	354	22	6	382
Notes	18,730	-	-	18,730
Total assets	<u>\$ 103,464</u>	<u>\$ 3,855</u>	<u>\$ 1,505</u>	<u>\$ 108,824</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 354	\$ -	\$ -	\$ 354
Accrued salaries and benefits	46	-	-	46
Total liabilities	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	1,505	1,505
Restricted				
Transportation mitigation	10,841	-	-	10,841
Federal revenue	4,569	-	-	4,569
Street improvement	1,308	-	-	1,308
Local law enforcement	180	-	-	180
Debt service	-	3,855	-	3,855
Public benefit	25,649	-	-	25,649
Committed				
Developer impact fee	14,169	-	-	14,169
Housing In-Lieu	41,251	-	-	41,251
Special districts	3,704	-	-	3,704
Downtown business	34	-	-	34
Assigned				
Unrealized gain on investment	1,358	-	-	1,358
Other general government	1	-	-	1
Total fund balances	<u>103,064</u>	<u>3,855</u>	<u>1,505</u>	<u>108,424</u>
Total liabilities and fund balances	<u>\$ 103,464</u>	<u>\$ 3,855</u>	<u>\$ 1,505</u>	<u>\$ 108,824</u>

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CITY OF PALO ALTO
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
REVENUES:				
Property tax	\$ -	\$ 4,582	\$ -	\$ 4,582
Special assessments	100	-	-	100
Other taxes and fines	1,570	-	-	1,570
From other agencies:				
Community Development Block Grants	240	-	-	240
State of California	126	-	-	126
Permits and licenses				
University Avenue Parking	2,309	-	-	2,309
California Avenue Parking	214	-	-	214
Other permits and licenses	793	-	-	793
Investment earnings	2,727	127	44	2,898
Rental income	6	-	-	6
Other:				
Housing In-Lieu - residential	5,554	-	-	5,554
Other fees	2,086	-	-	2,086
Total revenues	<u>15,725</u>	<u>4,709</u>	<u>44</u>	<u>20,478</u>
EXPENDITURES:				
Current:				
Administrative Services	203	-	-	203
Public Works	797	-	-	797
Planning and Community Environment	663	-	-	663
Police	225	-	-	225
Community Services	1,231	-	-	1,231
Non-Departmental	559	32	7	598
Debt service:				
Principal retirement	-	6,735	-	6,735
Interest and fiscal charges	-	4,230	-	4,230
Total expenditures	<u>3,678</u>	<u>10,997</u>	<u>7</u>	<u>14,682</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,047</u>	<u>(6,288)</u>	<u>37</u>	<u>5,796</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,564	3,252	-	6,816
Transfers out	<u>(9,013)</u>	<u>-</u>	<u>-</u>	<u>(9,013)</u>
Total other financing sources (uses)	<u>(5,449)</u>	<u>3,252</u>	<u>-</u>	<u>(2,197)</u>
Change in fund balances	6,598	(3,036)	37	3,599
FUND BALANCES, BEGINNING OF YEAR	<u>96,466</u>	<u>6,891</u>	<u>1,468</u>	<u>104,825</u>
FUND BALANCES, END OF YEAR	<u>\$ 103,064</u>	<u>\$ 3,855</u>	<u>\$ 1,505</u>	<u>\$ 108,424</u>

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Street Improvement

This fund accounts for revenues received from state gas tax. Allocations must be spent on the construction and maintenance of the road network system of the City.

Federal Revenue

This fund accounts for grant funds received under the Community Development Act of 1974 and HOME Investment Grant Programs, for activities approved and subject to federal regulations.

Housing In-Lieu

This fund accounts for revenues from commercial and residential developers to provide housing under the City's Below Market Rate program.

Special Districts

This fund accounts for revenues from parking permits and for maintenance of various parking lots within the City's parking districts.

Transportation Mitigation

This fund accounts for revenues from fees or contributions required for transportation mitigation issues encountered as a result of City development.

Local Law Enforcement

This fund accounts for revenues received in support of City's law enforcement program.

Asset Seizure

This fund accounts for seized property and funds associated with drug trafficking. Under California Assembly Bill No. 4162, the monies are released to the City for specific expenditures related to law enforcement activities.

Developer Impact Fee

This fund accounts for fees imposed on new developments to be used for parks, community centers and libraries.

Downtown Business Development District

The Downtown Business Development District Fund was established to account for the activities of the Palo Alto Downtown Business Development District, which was established to enhance the viability of the downtown business district.

Public Benefit

This fund accounts for the activities of the Stanford University Medical Center (SUMC) Development Agreement (DA) whereby SUMC will enhance and expand their facilities and the City will grant SUMC the right to develop the facilities in accordance with the DA.

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Balance Sheet
June 30, 2016
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS:				
Cash and investments:				
Available for operations	\$ 1,327	\$ 455	\$ 27,021	\$ 3,796
Receivables:				
Accounts	-	-	-	-
Interest	6	-	101	12
Notes	-	4,165	14,565	-
Total assets	<u>\$ 1,333</u>	<u>\$ 4,620</u>	<u>\$ 41,687</u>	<u>\$ 3,808</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 47	\$ 35	\$ 76
Accrued salaries and benefits	-	4	-	28
Total liabilities	<u>-</u>	<u>51</u>	<u>35</u>	<u>104</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	4,569	-	-
Street improvement	1,308	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	41,251	-
Special districts	-	-	-	3,704
Downtown business	-	-	-	-
Assigned				
Unrealized gain on investment	25	-	401	-
Other general government	-	-	-	-
Total fund balances	<u>1,333</u>	<u>4,569</u>	<u>41,652</u>	<u>3,704</u>
Total liabilities and fund balances	<u>\$ 1,333</u>	<u>\$ 4,620</u>	<u>\$ 41,687</u>	<u>\$ 3,808</u>

<u>Transportation Mitigation</u>	<u>Local Law Enforcement</u>	<u>Asset Seizure</u>	<u>Developer Impact Fee</u>	<u>Downtown Business Development District</u>	<u>Public Benefit</u>	<u>Total</u>
\$ 11,136	\$ 173	\$ 3	\$ 14,349	\$ 86	\$ 26,027	\$ 84,373
-	7	-	-	-	-	7
50	1	-	59	-	125	354
-	-	-	-	-	-	18,730
<u>\$ 11,186</u>	<u>\$ 181</u>	<u>\$ 3</u>	<u>\$ 14,408</u>	<u>\$ 86</u>	<u>\$ 26,152</u>	<u>\$ 103,464</u>
\$ 146	\$ -	\$ -	\$ -	\$ 50	\$ -	\$ 354
-	-	-	6	-	8	46
<u>146</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>50</u>	<u>8</u>	<u>400</u>
10,841	-	-	-	-	-	10,841
-	-	-	-	-	-	4,569
-	-	-	-	-	-	1,308
-	178	2	-	-	-	180
-	-	-	-	-	25,649	25,649
-	-	-	14,169	-	-	14,169
-	-	-	-	-	-	41,251
-	-	-	-	-	-	3,704
-	-	-	-	34	-	34
199	3	-	233	2	495	1,358
-	-	1	-	-	-	1
<u>11,040</u>	<u>181</u>	<u>3</u>	<u>14,402</u>	<u>36</u>	<u>26,144</u>	<u>103,064</u>
<u>\$ 11,186</u>	<u>\$ 181</u>	<u>\$ 3</u>	<u>\$ 14,408</u>	<u>\$ 86</u>	<u>\$ 26,152</u>	<u>\$ 103,464</u>

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	1,461	-	-	109
From other agencies:				
Community Development Block Grants	-	240	-	-
State of California	-	-	-	-
Permits and licenses				
University Avenue Parking	-	-	-	2,309
California Avenue Parking	-	-	-	214
Other permits and licenses	-	-	-	793
Investment earnings	46	-	956	91
Rental income	-	-	6	-
Other:				
Housing In-Lieu	-	-	5,554	-
Other fees	-	365	-	4
Total revenues	1,507	605	6,516	3,520
EXPENDITURES:				
Current:				
Administrative Services	-	-	-	203
Public Works	-	-	-	797
Planning and Community Environment	-	444	(449)	668
Police	-	-	135	-
Community Services	-	-	-	22
Non-Departmental	-	34	165	249
Total expenditures	-	478	(149)	1,939
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,507	127	6,665	1,581
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	2,095	642
Transfers out	(1,724)	-	(1,095)	(532)
Total other financing sources (uses)	(1,724)	-	1,000	110
Change in fund balances	(217)	127	7,665	1,691
FUND BALANCES, BEGINNING OF YEAR	1,550	4,442	33,987	2,013
FUND BALANCES, END OF YEAR	\$ 1,333	\$ 4,569	\$ 41,652	\$ 3,704

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total
\$ -	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ 100
-	-	-	-	-	-	1,570
-	-	-	-	-	-	240
-	126	-	-	-	-	126
-	-	-	-	-	-	2,309
-	-	-	-	-	-	214
-	-	-	-	-	-	793
353	6	1	419	3	852	2,727
-	-	-	-	-	-	6
-	-	-	-	-	-	5,554
274	-	-	1,443	-	-	2,086
<u>627</u>	<u>132</u>	<u>1</u>	<u>1,862</u>	<u>103</u>	<u>852</u>	<u>15,725</u>
-	-	-	-	-	-	203
-	-	-	-	-	-	797
-	-	-	-	-	-	663
-	90	-	-	-	-	225
-	-	-	135	-	1,074	1,231
-	-	-	-	111	-	559
-	90	-	135	111	1,074	3,678
<u>627</u>	<u>42</u>	<u>1</u>	<u>1,727</u>	<u>(8)</u>	<u>(222)</u>	<u>12,047</u>
-	-	-	107	-	720	3,564
<u>(1,550)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,112)</u>	<u>(9,013)</u>
<u>(1,550)</u>	<u>-</u>	<u>-</u>	<u>107</u>	<u>-</u>	<u>(3,392)</u>	<u>(5,449)</u>
(923)	42	1	1,834	(8)	(3,614)	6,598
<u>11,963</u>	<u>139</u>	<u>2</u>	<u>12,568</u>	<u>44</u>	<u>29,758</u>	<u>96,466</u>
<u>\$ 11,040</u>	<u>\$ 181</u>	<u>\$ 3</u>	<u>\$ 14,402</u>	<u>\$ 36</u>	<u>\$ 26,144</u>	<u>\$ 103,064</u>

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2016
(Amounts in thousands)

	Street Improvement			Federal Revenue		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	1,416	1,461	45	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	442	240	(202)
State of California	-	-	-	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	13	46	33	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	136	365	229
Total revenues	<u>1,429</u>	<u>1,507</u>	<u>78</u>	<u>578</u>	<u>605</u>	<u>27</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	625	483	142
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	34	(34)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>625</u>	<u>517</u>	<u>108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,429</u>	<u>1,507</u>	<u>78</u>	<u>(47)</u>	<u>88</u>	<u>135</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(1,724)</u>	<u>(1,724)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,724)</u>	<u>(1,724)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (295)</u>	<u>(217)</u>	<u>\$ 78</u>	<u>\$ (47)</u>	<u>88</u>	<u>\$ 135</u>
Adjustment to Budgetary Basis:						
Current year encumbrances/reappropriations		<u>-</u>			<u>39</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(217)</u>			<u>127</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>1,550</u>			<u>4,442</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 1,333</u>			<u>\$ 4,569</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	43	109	66	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,695	2,309	614	-	-	-
-	-	-	195	214	19	-	-	-
-	-	-	508	793	285	-	-	-
274	956	682	27	91	64	172	353	181
9	6	(3)	-	-	-	-	-	-
5,085	5,554	469	-	-	-	-	-	-
-	-	-	-	4	4	1,717	274	(1,443)
<u>5,368</u>	<u>6,516</u>	<u>1,148</u>	<u>2,468</u>	<u>3,520</u>	<u>1,052</u>	<u>1,889</u>	<u>627</u>	<u>(1,262)</u>
-	-	-	205	203	2	-	-	-
-	-	-	998	896	102	-	-	-
2,592	(371)	2,963	1,456	878	578	-	-	-
-	135	(135)	-	-	-	-	-	-
-	-	-	26	22	4	-	-	-
378	165	213	166	249	(83)	-	-	-
<u>2,970</u>	<u>(71)</u>	<u>3,041</u>	<u>2,851</u>	<u>2,248</u>	<u>603</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,398	6,587	4,189	(383)	1,272	1,655	1,889	627	(1,262)
-	2,095	2,095	642	642	-	-	-	-
-	(1,095)	(1,095)	(532)	(532)	-	(1,550)	(1,550)	-
-	1,000	1,000	110	110	-	(1,550)	(1,550)	-
<u>\$ 2,398</u>	<u>7,587</u>	<u>\$ 5,189</u>	<u>\$ (273)</u>	<u>1,382</u>	<u>\$ 1,655</u>	<u>\$ 339</u>	<u>(923)</u>	<u>\$ (1,262)</u>
	<u>78</u>			<u>309</u>			<u>-</u>	
	7,665			1,691			(923)	
	<u>33,987</u>			<u>2,013</u>			<u>11,963</u>	
	<u>\$ 41,652</u>			<u>\$ 3,704</u>			<u>\$ 11,040</u>	

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2016
(Amounts in Thousands)

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	-	-	-
State of California	106	126	20	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	-	6	6	-	1	1
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	-	-	-
Total revenues	106	132	26	-	1	1
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	-	-	-
Police	143	156	(13)	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	143	156	(13)	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(37)	(24)	13	-	1	1
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Change in fund balances, Budgetary basis	\$ (37)	(24)	\$ 13	\$ -	1	\$ 1
Adjustment to Budgetary Basis:						
Current year encumbrances/reappropriations		66			-	
CHANGE IN FUND BALANCE, GAAP BASIS		42			1	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		139			2	
FUND BALANCES, END OF YEAR, GAAP BASIS		\$ 181			\$ 3	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 100	\$ 100	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
215	419	204	2	3	1	663	852	189
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,569	1,443	(126)	-	-	-	-	-	-
<u>1,784</u>	<u>1,862</u>	<u>78</u>	<u>102</u>	<u>103</u>	<u>1</u>	<u>663</u>	<u>852</u>	<u>189</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
136	135	1	-	-	-	1,318	1,075	243
-	-	-	136	124	12	-	-	-
<u>136</u>	<u>135</u>	<u>1</u>	<u>136</u>	<u>124</u>	<u>12</u>	<u>1,318</u>	<u>1,075</u>	<u>243</u>
1,648	1,727	79	(34)	(21)	13	(655)	(223)	432
69	107	38	-	-	-	-	720	720
-	-	-	-	-	-	(2,392)	(4,112)	(1,720)
<u>69</u>	<u>107</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,392)</u>	<u>(3,392)</u>	<u>(1,000)</u>
<u>\$ 1,717</u>	<u>1,834</u>	<u>\$ 117</u>	<u>\$ (34)</u>	<u>(21)</u>	<u>\$ 13</u>	<u>\$ (3,047)</u>	<u>(3,615)</u>	<u>\$ (568)</u>
-	-	-	-	13	-	-	1	-
1,834	-	-	-	(8)	-	-	(3,614)	-
12,568	-	-	-	44	-	-	29,758	-
<u>\$ 14,402</u>	-	-	-	<u>\$ 36</u>	-	-	<u>\$ 26,144</u>	-

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NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

Downtown Parking Improvement

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2002B Downtown Parking Improvement Certificates of Participation as they become due.

Library Projects

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2010 and 2013A General Obligation Bonds as they become due.

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Balance Sheet
June 30, 2016
(Amounts in thousands)

	Downtown Parking Improvement	Library Projects	Total
ASSETS:			
Cash and investments:			
Available for operations	\$ 14	\$ 3,547	\$ 3,561
Cash and investments with fiscal agents	237	11	248
Receivables:			
Accounts	-	24	24
Interest	-	22	22
Total assets	\$ 251	\$ 3,604	\$ 3,855
 FUND BALANCES:			
Debt service	\$ 251	\$ 3,604	\$ 3,855

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016
(Amounts in thousands)

	Downtown Parking Improvement	Library Projects	Total
REVENUES:			
Property tax	\$ -	\$ 4,582	\$ 4,582
Investment earnings	-	127	127
Total revenues	<u>-</u>	<u>4,709</u>	<u>4,709</u>
EXPENDITURES:			
Current:			
Non-Departmental	-	32	32
Debt service:			
Principal retirement	150	6,585	6,735
Interest and fiscal charges	84	4,146	4,230
Total expenditures	<u>234</u>	<u>10,763</u>	<u>10,997</u>
(DEFICIENCY) OF REVENUES			
(UNDER) EXPENDITURES	<u>(234)</u>	<u>(6,054)</u>	<u>(6,288)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>234</u>	<u>3,018</u>	<u>3,252</u>
Total other financing sources (uses)	<u>234</u>	<u>3,018</u>	<u>3,252</u>
Change in fund balances	-	(3,036)	(3,036)
FUND BALANCES, BEGINNING OF YEAR	<u>251</u>	<u>6,640</u>	<u>6,891</u>
FUND BALANCES, END OF YEAR	<u>\$ 251</u>	<u>\$ 3,604</u>	<u>\$ 3,855</u>

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2016
(Amounts in thousands)

	Downtown Parking Improvement			Library Projects		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ 4,655	\$ 4,582	\$ (73)
Investment earnings	-	-	-	-	127	127
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,655</u>	<u>4,709</u>	<u>54</u>
EXPENDITURES:						
Current:						
Non-Departmental	-	-	-	-	32	(32)
Debt service:						
Principal retirement	150	150	-	1,445	6,585	(5,140)
Interest and fiscal charges	93	84	9	3,210	4,146	(936)
Total expenditures	<u>243</u>	<u>234</u>	<u>9</u>	<u>4,655</u>	<u>10,763</u>	<u>(6,108)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(243)</u>	<u>(234)</u>	<u>9</u>	<u>-</u>	<u>(6,054)</u>	<u>(6,054)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	243	234	(9)	-	3,018	3,018
Total other financing sources (uses)	<u>243</u>	<u>234</u>	<u>(9)</u>	<u>-</u>	<u>3,018</u>	<u>3,018</u>
Change in fund balances, Budgetary basis	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,036)</u>	<u>\$ (3,036)</u>
CHANGE IN FUND BALANCE, GAAP BASIS		-			(3,036)	
FUND BALANCES, BEGINNING OF YEAR		<u>251</u>			<u>6,640</u>	
FUND BALANCES, END OF YEAR		<u>\$ 251</u>			<u>\$ 3,604</u>	

NON-MAJOR GOVERNMENTAL FUNDS

PERMANENT FUND

Eyerly Family

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.

CITY OF PALO ALTO
Non-major Permanent Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2016
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 27	\$ 44	\$ 17
Total revenues	27	44	17
EXPENDITURES:			
Current:			
Non-Departmental	-	7	(7)
Total expenditures	-	7	(7)
Excess (deficiency) of revenues over (under) expenditures	27	37	10
Change in fund balance	\$ 27	37	\$ 10
CHANGE IN FUND BALANCE, GAAP BASIS		37	
FUND BALANCE, BEGINNING OF YEAR		1,468	
FUND BALANCE, END OF YEAR		\$ 1,505	

INTERNAL SERVICE FUNDS

INTRODUCTION

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

Vehicle Replacement and Maintenance

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is from reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

Technology

This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is from reimbursement of costs for support provided to other departments.

Printing and Mailing Services

This fund accounts for central duplicating, printing and mailing services provided to all City departments. Source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

General Benefits

This fund accounts for the administration of compensated absences and health benefits.

Workers' Compensation Insurance Program

This fund accounts for the administration of the City's self-insured workers' compensation programs.

General Liabilities Insurance Program

This fund accounts for the administration of the City's self-insured general liability programs.

Retiree Health Benefits

This fund accounts for the retiree health benefits.

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Fund Net Position
June 30, 2016
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
ASSETS:								
Current Assets:								
Cash and investments:								
Available for operations	\$ 11,134	\$ 22,403	\$ 24	\$ 12,977	\$ 21,231	\$ 8,203	\$ 4,072	\$ 80,044
Accounts receivable, net	34	-	-	33	48	-	-	115
Interest receivable	46	91	-	62	92	34	16	341
Inventory of materials and supplies	368	-	-	-	-	-	-	368
Total current assets	11,582	22,494	24	13,072	21,371	8,237	4,088	80,868
Noncurrent Assets:								
Capital assets:								
Nondepreciable	247	1,582	-	-	-	-	-	1,829
Depreciable, net	13,006	1,631	-	-	-	-	-	14,637
Net OPEB asset	-	-	-	-	-	-	21,662	21,662
Total noncurrent assets	13,253	3,213	-	-	-	-	21,662	38,128
Total assets	24,835	25,707	24	13,072	21,371	8,237	25,750	118,996
DEFERRED OUTFLOWS OF RESOURCES:								
Deferred pension contribution	357	1,053	30	-	-	-	-	1,440
Total deferred outflows of resources	357	1,053	30	-	-	-	-	1,440
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	-	644	-	(792)	155	-	-	7
Accrued salaries and benefits	64	196	3	2	-	-	-	265
Accrued compensated absences	8	26	-	4,902	-	-	-	4,936
Accrued claims payable - current	-	-	-	146	3,181	1,910	-	5,237
Total current liabilities	72	866	3	4,258	3,336	1,910	-	10,445
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	6,286	-	-	-	6,286
Accrued claims payable	-	-	-	-	15,115	3,027	-	18,142
Net pension liabilities	2,807	9,565	303	-	-	-	-	12,675
Total noncurrent liabilities	2,807	9,565	303	6,286	15,115	3,027	-	37,103
Total liabilities	2,879	10,431	306	10,544	18,451	4,937	-	47,548
DEFERRED INFLOWS OF RESOURCES:								
Pension Related	139	568	18	-	-	-	-	725
Total deferred inflows of resources	139	568	18	-	-	-	-	725
NET POSITION:								
Net Investment in capital assets	13,253	3,213	-	-	-	-	-	16,466
Unrestricted	8,921	12,548	(270)	2,528	2,920	3,300	25,750	55,697
Total net position	\$ 22,174	\$ 15,761	\$ (270)	\$ 2,528	\$ 2,920	\$ 3,300	\$ 25,750	\$ 72,163

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2016
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
OPERATING REVENUES:								
Charges for services	\$ 7,325	\$ 13,334	\$ 1,296	\$ 46,925	\$ 2,189	\$ 2,398	\$ 12,343	\$ 85,810
Other	-	-	-	-	282	(245)	-	37
Total operating revenues	<u>7,325</u>	<u>13,334</u>	<u>1,296</u>	<u>46,925</u>	<u>2,471</u>	<u>2,153</u>	<u>12,343</u>	<u>85,847</u>
OPERATING EXPENSES:								
Administrative and general	1,777	6,820	905	176	831	1,638	596	12,743
Operations and maintenance	3,594	6,155	377	789	-	-	14,372	25,287
Depreciation and amortization	2,046	479	-	-	-	-	-	2,525
Claim payments and change in estimated self-insured liability	-	-	-	1,572	1,349	211	-	3,132
Refund of charges for services	46	8	-	-	-	-	-	54
Compensated absences and other benefits	-	-	-	42,538	-	-	-	42,538
Total operating expenses	<u>7,463</u>	<u>13,462</u>	<u>1,282</u>	<u>45,075</u>	<u>2,180</u>	<u>1,849</u>	<u>14,968</u>	<u>86,279</u>
Operating income (loss)	(138)	(128)	14	1,850	291	304	(2,625)	(432)
NONOPERATING REVENUES (EXPENSES):								
Investment earnings	311	630	(1)	241	638	234	103	2,156
Gain on disposal of capital assets	185	-	-	-	-	-	-	185
Other nonoperating revenues	40	-	-	-	-	-	-	40
Total nonoperating revenues (expenses)	<u>536</u>	<u>630</u>	<u>(1)</u>	<u>241</u>	<u>638</u>	<u>234</u>	<u>103</u>	<u>2,381</u>
Income (loss) before transfers	398	502	13	2,091	929	538	(2,522)	1,949
Transfers in	1,306	2,480	-	-	-	-	2,102	5,888
Transfers out	(367)	(57)	-	(2,102)	-	-	-	(2,526)
Change in net position	1,337	2,925	13	(11)	929	538	(420)	5,311
NET POSITION, BEGINNING OF YEAR	20,837	12,836	(283)	2,539	1,991	2,762	26,170	66,852
NET POSITION, END OF YEAR	<u>\$ 22,174</u>	<u>\$ 15,761</u>	<u>\$ (270)</u>	<u>\$ 2,528</u>	<u>\$ 2,920</u>	<u>\$ 3,300</u>	<u>\$ 25,750</u>	<u>\$ 72,163</u>

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2016
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Cash flows from operating activities:								
Cash received from customers	\$ 7,629	\$ 13,334	\$ 1,296	\$ 46,937	\$ 2,288	\$ 2,403	\$ 12,343	\$ 86,230
Cash refunds to customers	(46)	(8)	-	-	-	-	-	(54)
Cash payments to suppliers for goods and services	(3,304)	(7,049)	(142)	(2,328)	-	-	(13,163)	(25,986)
Cash payments to employees	(2,132)	(5,702)	(1,150)	(42,877)	(758)	(1,638)	(596)	(54,853)
Cash payments for judgments and claims	-	-	-	(1,572)	(1,904)	(113)	-	(3,589)
Other cash receipts	40	-	-	-	-	-	-	40
Net cash flows provided by (used in) operating activities	2,187	575	4	160	(374)	652	(1,416)	1,788
Cash flows from noncapital financing activities:								
Transfers in	1,306	2,480	-	-	-	-	2,102	5,888
Transfers out	(367)	(57)	-	(2,102)	-	-	-	(2,526)
Net cash flows provided by (used in) noncapital financing activities	939	2,423	-	(2,102)	-	-	2,102	3,362
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(2,709)	(1,004)	-	-	-	-	-	(3,713)
Proceeds from sale of capital assets	221	-	-	-	-	-	-	221
Net cash flows (used in) capital and related financing activities	(2,488)	(1,004)	-	-	-	-	-	(3,492)
Cash flows from investing activities:								
Interest received	313	624	(1)	229	630	229	109	2,133
Net cash flows provided by investing activities	313	624	(1)	229	630	229	109	2,133
Net change in cash and cash equivalents	951	2,618	3	(1,713)	256	881	795	3,791
Cash and cash equivalents, beginning of year	10,183	19,785	21	14,690	20,975	7,322	3,277	76,253
Cash and cash equivalents, end of year	\$ 11,134	\$ 22,403	\$ 24	\$ 12,977	\$ 21,231	\$ 8,203	\$ 4,072	\$ 80,044
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	\$ (138)	\$ (128)	\$ 14	\$ 1,850	\$ 291	\$ 304	\$ (2,625)	\$ (432)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,046	479	-	-	-	-	-	2,525
Other	40	-	-	-	-	-	-	40
Change in assets and liabilities:								
Accounts receivable	304	-	-	12	99	250	-	665
Inventory of materials and supplies	2	-	-	-	-	-	-	2
Net OPEB asset	-	-	-	-	-	-	1,209	1,209
Deferred outflows of resources - pension plans	(77)	(217)	(4)	-	-	-	-	(298)
Accounts payable and accruals	-	448	-	(2,155)	73	-	-	(1,634)
Accrued salaries and benefits	19	69	(2)	(9)	-	-	-	77
Accrued compensated absences	-	5	(1)	462	-	-	-	466
Accrued claims payable	-	-	-	-	(837)	98	-	(739)
Net pension liability	288	859	27	-	-	-	-	1,174
Deferred inflows of resources - pension plans	(297)	(940)	(30)	-	-	-	-	(1,267)
Net cash flows provided by (used in) operating activities	\$ 2,187	\$ 575	\$ 4	\$ 160	\$ (374)	\$ 652	\$ (1,416)	\$ 1,788

FIDUCIARY FUNDS

INTRODUCTION

Fiduciary Funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. The funds are operated to carry out the specific actions required by the trust agreements, ordinances and other governing regulations.

Fiduciary Funds are presented separately from the Citywide and Fund financial statements.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains three agency funds, as follows:

California Avenue Parking Assessment District

This fund accounts for receipts and disbursements associated with the 1993 Parking District No. 92-13 Assessment Bonds.

Cable Joint Powers Authority

The fund was established to account for the activities of the cable television system on behalf of the members.

University Avenue Area Off-Street Parking Assessment District

The fund accounts for the receipts and disbursements associated with the Series 2012 Limited Obligation Refunding Improvement Bonds.

CITY OF PALO ALTO
All Agency Funds
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2016
(Amounts in thousands)

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<u>California Avenue Parking Assessment District</u>				
ASSETS:				
Cash and investments available for operations	\$ 175	\$ -	\$ 175	\$ -
LIABILITIES:				
Due to bondholders	\$ 175	\$ -	\$ 175	\$ -
<u>Cable Joint Powers Authority</u>				
ASSETS:				
Cash and investments available for operations	\$ 660	\$ -	\$ 9	\$ 651
Accounts receivable	503	-	8	495
Interest receivable	3	-	-	3
Total assets	<u>\$ 1,166</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 1,149</u>
LIABILITIES:				
Due to other governments	<u>\$ 1,166</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 1,149</u>
<u>University Avenue Area</u>				
<u>Off-Street Parking Assessment District</u>				
ASSETS:				
Cash and investments available for operations	\$ 2,192	\$ -	\$ 196	\$ 1,996
Cash and investments with fiscal agents	2,543	7	-	2,550
Accounts receivable	9	1	-	10
Interest receivable	9	-	-	9
Total assets	<u>\$ 4,753</u>	<u>\$ 8</u>	<u>\$ 196</u>	<u>\$ 4,565</u>
LIABILITIES:				
Due to bondholders	<u>\$ 4,753</u>	<u>\$ -</u>	<u>\$ 188</u>	<u>\$ 4,565</u>
<u>Total Agency Funds</u>				
ASSETS:				
Cash and investments available for operations	\$ 3,027	\$ -	\$ 380	\$ 2,647
Cash and investments with fiscal agents	2,543	7	-	2,550
Accounts receivable	512	1	8	505
Interest receivable	12	-	-	12
Total assets	<u>\$ 6,094</u>	<u>\$ 8</u>	<u>\$ 388</u>	<u>\$ 5,714</u>
LIABILITIES:				
Due to bondholders	\$ 4,928	\$ -	\$ 363	\$ 4,565
Due to other governments	1,166	-	17	1,149
Total liabilities	<u>\$ 6,094</u>	<u>\$ -</u>	<u>\$ 380</u>	<u>\$ 5,714</u>

STATISTICAL SECTION

The statistical section contains comprehensive statistical data, which relates to physical, economic, social and political characteristics of the City. It is intended to provide users with a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section.

In this section, readers will find comparative information related to the City's revenue sources, expenditures, property tax valuations, levies and collections, general obligation bonded debt, utility revenue debt service, and demographics. Where available, the comparative information is presented for the last ten fiscal years.

In addition, this section presents information related to the City's legal debt margin computation, principal taxpayers, notary and security bond coverages, and other miscellaneous statistics pertaining to services provided by the City.

In contrast to the financial section, the statistical section information is not usually subject to independent audit.

Financial Trends

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

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

Revenue Capacity

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

- Electric Operating Revenue by Source
- Supplemental Disclosure for Water Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

Debt Capacity

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

- Ratio of Outstanding Debt by Type
- Computation of Direct and Overlapping Debt
- Computation of Legal Bonded Debt Margin
- Revenue Bond Coverage

STATISTICAL SECTION

Demographic and Economic Information

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

- Taxable Transactions by Type of Business
- Demographic and Economic Statistics
- Principal Employers

Operating Information

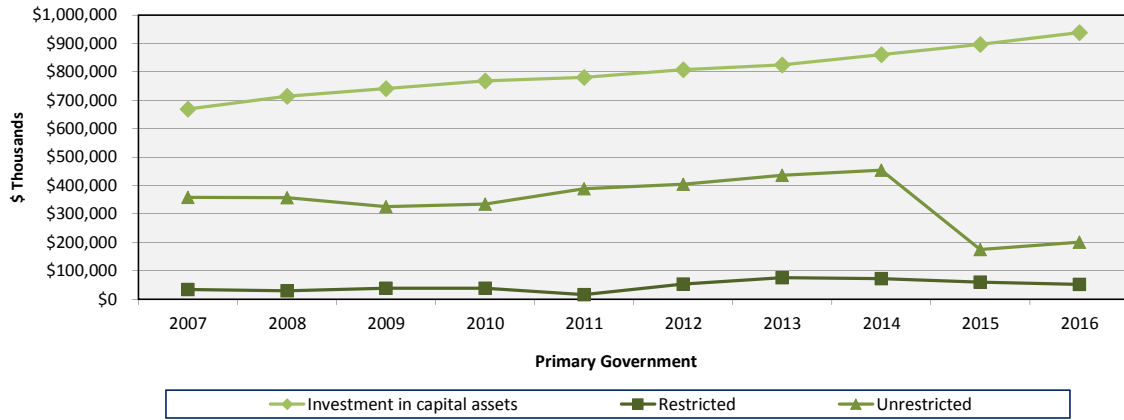
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

CITY OF PALO ALTO
Net Position by Component
Last Ten Fiscal Years
(Accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental Activities										
Investment in capital assets	\$ 326,411	\$ 343,537	\$ 356,657	\$ 369,499	\$ 364,747	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179
Restricted	32,576	27,428	36,632	34,323	16,437	52,934	71,717	68,331	55,963	47,907
Unrestricted	127,190	130,460	118,133	102,199	134,722	142,102	165,810	187,386	1,972	37,905
Total Governmental Activities Net Position	\$ 486,177	\$ 501,425	\$ 511,422	\$ 506,021	\$ 515,906	\$ 565,147	\$ 615,574	\$ 642,413	\$ 463,856	\$ 510,991
Business-type Activities										
Investment in capital assets	\$ 342,922	\$ 370,303	\$ 384,313	\$ 399,317	\$ 416,418	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918
Restricted	1,732	1,732	1,732	4,300	-	-	4,060	4,166	4,142	4,115
Unrestricted	230,912	226,539	208,025	232,420	253,740	262,602	269,926	266,794	172,802	162,806
Total Business-type Activities Net Position	\$ 575,566	\$ 598,574	\$ 594,070	\$ 636,037	\$ 670,158	\$ 699,753	\$ 720,583	\$ 744,755	\$ 667,818	\$ 679,839
Primary Government										
Investment in capital assets	\$ 669,333	\$ 713,840	\$ 740,970	\$ 768,816	\$ 781,165	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097
Restricted	34,308	29,160	38,364	38,623	16,437	52,934	75,777	72,497	60,105	52,022
Unrestricted	358,102	356,999	326,158	334,619	388,462	404,704	435,736	454,180	174,774	200,711
Total Primary Government Net Position	\$ 1,061,743	\$ 1,099,999	\$ 1,105,492	\$ 1,142,058	\$ 1,186,064	\$ 1,264,900	\$ 1,336,157	\$ 1,387,168	\$ 1,131,674	\$ 1,190,830

Source: Annual Financial Statements, Statement of Net Position

CITY OF PALO ALTO
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis of accounting)
(Amounts in thousands)

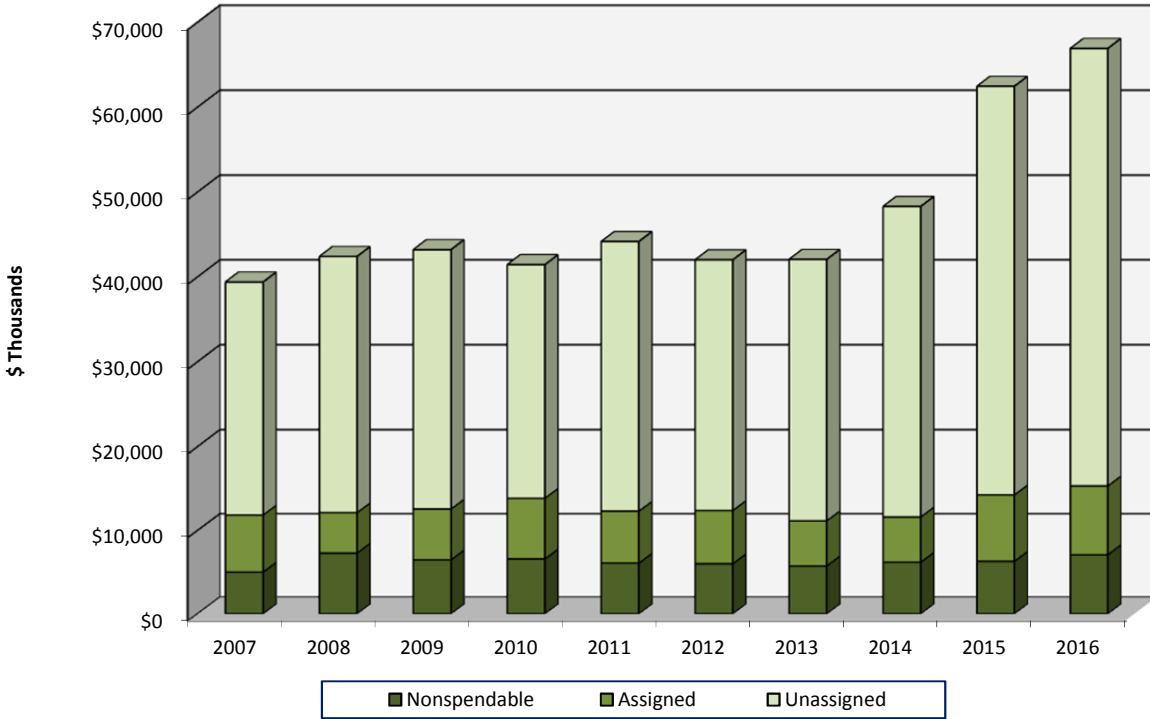
	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PROGRAM REVENUES										
Governmental Activities										
Charges for services										
City Attorney	\$ 13	\$ 16	\$ 12	\$ 53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Clerk	-	-	-	-	-	-	-	-	-	-
City Auditor	-	-	-	-	-	-	-	-	-	-
Administrative Services	835	870	726	984	2,889	1,647	15,629	4,055	5,460	9,444
Human Resources	11	-	-	-	-	-	-	-	-	-
Public Works	968	1,310	1,169	1,258	2,419	1,008	1,314	1,093	1,209	599
Planning & Community Environment	6,267	5,498	4,704	4,813	7,237	31,491	28,768	12,896	8,090	9,071
Development Services ³	-	-	-	-	-	-	-	-	12,019	12,570
Public Safety	13,789	13,692	14,670	14,337	15,274	15,658	16,139	14,902	15,726	13,945
Community Services	9,128	10,314	8,522	8,729	7,724	11,365	13,808	20,882	20,912	21,551
Library	146	176	177	199	480	1,600	187	166	137	198
Operating grants and contributions	5,642	4,029	3,599	4,829	2,884	3,441	5,038	5,360	5,300	2,164
Capital grants and contributions	1,756	1,930	3,810	1,280	1,903	1,064	515	917	619	344
Total Governmental Activities										
Program Revenues	38,555	37,835	37,389	36,482	40,810	67,274	81,398	60,271	69,472	69,886
Business-type Activities										
Charges for services										
Water	23,495	26,510	27,120	26,259	26,624	31,467	37,746	40,291	35,847	37,588
Electric	102,549	103,833	119,320	121,900	122,109	118,886	121,805	121,916	120,842	120,743
Fiber Optics ¹	-	-	3,336	3,105	3,322	3,662	4,382	4,485	4,627	4,505
Gas	42,221	49,021	47,838	44,450	43,584	41,774	34,633	35,737	30,751	30,212
Wastewater Collection	14,848	15,102	14,486	15,136	15,094	14,942	16,077	15,599	16,182	16,496
Wastewater Treatment	16,957	22,889	28,425	16,915	18,830	22,200	21,528	18,460	24,120	23,825
Refuse	25,532	28,805	29,101	28,568	30,469	30,645	30,583	30,297	31,576	32,169
Storm Drainage	5,181	5,450	5,505	5,647	5,796	5,892	6,053	6,183	6,281	6,520
Airport	-	-	-	-	-	-	-	-	683	826
External Services	789	112	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	361	610	605	572	549	534	744
Capital grants and contributions	756	1,594	639	475	3,004	1,526	2,224	2,005	2,080	1,061
Total Business-type Activities										
Program Revenues	232,328	253,316	275,770	262,816	269,442	271,599	275,603	275,522	273,523	274,689
Total Primary Government										
Program Revenues	\$ 270,883	\$ 291,151	\$ 313,159	\$ 299,298	\$ 310,252	\$ 338,873	\$ 357,001	\$ 335,793	\$ 342,995	\$ 344,575
EXPENSES										
Governmental Activities										
City Council	\$ 180	\$ 323	\$ 394	\$ 455	\$ 15	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352
City Manager	1,760	2,273	2,085	2,399	1,842	1,960	1,237	2,180	2,155	2,662
City Attorney	2,390	2,653	2,575	2,621	953	1,656	1,642	1,797	1,759	2,472
City Clerk	900	1,241	1,098	1,369	803	908	330	641	680	582
City Auditor	838	1,379	2,053	2,601	138	235	464	489	362	414
Administrative Services ²	6,419	15,477	17,784	17,893	9,888	10,100	7,614	11,388	9,980	10,637
Human Resources	2,472	2,806	3,448	3,707	1,346	1,071	1,420	1,346	1,464	2,224
Public Works	16,645	18,565	21,270	18,658	19,357	14,568	20,816	24,577	21,075	24,613
Planning & Community Environment	12,929	16,388	12,940	12,114	15,031	12,074	13,549	14,926	8,423	10,208
Development Services ³	-	-	-	-	-	-	-	-	10,449	11,158
Public Safety	43,391	50,126	52,487	55,799	58,996	62,817	59,452	62,883	58,660	56,653
Community Services	15,729	17,736	19,862	17,171	22,845	21,915	22,705	23,822	24,688	28,547
Library	5,347	6,321	6,244	6,143	6,920	7,323	7,319	7,758	7,721	10,825
Non-departmental ²	12,133	-	-	-	-	-	-	-	-	-
Interest on long term debt	477	438	404	370	2,742	2,575	2,562	3,367	3,658	3,552
Total Governmental										
Activities Expenses	121,610	135,726	142,644	141,300	140,876	137,547	139,204	155,561	151,345	164,899
Business-type Activities										
Water	16,794	18,842	20,271	21,037	24,268	29,093	30,707	31,593	33,205	35,120
Electric	99,294	108,032	122,268	107,910	100,130	102,030	106,438	113,004	122,499	120,319
Fiber Optics ¹	-	-	1,284	1,407	1,561	1,489	1,437	1,661	1,891	2,107
Gas	30,690	37,211	34,603	32,498	32,051	28,878	26,749	26,869	23,525	20,879
Wastewater Collection	10,085	12,023	14,875	10,696	12,275	14,825	14,313	13,235	14,595	15,199
Wastewater Treatment	15,901	18,902	36,896	13,466	19,731	20,712	20,635	21,018	21,553	22,546
Refuse	25,372	28,827	37,217	28,119	30,684	31,900	28,542	28,413	27,974	30,370
Storm Drainage	2,517	3,202	2,943	2,491	3,229	3,103	3,703	3,644	3,721	3,735
Airport	-	-	-	-	31	153	246	466	1,004	970
External Services	767	984	-	-	-	-	-	-	-	-
Total Business-type										
Activities Expenses	201,420	228,023	270,357	217,624	223,960	232,183	232,770	239,903	249,967	251,245
Total Primary										
Government Expenses	\$ 323,030	\$ 363,749	\$ 413,001	\$ 358,924	\$ 364,836	\$ 369,730	\$ 371,974	\$ 395,464	\$ 401,312	\$ 416,144

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NET (EXPENSE)/REVENUE										
Governmental Activities	\$ (83,055)	\$ (97,891)	\$ (105,255)	\$ (104,818)	\$ (100,066)	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)
Business-type Activities	30,908	25,293	5,413	45,192	45,482	39,416	42,833	35,619	23,556	23,444
Total Primary Government										
Net (Expense)/Revenue	<u>\$ (52,147)</u>	<u>\$ (72,598)</u>	<u>\$ (99,842)</u>	<u>\$ (59,626)</u>	<u>\$ (54,584)</u>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>	<u>\$ (58,317)</u>	<u>\$ (71,569)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS										
<u>Governmental Activities</u>										
Taxes										
Property tax	\$ 21,466	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,156	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189
Sales tax	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675	30,018
Utility user tax	9,356	10,285	11,030	11,295	10,851	10,834	10,861	11,008	10,861	12,469
Transient occupancy tax	6,709	7,976	7,111	6,858	8,082	9,664	10,794	12,255	16,699	22,366
Other taxes	6,293	6,261	3,364	4,055	8,156	8,173	10,504	9,660	11,867	7,868
Investment earnings	8,747	12,313	8,525	6,514	3,500	6,238	(1,228)	5,859	5,010	8,639
Rents and miscellaneous	13,670	11,896	15,682	12,729	12,377	14,943	518	2,575	3,428	894
Transfers	15,754	18,701	24,020	13,994	17,083	17,426	19,249	17,103	16,405	18,705
Total Governmental Activities	<u>104,189</u>	<u>113,139</u>	<u>115,253</u>	<u>99,417</u>	<u>109,951</u>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>	<u>132,695</u>	<u>142,148</u>
<u>Business-type Activities</u>										
Investment earnings	11,910	16,416	14,103	10,769	5,722	7,605	(2,754)	6,379	4,857	7,282
Transfers	(15,754)	(18,701)	(24,020)	(13,994)	(17,083)	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)
Total Business-type Activities	<u>(3,844)</u>	<u>(2,285)</u>	<u>(9,917)</u>	<u>(3,225)</u>	<u>(11,361)</u>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>	<u>(11,548)</u>	<u>(11,423)</u>
Total Primary Government	<u>\$ 100,345</u>	<u>\$ 110,854</u>	<u>\$ 105,336</u>	<u>\$ 96,192</u>	<u>\$ 98,590</u>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>	<u>\$ 121,147</u>	<u>\$ 130,725</u>
CHANGE IN NET POSITION										
Governmental Activities	\$ 21,134	\$ 15,248	\$ 9,998	\$ (5,401)	\$ 9,885	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135
Business-type Activities	27,064	23,008	(4,504)	41,967	34,121	29,595	20,830	24,895	12,008	12,021
Total Primary Government										
Change in Net Position	<u>\$ 48,198</u>	<u>\$ 38,256</u>	<u>\$ 5,494</u>	<u>\$ 36,566</u>	<u>\$ 44,006</u>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>	<u>\$ 62,830</u>	<u>\$ 59,156</u>

Notes: ¹Prior to 2009, Fiber Optics was included in Electric.
²Beginning in 2008, includes Non-departmental expenses.
³The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Statement of Activities

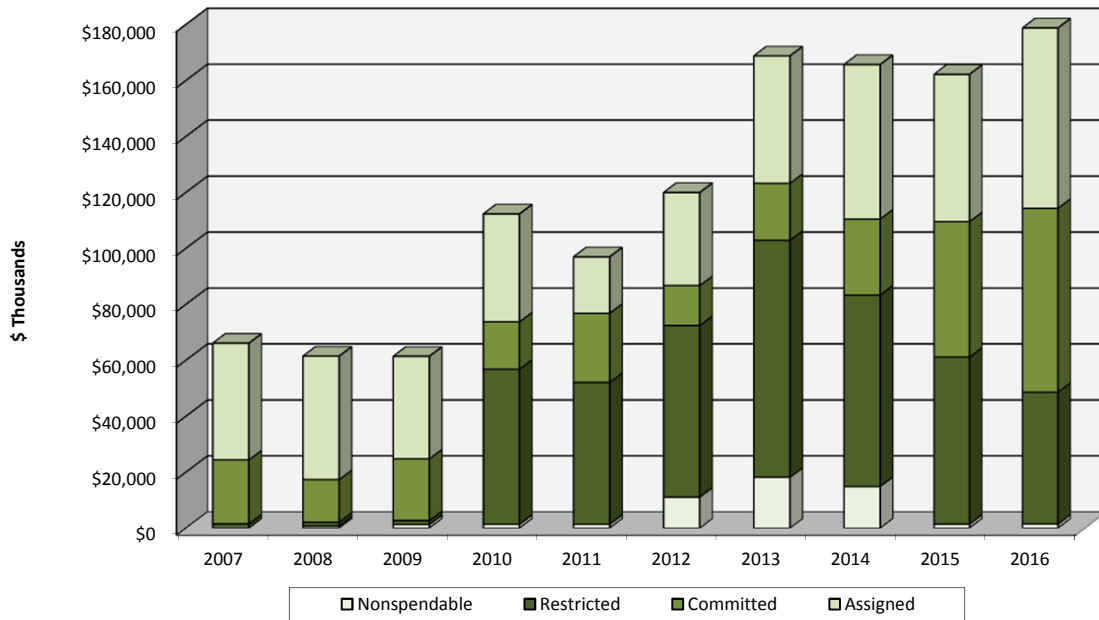
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Nonspendable	\$ 5,002	\$ 7,286	\$ 6,476	\$ 6,581	\$ 6,085	\$ 6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088
Assigned	6,855	4,851	6,100	7,295	6,235	6,400	5,415	5,432	7,976	8,261
Unassigned	<u>27,551</u>	<u>30,278</u>	<u>30,648</u>	<u>27,581</u>	<u>31,859</u>	<u>29,616</u>	<u>30,913</u>	<u>36,690</u>	<u>48,198</u>	<u>51,582</u>
Total General Fund	<u>\$ 39,408</u>	<u>\$ 42,415</u>	<u>\$ 43,224</u>	<u>\$ 41,457</u>	<u>\$ 44,179</u>	<u>\$ 42,023</u>	<u>\$ 42,077</u>	<u>\$ 48,310</u>	<u>\$ 62,470</u>	<u>\$ 66,931</u>

Source: Annual Financial Statements, Balance Sheet

CITY OF PALO ALTO
Fund Balances of Governmental Funds (All Other Governmental Funds)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
All Other Governmental Funds										
Nonspendable	\$ -	\$ 731	\$ 1,308	\$ 1,402	\$ 1,422	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505
Restricted	1,540	1,406	1,412	55,400	50,646	61,324	84,688	68,468	59,650	47,113
Committed	22,883	15,207	22,043	16,962	24,775	14,284	20,400	27,145	48,434	65,745
Assigned	41,684	44,116	36,629	38,538	20,114	33,264	45,514	55,211	52,627	64,411
Total All Other Governmental Funds	<u>\$ 66,107</u>	<u>\$ 61,460</u>	<u>\$ 61,392</u>	<u>\$ 112,302</u>	<u>\$ 96,957</u>	<u>\$ 119,984</u>	<u>\$ 168,791</u>	<u>\$ 165,693</u>	<u>\$ 162,179</u>	<u>\$ 178,774</u>

Source: Annual Financial Statements, Balance Sheet

CITY OF PALO ALTO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Property tax	\$ 21,466	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,248	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289
Sales tax	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675	30,018
Other taxes and fines	26,215	27,385	24,843	25,063	27,890	29,231	32,141	35,305	41,576	44,909
Charges for services	19,929	19,610	19,837	19,775	22,311	46,273	38,976	23,962	25,973	23,910
From other agencies	3,448	4,300	5,984	3,035	1,614	1,116	4,109	5,700	7,727	4,417
Permits and licenses	4,711	4,761	4,033	4,408	5,433	7,136	8,218	8,990	9,179	11,228
Interest and rentals	17,750	20,507	19,183	19,045	16,553	18,583	12,136	18,445	18,658	22,269
Other revenue	7,503	4,713	6,223	4,724	8,624	12,739	17,570	7,471	12,837	13,827
Total Revenues	123,216	126,983	125,624	120,022	132,419	167,426	170,796	164,690	184,461	191,867
Expenditures										
Administration ¹	14,399	16,250	16,002	17,353	8,351	9,412	8,291	9,961	10,806	11,501
Public Works	9,256	10,072	10,064	9,787	11,317	11,304	11,489	12,439	12,276	13,112
Planning and Community Environment	11,874	9,861	10,462	9,480	10,309	11,966	13,474	14,761	8,628	9,722
Development Services ³	-	-	-	-	-	-	-	-	11,152	10,643
Public Safety	42,451	48,650	48,957	51,022	58,874	62,418	59,537	62,028	61,447	63,784
Community Services ²	16,533	17,138	17,451	16,451	20,029	20,860	21,661	22,644	23,553	25,511
Library ²	5,260	6,219	5,985	5,900	6,509	7,072	6,902	7,340	7,980	7,960
Non-departmental	12,122	14,089	10,765	10,149	7,352	6,819	4,567	8,135	6,180	8,068
Special revenue and capital projects	17,478	21,626	21,485	22,006	35,486	29,154	29,542	37,035	41,754	24,457
Debt service - principal payments	850	885	800	840	870	1,743	1,489	1,524	1,948	7,130
Debt service - interest and fiscal fees	489	451	416	382	1,815	2,757	2,659	3,196	3,404	4,266
Payment to bond refunding escrow	-	-	-	-	-	586	540	-	-	-
Total Expenditures	130,712	145,241	142,387	143,370	160,912	164,091	160,151	179,063	189,128	186,154
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,496)	(18,258)	(16,763)	(23,348)	(28,493)	3,335	10,645	(14,373)	(4,667)	5,713
Other Financing Sources (Uses)										
Transfers in	27,701	33,437	39,903	34,835	30,323	47,200	50,343	41,683	45,137	61,835
Transfers out	(15,882)	(16,819)	(22,399)	(21,415)	(14,352)	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)
Other	-	-	-	-	(101)	-	-	-	-	-
Proceeds from long term debt	-	-	-	59,071	-	3,222	21,706	-	-	-
Payments to refund bond escrow	-	-	-	-	-	(3,104)	-	-	-	-
Total Other Financing Sources (Uses)	11,819	16,618	17,504	72,491	15,870	17,536	38,216	17,508	15,313	15,343
Net Change in Fund Balances	\$ 4,323	\$ (1,640)	\$ 741	\$ 49,143	\$ (12,623)	\$ 20,871	\$ 48,861	\$ 3,135	\$ 10,646	\$ 21,056
Debt Service as a Percentage of Non-Capital Expenditures	1.2%	1.1%	1.0%	1.0%	2.2%	3.5%	3.2%	3.3%	3.7%	7.1%

Notes:

¹Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and Human Resources.

²Prior to 2005, Library was included in Community Services.

³The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances

CITY OF PALO ALTO
Electric Operating Revenue by Source
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
2007	\$ 15,150	\$ 68,214	\$ 2,466	\$ 85,830
2008	16,109	72,632	2,571	91,312
2009	17,939	83,710	2,823	104,472
2010	19,898	89,315	2,890	112,103
2011	19,848	88,076	2,991	110,915
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033

Top Ten Electric Customers by Revenue¹

Customer (alphabetical order)	Type of Business
529 Bryant Street LLC	Technology
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
Hewlett-Packard Company	Computer
Hewlett-Packard Enterprise	Computer
Space Systems/Loral	Satellite & Satellite Systems
Stanford Hospital & Clinics	Hospital
Varian Medical Systems, Inc.	Manufacturing
Veterans Admin Hospital	Hospital
VMware, Inc.	Computer

¹The top ten customers accounted for approximately 37.5% of total kWh consumption (351,514,504 kWh) and 33.7% of revenue (\$38,108,715). The largest customer accounted for 8.7% of total kWh consumption and 7.7% of revenue. The smallest customer accounted for 1.8% of total kWh consumption and 1.5% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges, and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	Number of Customers	Kilowatt-hour Sales (kWh)	Revenue²
Residential	25,372	150,111,759	\$ 18,191
Commercial	3,715	589,091,303	68,953
Industrial	91	168,141,493	17,762
CPA	126	29,812,407	3,127
Total	29,304	937,156,962	\$ 108,033

City of Palo Alto Power Purchase

Western Area Power Administration Hydroelectric	27%
Forward Market Purchases	29%
Wind Energy	11%
Landfill Gas Energy	10%
Solar Energy	9%
Northern California Power Agency Hydroelectric	11%
Short-Term Market	3%

²Revenue includes metered and non-metered charges and revenue adjustments. Revenue does not include California Energy Commission (CEC) surcharges, Utility Users Tax (UUT), Primary Voltage and Rate Assistance (RAP) discounts and deposits. Parts of this schedule are provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and are not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities and Accounting Departments

CITY OF PALO ALTO
Supplemental Disclosure for Water Utilities
Fiscal Year 2016

Top Ten Largest Water Utility Customers (alphabetical order)

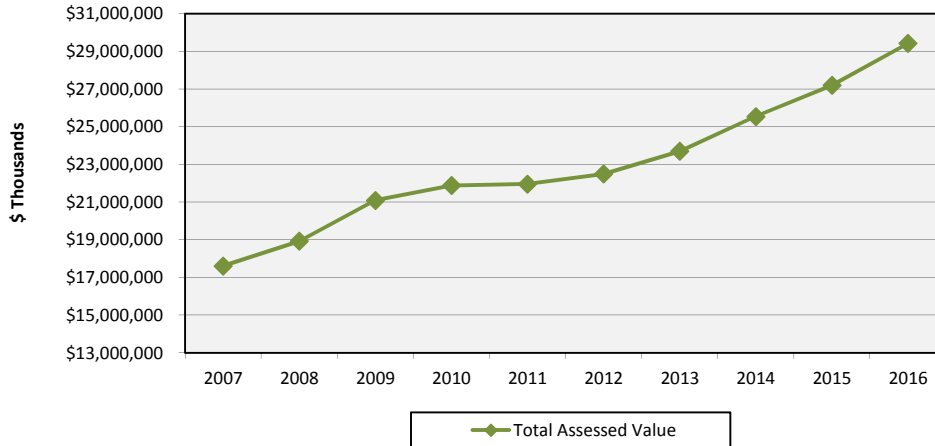
City of Palo Alto
Hewlett-Packard Company
Oak Creek Apartments
Palo Alto Hills Golf & Country Club
Palo Alto Unified School District
Space Systems/Loral, Inc.
Stanford Hospital & Clinics
Stanford West Management
Veterans Admin Hospital
VMware Inc.

The top ten customers total consumption is 747,045 CCF with revenue of \$6,347,933. This amount accounts for approximately 19.6% of total consumption and 17.2% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 4.5% of consumption and 3.3% of revenue. The smallest customer accounted for 0.7% of consumption and 0.7% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

CITY OF PALO ALTO
Assessed Value of Taxable Property
Last Ten Fiscal Years
(Amounts in thousands)

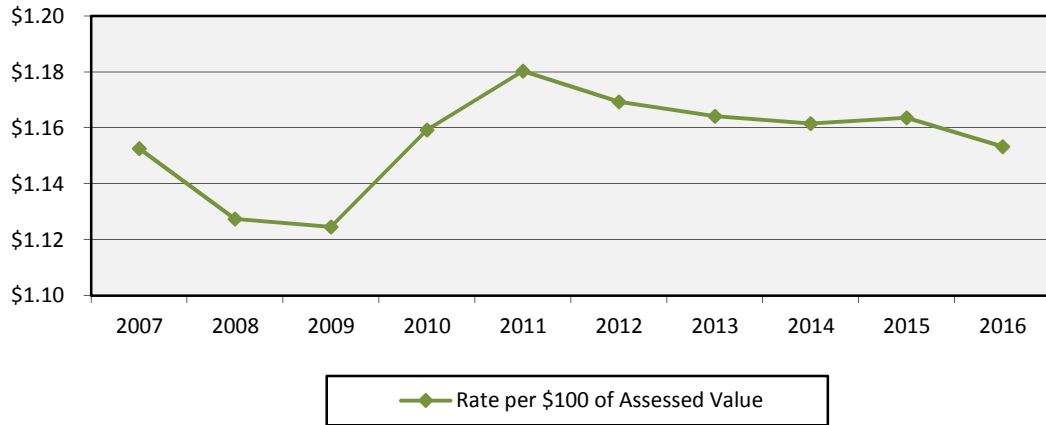


	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Local Secured Roll										
Land	\$ 8,725,485	\$ 9,497,746	\$ 10,420,139	\$ 11,007,650	\$ 11,011,160	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665
Improvements	8,915,623	9,453,436	10,527,617	10,752,671	10,962,928	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502
Personal property	213,154	228,875	303,688	288,148	241,280	257,436	287,296	307,499	290,590	310,929
	<u>17,854,262</u>	<u>19,180,057</u>	<u>21,251,444</u>	<u>22,048,469</u>	<u>22,215,368</u>	<u>23,314,026</u>	<u>24,924,117</u>	<u>26,650,085</u>	<u>28,334,413</u>	<u>31,028,096</u>
Less:										
Exemptions net of state aid	<u>(1,639,856)</u>	<u>(1,797,327)</u>	<u>(1,871,292)</u>	<u>(1,809,119)</u>	<u>(1,757,241)</u>	<u>(2,346,728)</u>	<u>(2,589,653)</u>	<u>(2,610,521)</u>	<u>(2,761,495)</u>	<u>(3,409,836)</u>
Total Net Local Secured Roll	<u>16,214,406</u>	<u>17,382,730</u>	<u>19,380,152</u>	<u>20,239,350</u>	<u>20,458,127</u>	<u>20,967,298</u>	<u>22,334,464</u>	<u>24,039,564</u>	<u>25,572,918</u>	<u>27,618,260</u>
Public utilities	3,923	3,174	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573
Unsecured property	<u>1,391,284</u>	<u>1,536,584</u>	<u>1,702,884</u>	<u>1,638,436</u>	<u>1,495,574</u>	<u>1,516,837</u>	<u>1,355,970</u>	<u>1,493,922</u>	<u>1,622,636</u>	<u>1,794,921</u>
Total Assessed Value	<u>\$ 17,609,613</u>	<u>\$ 18,922,488</u>	<u>\$ 21,085,609</u>	<u>\$ 21,880,359</u>	<u>\$ 21,956,274</u>	<u>\$ 22,486,708</u>	<u>\$ 23,693,007</u>	<u>\$ 25,536,059</u>	<u>\$ 27,198,127</u>	<u>\$ 29,415,754</u>
Total Direct Tax Rate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara Assessor's Office

**CITY OF PALO ALTO
Property Tax Rates
All Overlapping Governments
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A) ¹	City Library G.O. Bond (Measure N) ²	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space ³	Total Direct and Overlapping Rates
2007	1.00	0.0388	-	-	0.0072	0.0720	0.0346		1.15
2008	1.00	0.0388	-	-	0.0071	0.0702	0.0113		1.13
2009	1.00	0.0388	-	-	0.0061	0.0674	0.0123		1.12
2010	1.00	0.0388	0.0122	-	0.0074	0.0686	0.0322		1.16
2011	1.00	0.0388	0.0095	0.0171	0.0072	0.0751	0.0326		1.18
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297		1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287		1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290		1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276		1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	1.15

Notes: ¹The County General Obligation Bond (Measure A) was passed in 2008 to fund the seismic upgrade of the Santa Clara Valley Medical Center. Rates were first levied for the 2009-10 fiscal year.

²The City of Palo Alto General Obligation Bond (Measure N) was passed in 2008 to fund the construction and renovation of three of the City's libraries. Rates were first levied for the 2010-11 fiscal year.

³The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014.

Source: County of Santa Clara, Tax Rates and Information

CITY OF PALO ALTO
Property Tax Levies and Collections
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year Ended June 30	Total Tax Levy ¹ for FY	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years ²	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	21,466	21,466	100%	-	21,466	100%
2008	23,084	23,084	100%	-	23,084	100%
2009	25,432	25,432	100%	-	25,432	100%
2010	25,981	25,981	100%	-	25,981	100%
2011	25,688	25,688	100%	-	25,688	100%
2012	26,494	26,494	100%	-	26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%

Notes: ¹During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the county to keep all interest and delinquency charges collected.

²Effective fiscal year 1994, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. All prior delinquent taxes were also received in that fiscal year.

Source: Annual Financial Statements, Government Funds, Statement of Revenues, Expenditures and Changes in Fund Balances.

CITY OF PALO ALTO
Principal Property Taxpayers
Current Year and Nine Years Ago
(Amounts in thousands)

Taxpayer	Fiscal Year 2016			Fiscal Year 2007		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Leland Stanford Jr. University	\$ 3,952,158	1	13.4%	\$ 2,632,853	1	15.0%
Loral Space & Communications	215,180	2	0.7%	180,779	2	1.0%
Google Inc.	158,245	3	0.5%			
PPF OFF 3301 Hillview Avenue LP	130,150	4	0.4%			
EOSII Palo Alto Technology Center LLC	121,692	5	0.4%			
Whisman Ventures, LLC	112,001	6	0.4%			
SI 43 LLC	76,823	7	0.3%			
BVK Hamilton Ave LLC	69,290	8	0.2%			
Ronald & Ann Williams Charitable Foundation	62,685	9	0.2%			
PPC Forest Towers LLC	56,610	10	0.2%			
Agilent Technologies				81,285	3	0.5%
Harbor Investment Partners				52,165	4	0.3%
EOP-Embarcadero Place, LLC				40,000	5	0.2%
Hamilton Associates				38,843	6	0.2%
California Pacific Commercial Corp.				37,339	7	0.2%
Palo Alto Town & Country Village Inc.				36,306	8	0.2%
Pacific Hotel Dev Venture LP				32,796	9	0.2%
Thoits Bros Inc.				29,751	10	0.2%
Total	\$ 4,954,834		16.7%	\$ 3,162,117		18.0%

Total City Taxable Assessed Value:

FY 2016	\$ 29,415,754
FY 2007	\$ 17,609,613

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2016

	2015-16 Assessed Valuation¹	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Non-Residential:						
Agricultural/forest	\$ 32,729,878	0.12 %	49	0.24 %	31	0.16 %
Commercial	1,532,265,585	5.55	454	2.20	450	2.34
Professional/office	3,344,356,151	12.11	536	2.60	519	2.70
Industrial/research & development	1,863,968,386	6.75	179	0.87	175	0.91
Recreational	34,692,318	0.13	14	0.07	12	0.06
Government/social/institutional	149,945,877	0.54	115	0.56	46	0.24
Miscellaneous	<u>7,121,330</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.09</u>
Subtotal Non-Residential	\$ 6,965,079,525	25.22 %	1,365	6.62 %	1,250	6.50 %
Residential:						
Single family residence	\$ 16,457,914,524	59.59 %	14,968	72.57 %	14,922	77.55 %
Condominium/townhouse	2,117,116,117	7.67	3,033	14.71	2,027	10.53
Mobile Home	71,060	0.00	7	0.03	7	0.04
2-4 Residential units	423,208,249	1.53	506	2.45	506	2.63
5+ Residential units	<u>1,434,539,561</u>	<u>5.19</u>	<u>336</u>	<u>1.63</u>	<u>321</u>	<u>1.67</u>
Subtotal Residential	\$ 20,432,849,511	73.98 %	18,850	91.39 %	17,783	92.41 %
Vacant Parcels	\$ 220,331,113	0.80 %	410	1.99 %	210	1.09 %
Total	\$ 27,618,260,149	100 %	20,625	100 %	19,243	100 %

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's General Obligation 2010 and 2013A Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

¹Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Per Parcel Assessed Valuation of Single Family Residential
As of June 30, 2016

	No. of Taxable Parcels¹	2015-2016 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	14,922	\$16,457,914,524	\$1,102,930	\$815,747

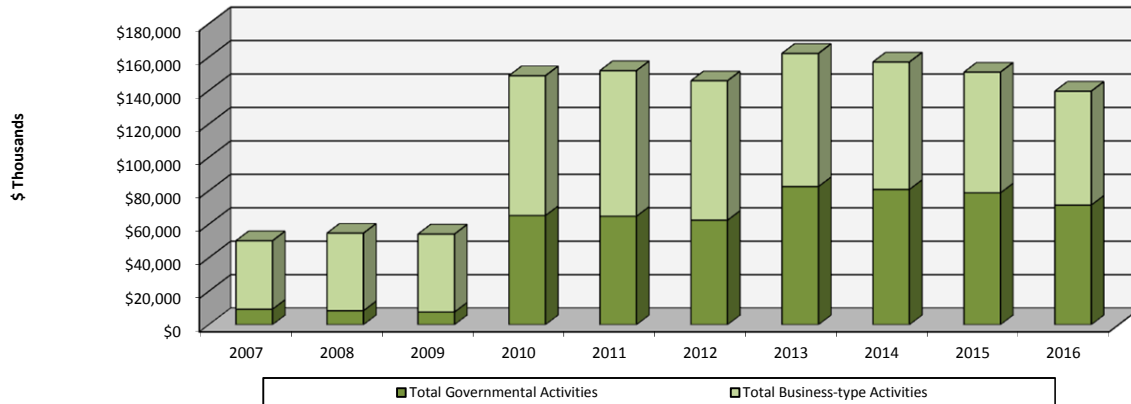
2015-2016 Assessed Valuation	No. of Taxable Parcels¹	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
\$0-99,999	1,334	8.94	8.94	\$ 105,594,792	0.64	0.64
\$100,000-199,999	1,802	12.08	21.02	249,254,241	1.51	2.16
\$200,000-299,999	854	5.72	26.74	212,390,602	1.29	3.45
\$300,000-399,999	738	4.95	31.68	256,832,299	1.56	5.01
\$400,000-499,999	673	4.51	36.19	303,279,249	1.84	6.85
\$500,000-599,999	745	4.99	41.19	409,892,140	2.49	9.34
\$600,000-699,999	660	4.42	45.61	427,407,181	2.60	11.94
\$700,000-799,999	583	3.91	49.52	435,859,453	2.65	14.59
\$800,000-899,999	597	4.00	53.52	509,043,262	3.09	17.68
\$900,000-999,999	640	4.29	57.81	607,105,607	3.69	21.37
\$1,000,000-1,099,999	605	4.05	61.86	635,783,858	3.86	25.23
\$1,100,000-1,199,999	507	3.40	65.26	582,031,906	3.54	28.77
\$1,200,000-1,299,999	465	3.12	68.38	582,887,097	3.54	32.31
\$1,300,000-1,399,999	438	2.94	71.31	590,918,861	3.59	35.90
\$1,400,000-1,499,999	444	2.98	74.29	642,860,649	3.91	39.81
\$1,500,000-1,599,999	395	2.65	76.93	612,251,107	3.72	43.53
\$1,600,000-1,699,999	364	2.44	79.37	599,972,971	3.65	47.17
\$1,700,000-1,799,999	327	2.19	81.56	572,303,695	3.48	50.65
\$1,800,000-1,899,999	301	2.02	83.58	556,091,276	3.38	54.03
\$1,900,000-1,999,999	241	1.62	85.20	470,501,131	2.86	56.89
\$2,000,000 and greater	2,209	14.80	100.00	7,095,653,147	43.11	100.00
Total	14,922	100.00		\$ 16,457,914,524	100.00	

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's General Obligation 2010 and 2013A Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

¹Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental Activities										
Certificates of Participation	\$ 9,175	\$ 8,405	\$ 7,605	\$ 6,765	\$ 5,895	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135
General Obligation Bonds	-	-	-	55,305	55,305	54,540	74,235	73,215	71,795	65,210
Special Assessment Debt	115	-	-	-	-	-	-	-	-	-
2011 Lease-Purchase Agreement	-	-	-	-	-	2,764	2,400	2,026	1,643	1,248
Add: unamortized premium	-	-	-	3,766	3,640	3,514	4,400	4,242	4,084	3,926
Less: unamortized discount/ issuance costs	-	-	-	(571)	-	-	-	-	-	-
Total Governmental Activities	9,290	8,405	7,605	65,265	64,840	62,503	82,595	80,913	78,807	71,519
Business-type Activities										
Utility Revenue Bonds	41,859	40,334	38,744	72,104	69,551	65,879	63,104	60,224	57,224	54,095
Energy Tax Credits	-	1,400	1,300	1,200	1,100	1,000	900	800	700	600
State Water Resources Loan	-	5,629	9,000	13,080	16,696	15,900	15,109	14,309	13,500	12,681
Less: unamortized discount/ issuance costs	(972)	(1,053)	(2,479)	(2,737)	(229)	580	543	867	803	737
Total Business-type Activities	40,887	46,310	46,565	83,647	87,118	83,359	79,656	76,200	72,227	68,113
Total Primary Government Outstanding Debt	\$ 50,177	\$ 54,715	\$ 54,170	\$ 148,912	\$ 151,958	\$ 145,862	\$ 162,251	\$ 157,113	\$ 151,034	\$ 139,632
Percentage of Personal Income ¹	1.51%	1.53%	1.50%	4.48%	4.10%	3.61%	3.80%	3.39%	3.09%	2.67%
Population	62,615	63,367	64,484	65,408	64,417	65,544	66,368	66,861	66,029	66,968
Debt Per Capita	\$ 0.80	\$ 0.86	\$ 0.84	\$ 2.28	\$ 2.36	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09

Notes: ¹See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

Sources: County of Santa Clara (assessed valuation)
2016 Official City Data Set (population)
California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)
Annual Financial Statements, Note 7 General Long-Term Obligations and Note 8 Special Assessment Debt

CITY OF PALO ALTO
Computation of Direct and Overlapping Debt
As of June 30, 2016

2015-2016 Assessed Valuation

\$ 29,415,753,627

	Total Debt	Percentage	Amount
	Outstanding	Applicable	Applicable
<u>Direct and Overlapping Tax and Assessment Debt</u>	<u>Palo Alto¹</u>	<u>to City of</u>	<u>Palo Alto</u>
Santa Clara County	\$ 792,585,000	7.58%	\$ 60,085,869
Foothill-DeAnza Community College District	584,782,455	22.09%	129,155,053
Palo Alto Unified School District	306,673,766	87.20%	267,431,791
Fremont Union High School District	365,975,088	0.01%	40,257
Los Gatos-Saratoga Joint Union High School District	70,320,000	0.01%	9,142
Mountain View-Los Altos Union High School District	59,156,005	1.12%	661,956
Cupertino Union School District	292,848,688	0.02%	55,641
Los Altos School District	73,555,000	1.33%	976,810
Mountain View-Whisman School District	189,475,000	0.92%	1,748,854
Saratoga Union School District	33,775,241	0.03%	9,457
Whisman School District	19,357,334	2.50%	483,933
City of Palo Alto	70,345,000	100%	70,345,000
El Camino Hospital District	136,280,000	0.09%	118,564
Midpeninsula Regional Open Space District	45,000,000	13.05%	5,870,250
City of Palo Alto Special Assessment Bonds	25,130,000	100%	25,130,000
Santa Clara Valley Water District Benefit Assessment District	99,060,000	7.58%	7,509,739
Total Direct and Overlapping Tax and Assessment Debt			<u>569,632,316</u>
<u>Direct and Overlapping General Fund Debt</u>			
Santa Clara County General Fund Obligations	683,441,121	7.58%	51,811,671
Santa Clara County Pension Obligations	367,118,349	7.58%	27,831,242
Santa Clara County Board of Education Certificates of Participation	6,380,000	7.58%	483,668
Foothill-DeAnza Community College District Certificates of Participation	9,723,341	22.09%	2,147,497
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	6,260,000	0.01%	814
Mountain View-Los Altos Union High School District Certificates of Participation	2,415,000	1.12%	27,024
Saratoga Union High School District Certificates of Participation	4,600,000	0.03%	1,288
City of Palo Alto General Fund Obligations	2,383,453	100%	2,383,453
Santa Clara County Vector Control District Certificates of Participation	2,890,000	7.58%	219,091
Midpeninsula Regional Open Space Park District General Fund Obligations	122,305,886	13.05%	15,954,803
Total Gross Direct and Overlapping General Fund Debt			\$ 100,860,551
Less: Santa Clara County supported obligations			<u>27,766,974</u>
Total Net Direct and Overlapping General Fund Debt			\$ 73,093,577
Total Combined Debt			<u>\$ 642,725,893</u>
	Ratio to		
	<u>Assessed Valuation</u>		
Total Direct Debt	0.25%		\$ 72,728,453
Total Overlapping Debt	1.94%		<u>569,997,440</u>
Total Direct and Overlapping Debt	2.18%		<u>\$ 642,725,893</u> ²

Notes: Overlapping debt is the financial obligations of one political jurisdiction that also falls partly on a nearby jurisdiction. The amount of debt of each unit applicable to the reporting unit is arrived at by 1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and 2) applying this percentage to the total debt of the overlapping jurisdiction.

¹Percentage of overlapping agency's assessed valuation located within boundaries of the city.

²Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Computation of Legal Bonded Debt Margin
As of June 30, 2016
(Amounts in thousands)

Assessed Valuation:	
Secured property assessed value, net of exempt real property	<u>\$ 29,415,754</u>
Bonded Debt Limit (3.75% of Assessed Value) ¹	<u>1,103,091</u>
Direct Debt:	
Certificates of Participation	1,135
Lease Purchase Agreement	1,248
General Obligation bonds	<u>65,210</u>
Total Direct Debt	<u>67,593</u>
Less: Amount of Debt Not Subject to Limit ²	<u>2,383</u>
Total Net Debt Applicable to Limit	<u>65,210</u>
Legal Bonded Debt Margin	<u>\$ 1,037,881</u>

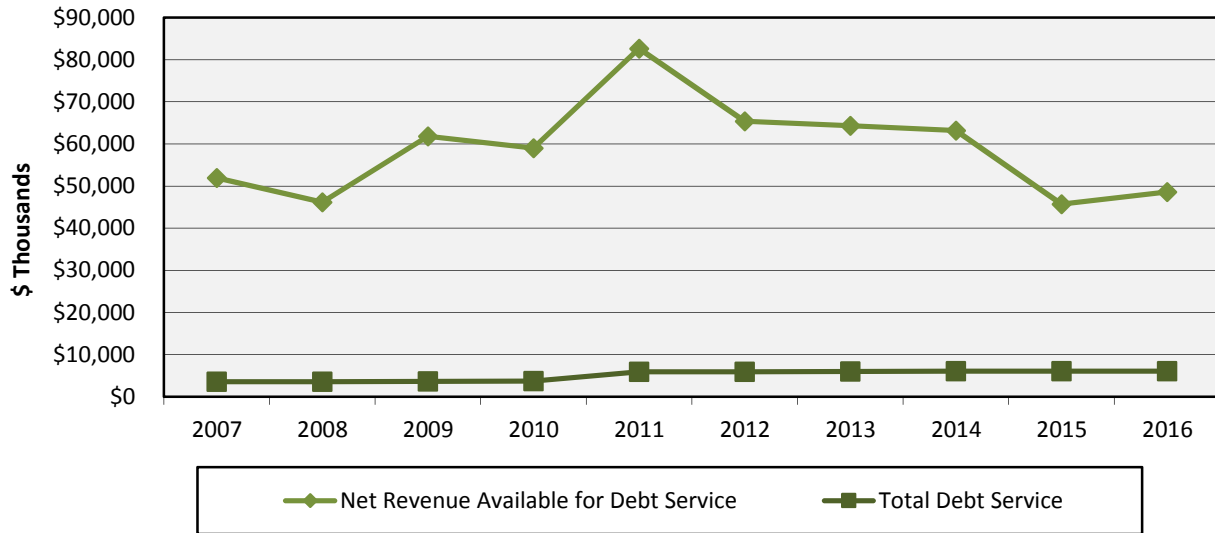
Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable to the Debt as a %	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2007	17,609,613	660,360	-	660,360	62,615	0.00%	-	0.00
2008	18,922,488	709,593	-	709,593	63,367	0.00%	-	0.00
2009	21,085,609	790,710	-	790,710	64,484	0.00%	-	0.00
2010	21,880,359	820,513	55,305	765,208	65,408	6.74%	0.0025	0.85
2011	21,956,274	823,360	55,305	768,055	64,417	6.72%	0.0025	0.86
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97

Notes: ¹California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

²In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 General Long-Term Obligations

CITY OF PALO ALTO
Revenue Bond Coverage
Business-type Activities¹
Last Ten Fiscal Years
(Amounts in thousands)



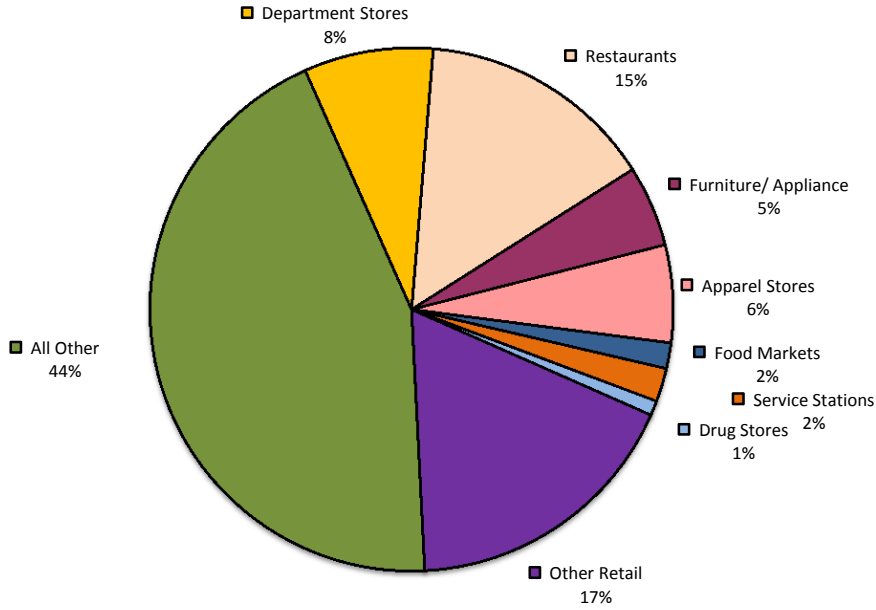
Fiscal Year	Gross Revenue	Less: Direct Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest ³	Total	
2007	203,146	151,196	51,950	1,465	2,147	3,612	14.38
2008	219,801	173,620	46,181	1,525	2,088	3,613	12.78
2009	242,693	180,880	61,813	1,590	2,024	3,614	17.10
2010	230,308	171,320	58,988	1,755	1,954	3,709	15.90
2011	234,278	151,641	82,637	2,655	3,261	5,916	13.97
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03

Notes: ¹Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.
²Excludes depreciation and amortization expense.
³Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

CITY OF PALO ALTO
Taxable Transactions by Type of Business
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year 2016



ECONOMIC SEGMENT

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2007	2,751	2,486	1,109	1,485	374	602	203	5,075	7,139	21,224
2008	2,685	2,566	1,685	1,497	349	622	405	4,682	6,797	21,288
2009	2,251	2,443	1,431	1,258	315	493	214	4,284	6,635	19,324
2010	2,215	2,418	1,402	1,254	343	549	219	4,458	5,556	18,414
2011	2,374	2,621	1,564	1,292	381	630	242	4,873	6,322	20,299
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147

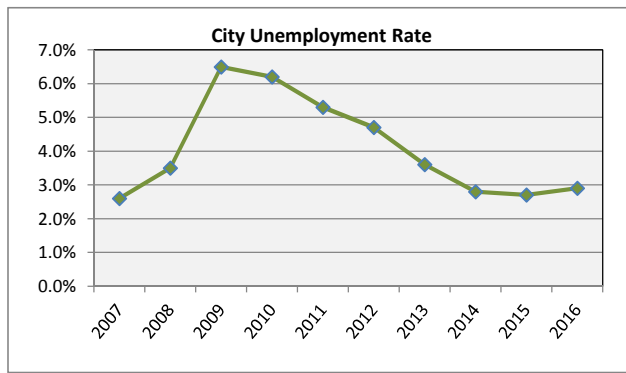
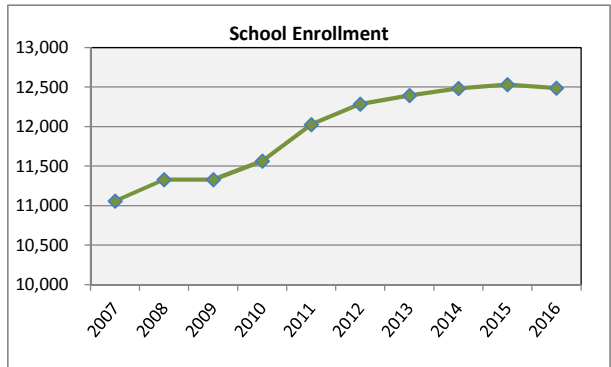
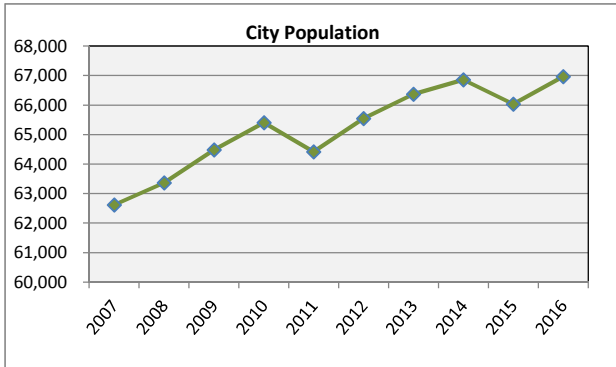
Source: California State Board of Equalization, compiled by MuniServices LLC

Sales Tax Rates for the Fiscal Year ended June 30, 2016

State Rate:	7.50%
Special District Tax Rates:	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
Total Sales and Use Tax Rate:	8.750%

Source: California State Board of Equalization

CITY OF PALO ALTO
Demographic and Economic Statistics
Last Ten Fiscal Years



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income (in thousands)
2007	62,615	2.6%	11,056	1,808,056	3.46%	95,200,000 *	52,653 *
2008	63,367	3.5%	11,329	1,837,075	3.45%	102,300,000 *	55,686 *
2009	64,484	6.5%	11,329	1,857,621	3.47%	101,800,000 *	54,801 *
2010	65,408	6.2%	11,565	1,880,876	3.48%	95,000,000 *	50,508 *
2011	64,417	5.3%	12,024	1,781,427	3.62%	101,700,000 *	57,089 *
2012	65,544	4.7%	12,286	1,816,486	3.61%	112,800,000 *	62,098 *
2013	66,368	3.6%	12,396	1,842,254	3.60%	124,800,000 *	67,743 *
2014	66,861	2.8%	12,483	1,868,558	3.58%	130,600,000 *	69,893 *
2015	66,029	2.7%	12,532	1,889,638	3.49%	139,800,000 *	73,982 *
2016	66,968	2.9%	12,488	1,927,888	3.47%	150,600,000 *	78,117 *

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: Beginning in 2015 population is sourced from the US Census Bureau Community Survey (via the City of Palo Alto's Official City Data Set).
 State Employment Development Office (unemployment rate)
 Palo Alto Unified School District (school enrollment)

* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated annually.

CITY OF PALO ALTO
Principal Employers
Current Year and Eight Years Ago

Employer	FY 2016²			FY 2008¹		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Stanford University ³	11,500	1	9.0%	9,821	1	7.0%
Stanford Health Care ³	5,000	2	3.9%	5,025	2	3.6%
Lucile Packard Children's Hospital ³	4,700	3	3.7%	3,326	4	2.4%
Veteran's Affairs Palo Alto Health Care System	3,900	4	3.0%	3,500	3	2.5%
VMware Inc.	3,500	5	2.7%			
SAP	3,500	6	2.7%			
Space Systems/Loral	2,800	7	2.2%	1,700	7	1.2%
Hewlett-Packard Company	2,500	8	1.9%	2,001	5	1.4%
Palo Alto Medical Foundation	2,200	9	1.7%	2,000	6	1.4%
Varian Medical Systems	1,400	10	1.1%			
Wilson Sonsini Goodrich & Rosati				1,500	8	1.1%
Palo Alto Unified School District				1,304	9	0.9%
City of Palo Alto				1,074	10	0.8%
Total	41,000		31.9%	31,251		22.3%

Estimated Total City Day Population:

FY 2016	128,282
FY 2008	140,000

- Notes:
- ¹Comparable data was not available until FY 2008.
 - ²Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2016 numbers are rounded.
 - ³Includes employees not located within City limits.

Source: 2016 Official City Data Set (total City day population); AtoZ databases; Stanford website.

CITY OF PALO ALTO
Operating Indicators by Function/Program
Last Ten Fiscal Years¹

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2006	2007	2008	2009
<u>Governmental activities</u>				
Community Services				
Number of theater performances	183	171	166	159
Total hours of athletic field usage ²	65,791	70,769	63,212	45,762
Number of rounds of golf	76,000	76,241	74,630	72,170
Enrollment in recreation classes (includes summer camps)	14,768	14,460	13,851	13,091
Planning and Community Environment				
Planning applications completed	408	299	257	273
Building permits issued	3,081	3,136	3,046	2,543
Caltrain average weekday boarding ³	3,876	4,132	4,589	4,407
Police				
Calls for service	56,211	60,079	58,742	53,275
Total arrests	2,530	3,059	3,253	2,612
Parking citations issued	56,502	57,222	50,706	49,996
Animal Services				
Number of service calls	2,861	2,990	3,059	2,873
Number of animals handled	3,839	3,578	3,532	3,422
Fire				
Calls for service	6,897	7,236	7,723	7,549
Number of fire incidents	211	221	192	239
Number of fire inspections	899	1,021	1,277	1,028
Library				
Total number of cardholders	55,909	53,099	53,740	54,878
Total number of items in collection	260,468	270,755	279,403	293,735
Total checkouts	1,280,547	1,414,509	1,542,116	1,633,955
Public Works				
Street resurfacing (lane miles)	20	32	27	23
Number of potholes repaired	1,049	1,188	1,977	3,727
Sq. ft. of sidewalk replaced or permanently repaired	126,574	94,620	83,827	56,909
Number of trees planted	263	164	188	250
Total tons of waste landfilled	59,276	59,938	61,866	68,228
Tons of materials recycled or composted	56,013	56,837	52,196	49,911
<u>Business-type activities</u>				
Electric				
Number of customer accounts	28,653	28,684	29,024	28,527
Residential MWH consumed	161,202	162,405	162,680	159,899
Gas				
Number of customer accounts	23,353	23,357	23,502	23,090
Residential therms consumed	11,745,883	11,759,842	11,969,151	11,003,088
Water				
Number of customer accounts	19,645	19,726	19,942	19,422
Residential water consumption (CCF)	2,647,758	2,807,477	2,746,980	2,566,962
Wastewater collection				
Number of customer accounts	21,784	21,789	21,970	21,210
Millions of gallons processed	8,972	8,853	8,510	7,958

Notes: ¹Ten most recent years available.

²According to the department, this measure was not accurately tracked during FY13 or FY14.

³Prior-year data has been updated based on annual counts revised by Caltrain. Beginning 2015, data source is Official City Data Set.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); 2015 Official City Data Set (Caltrain)

Fiscal Year Ended June 30

2010	2011	2012	2013	2014	2015
174	175	175	184	108	172
41,705	42,687	44,226	-	-	47,504
69,791	67,381	65,653	60,153	46,527	42,048
12,880	12,310	11,703	11,598	11,997	12,586
226	238	204	307	310	335
2,847	3,559	3,320	3,682	3,624	3,844
4,359	4,923	5,730	6,763	7,564	8,294
55,860	52,159	51,086	54,628	58,559	59,795
2,451	2,288	2,212	2,274	2,589	3,273
42,591	40,426	41,875	43,877	36,551	41,412
2,692	2,804	3,051	2,909	2,398	2,013
3,147	3,323	3,379	2,675	2,480	2,143
7,468	7,555	7,796	7,904	7,829	8,548
182	165	186	150	150	135
1,526	1,807	1,654	2,069	1,741	1,964
51,969	53,246	60,283	51,007	46,950	51,792
298,667	314,101	306,160	277,749	361,103	429,460
1,624,785	1,476,648	1,559,932	1,512,975	1,364,872	1,499,406
32	29	40	36	36	31
3,149	2,986	3,047	2,726	3,418	2,487
54,602	71,174	72,787	82,118	74,051	120,776
201	150	143	245	148	305
48,955	38,524	43,947	45,411	47,088	43,730
48,811	56,586	51,725	47,941	49,594	50,546
29,430	29,708	29,545	29,299	29,338	29,065
163,098	160,318	160,604	156,411	153,190	145,284
23,724	23,816	23,915	23,659	23,592	23,461
11,394,712	11,476,609	11,522,999	10,834,793	10,253,776	8,537,754
20,134	20,248	20,317	20,043	20,037	20,061
2,415,467	2,442,415	2,513,595	2,521,930	2,496,549	2,052,176
22,231	22,320	22,421	22,152	22,105	21,990
8,184	8,652	8,130	7,546	7,186	6,512

CITY OF PALO ALTO
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Public Safety					
Fire:					
Fire Stations Operated	8	8	8	8	8
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
Community Services					
Acres - Downtown/Urban Parks ²	157	157	157	157	157
Acres - Open Space ²	3,744	3,744	3,744	3,744	3,744
Acres - Parks and Preserves ²	-	-	-	-	-
Acres - Open Space ²	-	-	-	-	-
Parks and Preserves	36	36	36	36	36
Golf Course	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	34,556	35,058	34,991	35,025	34,977
Electric Utility¹					
Miles of Overhead Lines	194	193	193	193	193
Miles of Underground Lines	252	253	253	253	253
Water Utility					
Miles of Water Mains	217	217	214	214	214
Gas Utility					
Miles of Gas Mains	207	207	207	205	205
Waste Water					
Miles of Sanitary Sewer Lines	202	202	207	207	207

Note: ¹The City of Palo Alto Utilities Department recently completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.

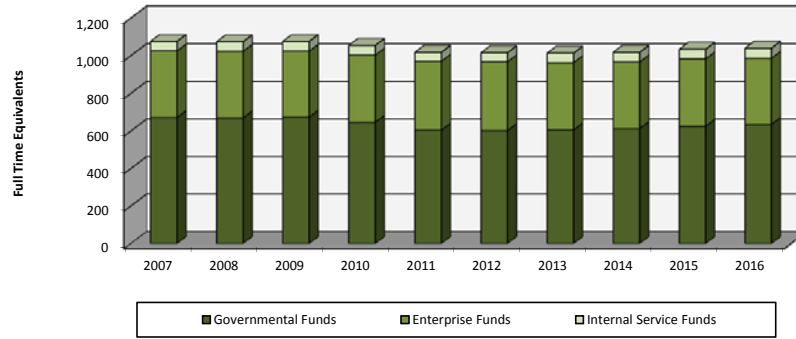
²Beginning in 2016 park acreage is sourced from the Official City Data Set.

Source: City of Palo Alto

Fiscal Year Ended June 30

2012	2013	2014	2015	2016
7	7	7	7	7
1	1	1	1	1
30	30	30	30	30
157	157	157	157	-
3,744	3,744	3,744	3,752	-
-	-	-	-	3,921
-	-	-	-	4,489
36	36	36	36	36
1	1	1	1	1
51	51	51	51	51
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
34,874	34,907	34,741	34,636	34,683
223	222	223	223	222
245	246	249	262	268
234	233	236	236	235
210	210	214	211	209
217	217	217	217	216

CITY OF PALO ALTO
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years



Full Time Equivalent Employees as of June 30

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<u>Governmental Funds</u>											
General Fund:											
Administrative		99	98	98	89	83	83	85	83	84	86
Community Services		97	96	97	94	74	74	74	74	76	77
Development Services ⁶		-	-	-	-	-	-	-	-	38	38
Fire		127	127	127	123	121	122	119	116	107	107
Library		44	44	44	42	41	41	41	42	44	48
Office of Emergency Services ⁵		-	-	-	-	-	-	-	3	3	3
Planning and Community Environment ⁶		53	53	53	49	44	43	48	49	28	31
Police		163	163	164	161	157	157	154	155	155	155
Public Works ¹		68	68	69	64	59	56	57	56	53	54
Subtotal General Fund		651	649	652	622	579	576	578	578	588	599
All Other Funds:											
Capital Projects Fund		20	20	21	24	24	24	26	27	27	28
Special Revenue Fund		1	1	1	1	2	2	2	9	10	9
Total Governmental Funds		672	670	674	647	605	602	606	614	625	636
<u>Enterprise Funds</u>											
Public Works ²		113	113	113	115	115	115	104	99	100	95
Utilities ³		235	235	238	242	251	251	254	255	258	256
External Services ⁴		6	6	-	-	-	-	-	-	-	-
Total Enterprise Funds		354	354	351	357	366	366	358	354	358	351
<u>Internal Service Funds</u>											
Printing and Mailing		4	4	4	4	2	2	2	2	2	2
Technology		30	30	31	31	30	30	31	32	32	34
Vehicle Replacement		16	16	16	16	16	16	17	17	17	17
Total Internal Service Funds		50	50	51	51	48	48	50	51	51	53
Total		1,076	1,074	1,076	1,055	1,019	1,016	1,014	1,019	1,034	1,040

Notes: ¹Fleet and Facilities Management

²Refuse, Storm Drainage, Wastewater Treatment

³Electric, Gas, Wastewater Collection, Water

⁴In 2009, External Services was dissolved. 5 FTEs were eliminated and 1 FTE was transferred to the Technology Fund.

⁵In 2014, emergency services and disaster preparation activities have been removed from the Fire Department and are now shown in newly created Office of Emergency Services.

⁶In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services.

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2016 Adopted Operating Budget

CITY OF PALO ALTO
Index to the Single Audit Report
For the Year Ended June 30, 2016

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**Independent Auditor’s 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***

Honorable Mayor and the Members
of the City Council of the City of Palo Alto
Palo Alto, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 2, 2016



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance

Honorable Mayor and the Members
of the City Council of the City of Palo Alto
Palo Alto, California

Report on Compliance for Each Major Federal Program

We have audited the City of Palo Alto’s, California (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended June 30, 2016. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the City’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Walnut Creek, California
November 2, 2016

CITY OF PALO ALTO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S Department of Housing and Urban Development				
<i>Direct</i>				
CDBG - Entitlement Grants Cluster	B-13-MC-06-0020			
Community Development Block Grants/Entitlement Grants	B-14-MC-06-0020			
	B-15-MC-06-0020	14.218	\$ 478,193	\$ 411,453
U.S Department of Interior				
<i>Direct</i>				
ARRA - Water Reclamation and Reuse Program	R10AP20003	15.504	111,014	-
U.S. Department of Justice				
<i>Direct</i>				
Bulletproof Vest Partnership	BA-3A00S-SM01	16.607	9,286	-
U.S. Department of Transportation				
<i>Direct</i>				
Airport Improvement Program	3-06-0182-009-2014			
	3-06-0182-010-2015	20.106	244,070	-
<i>Pass-through from State of California Office of the Traffic Safety</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	PT16113	20.608	15,487	-
Highway Safety Cluster				
State and Community Highway Safety	PT16113	20.600	4,835	-
National Priority Safety Program	PT1618	20.616	14,813	-
Subtotal Highway Safety Cluster			19,648	-
Subtotal			35,135	-
<i>Pass-through from State of California Department of Transportation</i>				
Highway Planning and Construction	BRLS-5100(017)		132,457	
Highway Planning and Construction	CML-5100(018)	20.205	148,978	-
Subtotal			281,435	-
<i>Pass-through from Dept of Resources Recycling & Recovery (CalRecycle)</i>				
Highway Planning and Construction	TRPS-14-0073	20.205	63,000	-
<i>Pass-through from State of California Department of Water Resources</i>				
Highway Planning and Construction	4600010471	20.205	44,330	-
Total Highway Planning and Construction			388,765	-
Total U.S. Department of Transportation			667,970	-
Institute of Museum and Library Services				
<i>Pass-through from California State Library</i>				
Museums for America	MA-10-14-0431-14			
	MA-11-15-02014-15	45.301	51,858	-
TOTAL FEDERAL FINANCIAL AWARDS			\$ 1,318,321	\$ 411,453

CITY OF PALO ALTO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

NOTE 1 – REPORTING ENTITY

The schedule of expenditures of federal awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements.

NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414(F&A) costs.

NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of federal award programs when they occur.

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 5 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards and expenditures agree to or can be reconciled with the amounts reported in the City's basic financial statements.

CITY OF PALO ALTO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of the City: Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiency(ies) identified? None reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No

Identification of Major Programs: CFDA No. 14.218 Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes

Section II – Financial Statements Findings

No findings reported.

Section III - Federal Award Findings and Questioned Costs

No findings reported.

CITY OF PALO ALTO
Schedule of Prior Years Findings and Questioned Costs
For the Year Ended June 30, 2016

Financial Statement and Federal Award Findings

No financial statement nor federal award findings were reported for the year ended June 30, 2015.

AMERICANS WITH DISABILITIES ACT STATEMENT

In compliance with Americans with Disabilities Act (ADA) of 1990,
this document may be provided in other accessible formats.

For information contact:

ADA Coordinator
250 Hamilton Avenue
(650) 329-2550
ADA@cityofpaloalto.org

Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.

