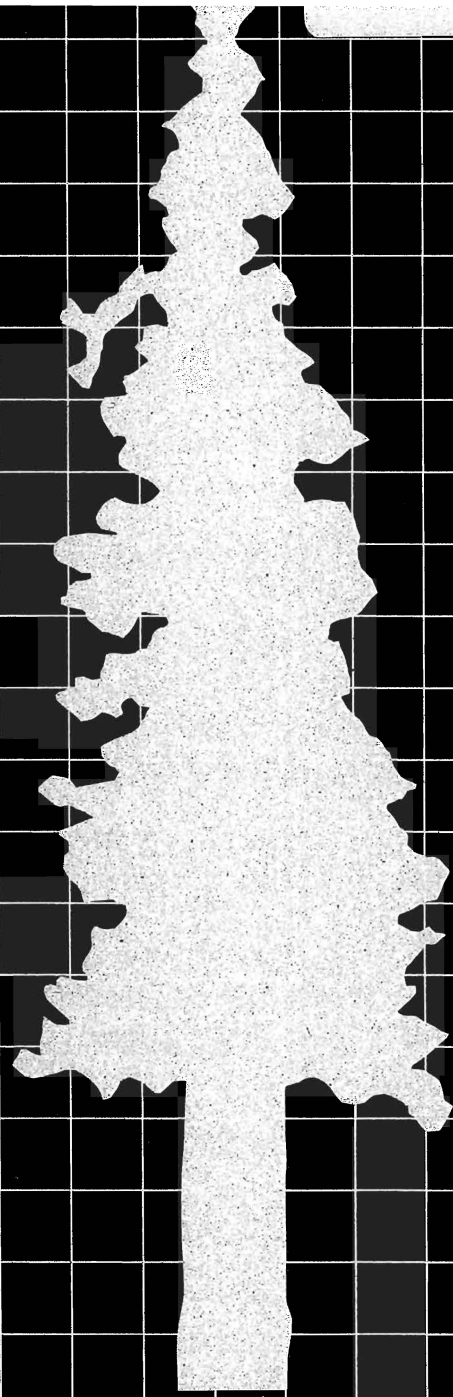
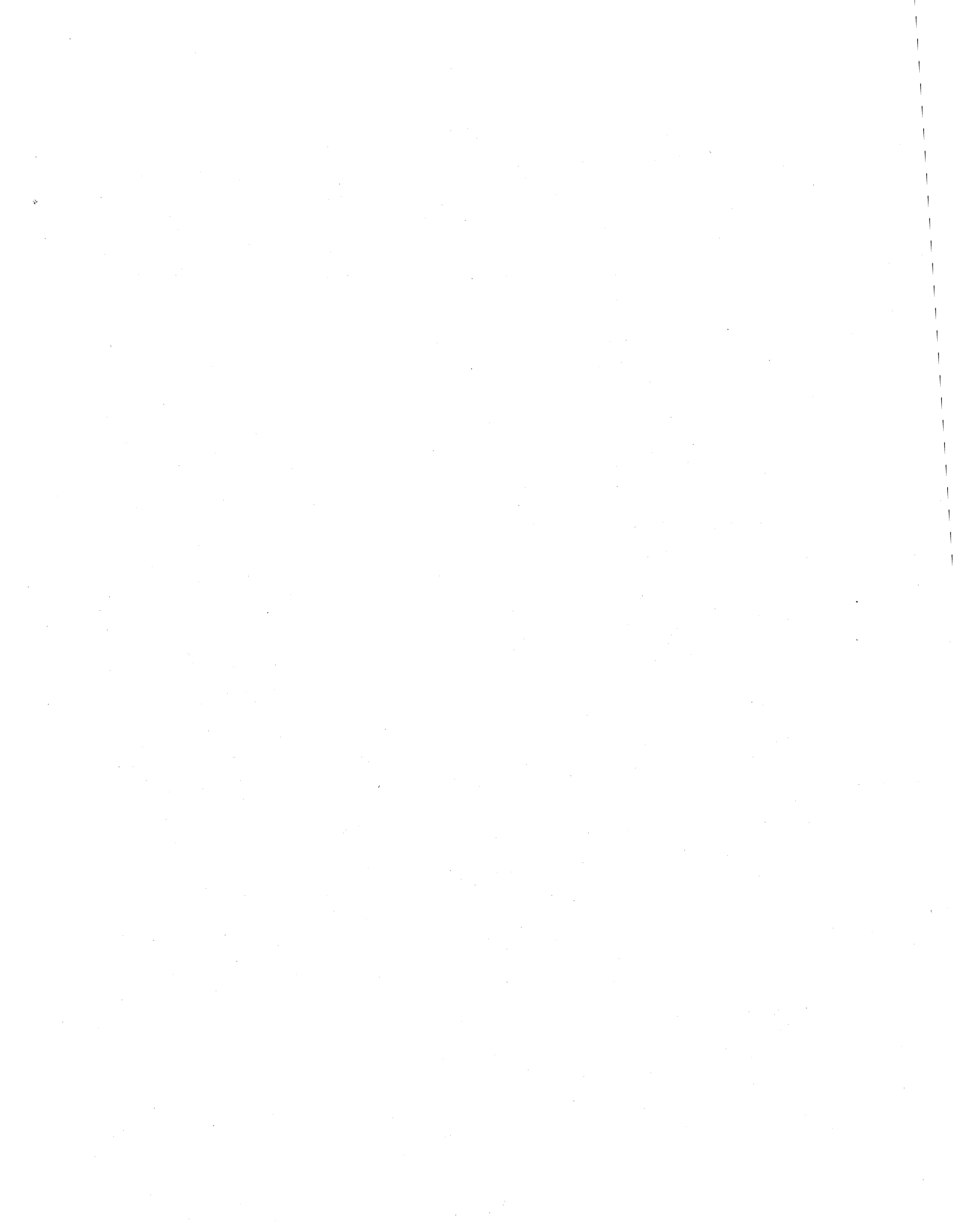


City of Palo Alto



COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 1993



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF PALO ALTO**

for the
Fiscal Year Ended June 30, 1993



prepared by
DEPARTMENT OF FINANCE

Emily Harrison
Director of Finance



CITY OF PALO ALTO, CALIFORNIA

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CITY OF PALO ALTO, CALIFORNIA

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CITY OF PALO ALTO

CITY OFFICIALS

June 30, 1993

City Council

Jean McCown
Mayor

Liz Kniss
Vice Mayor

Ron Andersen
Chairperson,
Finance Committee

Joe Simitian
Chairperson,
Policy and Services Committee

Mike Cobb

Gary Fazzino

Dick Rosenbaum

Joseph Huber

Lanie Wheeler

Liz Kniss

Council-Appointed
Officers

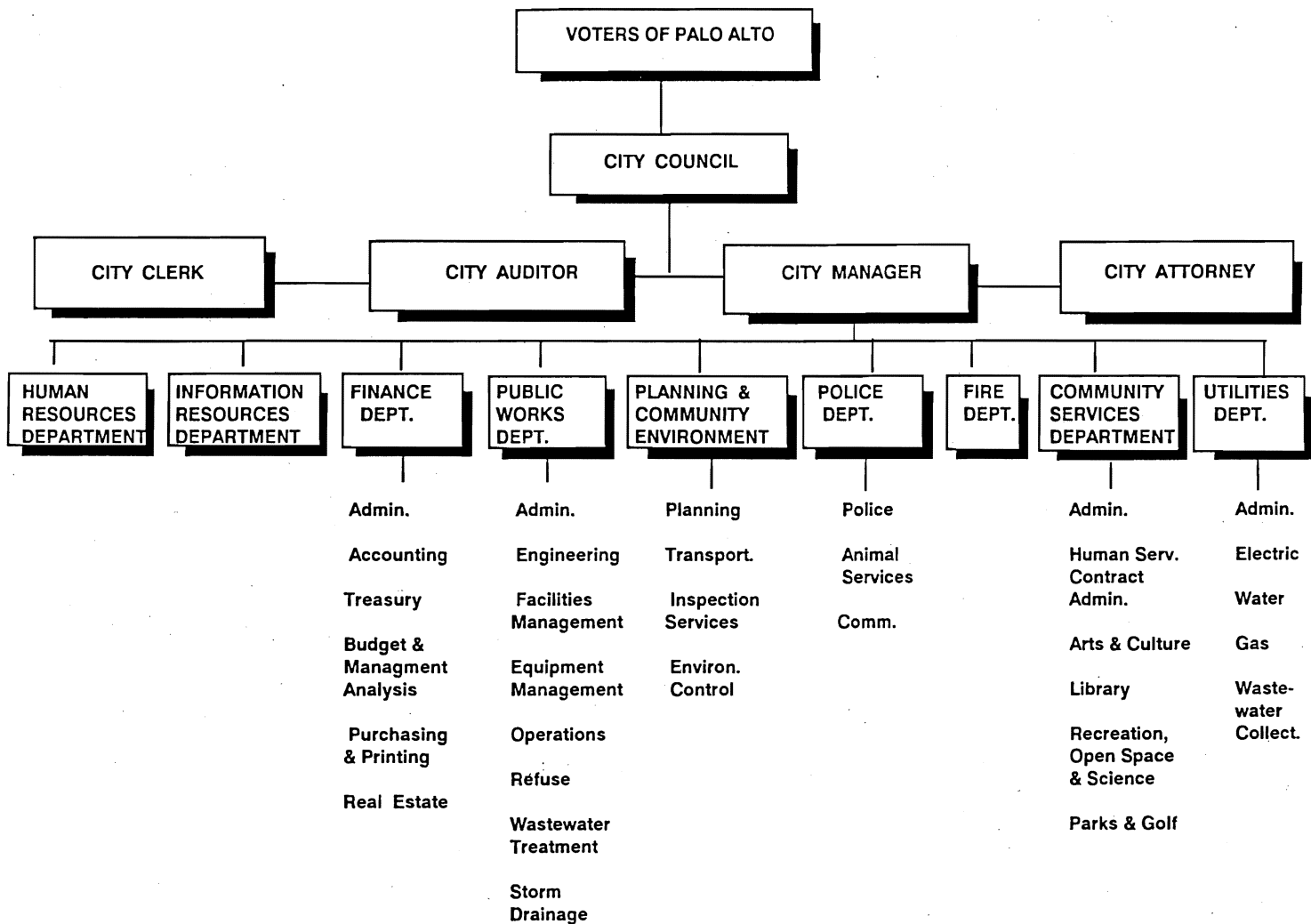
June Fleming
City Manager

Gloria L. Young
City Clerk

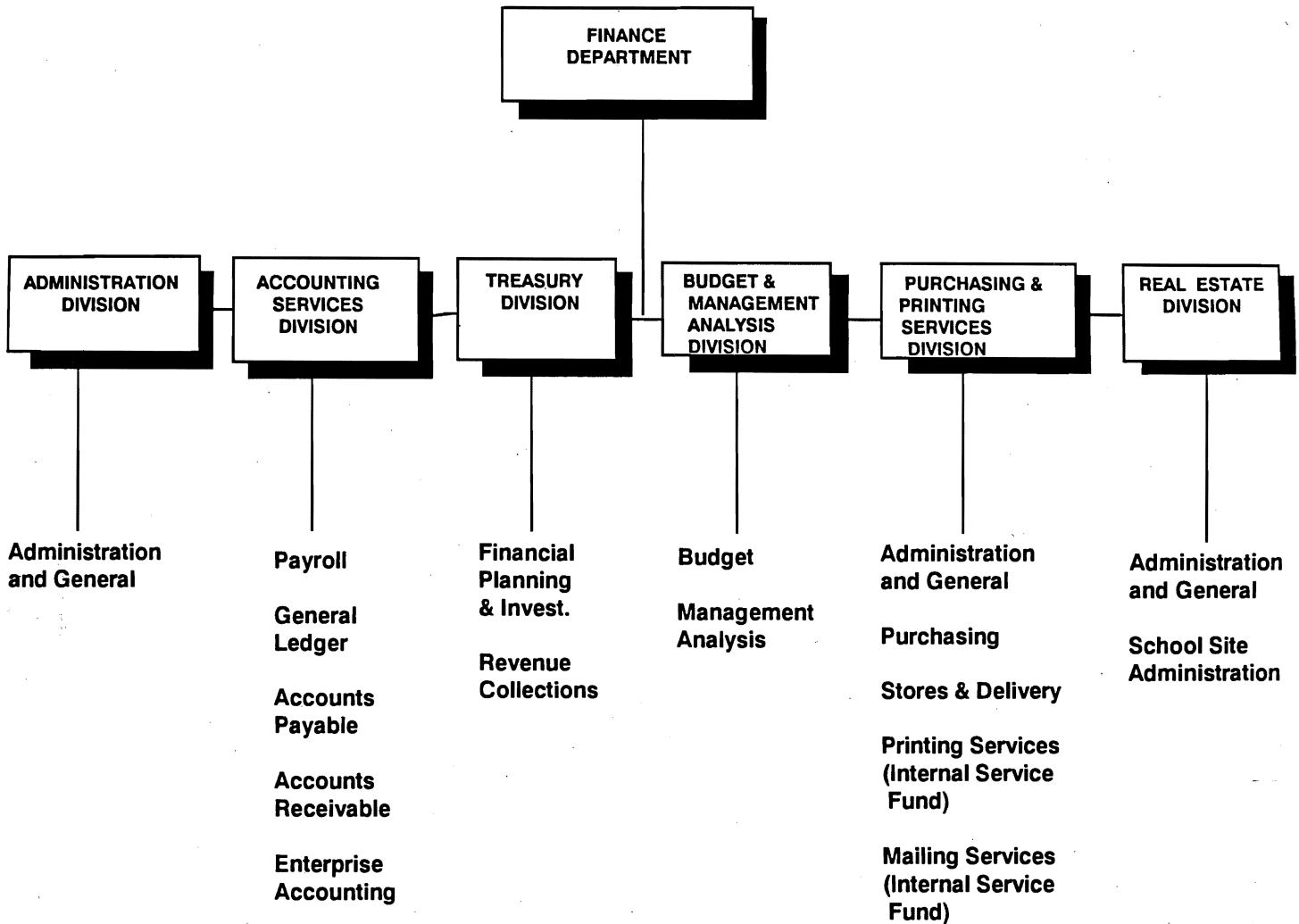
Ariel Calonne
City Attorney

William Vinson
City Auditor

**CITY OF PALO ALTO
ORGANIZATIONAL CHART**

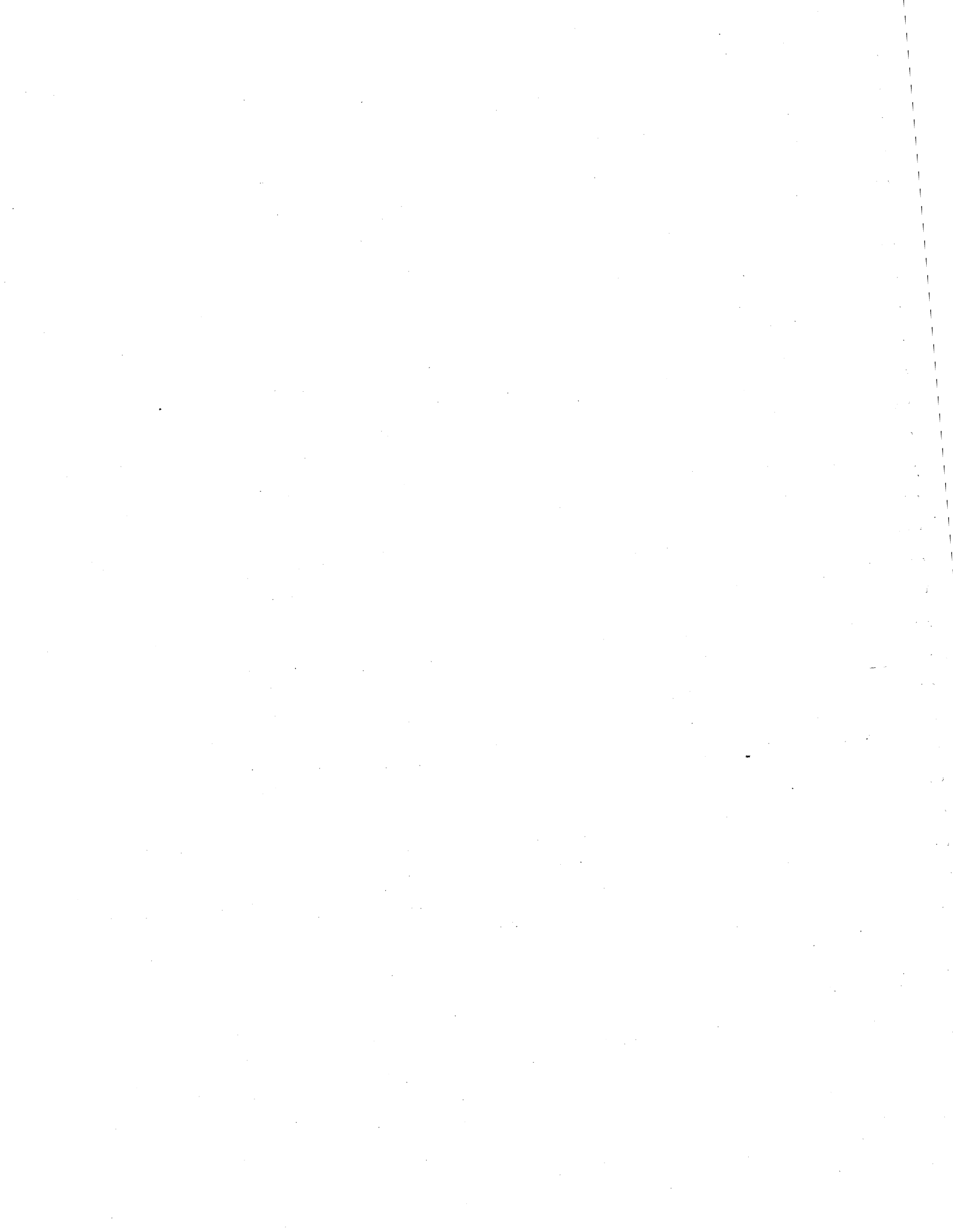


**CITY OF PALO ALTO
FINANCE DEPARTMENT
ORGANIZATIONAL CHART**



PURPOSE/GOAL:

To direct the City's financial operations including accounting, budgeting, long-term financial planning, real property and portfolio management, and purchasing to assure that the City's financial matters are administered in accordance with all regulatory requirements and consistent with generally accepted principles of budgeting and accounting. Additionally, to maximize the return on the City's financial and real property assets.



December 10, 1993

THE HONORABLE CITY COUNCIL
Palo Alto, California

Divisions
Administration
415.329.2692

Accounting
415.329.2182

Budget
415.329.2260

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT, YEAR ENDING JUNE 30,1993

Members of the Council:

Report in Brief

The Comprehensive Annual Financial Report, including the opinion of the City's external audit firm, Deloitte & Touche, for the fiscal year ended June 30, 1993, is hereby submitted for your review in accordance with Article IV, Section 13 of the City Charter. Responsibility for both the accuracy of the data and fairness of the presentation, including all disclosures, rests with the City's management. Deloitte & Touche's responsibility is to express an opinion on the financial statements, based on their audit.

GENERAL INFORMATION

The City of Palo Alto is located approximately 35 miles south of San Francisco in Santa Clara County, and has a population of 57,300. It is a part of the San Francisco Bay metropolitan area. The City was named for a tall redwood tree under which an early Spanish exploration party camped in 1769. The high technology industry, which has made Santa Clara County famous, has its roots in Palo Alto, in large part because of the presence of Stanford University adjacent to the City. The 630-acre Stanford Research Park includes the headquarters of Hewlett-Packard, Varian Associates, and Syntex among its tenants. The City is a major employment center with about 76,500 jobs (including Stanford University employment), in addition to being a unique residential community with about 25,384 housing units.

REPORTING ENTITY

For financial reporting purposes, and in conformance with Governmental Accounting Standards, the City of Palo Alto's financial statements include all component units that are financially accountable to the City or whose relationship with the City is so significant that failure to include them in the City's financial statements would make the statements misleading or incomplete. Financial accountability is determined based upon 1) the City's substantive authority for appointing the governing board; 2) the City's ability to impose its will on the organization's operations; 3) the organization's ability to provide financial benefits or a financial burden on the City; and 4) fiscal dependency on the City. Accordingly, the City's general purpose financial statements include the City of Palo Alto Golf Course Corporation and the Palo Alto Public Improvement Corporation as component units.

GOVERNMENT ORGANIZATION

The City of Palo Alto 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. The nine Council Members are elected at large for four-year staggered terms. The Mayor and Vice Mayor are elected annually at the first Council meeting in January. The Mayor presides at all Council meetings. The City Manager is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk and City Auditor. These officials are appointed by, and report directly to, the City Council.

SERVICE PROVIDED

The City provides a full range of municipal services, in addition to providing its own municipal electric, water, gas, wastewater, storm drain and refuse utilities. Its schools, parks and recreational facilities are excellent. The City owns 34 parks totalling more than 4,000 acres, a golf course, two community centers, Cultural Center, Community Theatre, Children's Theatre and Junior Museum.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

In developing and evaluating the City's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized user or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived, and that the evaluation of cost and benefits requires estimates and judgments by management.

Budgetary control is maintained by an annual appropriation ordinance, amended by Council action as required throughout the year. In 1990 the Council adopted the concept of a two-year budget plan, under which the first year's budget is voted on and formally approved by the Council; the second year is approved in concept, and is formally adopted in June of the second year. The two-step adoption is necessary because Article XIII B of the State Constitution requires the City to adhere to an annual appropriation limit. The Council takes similar action on the first two years of the Five Year Capital Improvement Program (CIP). The 1992-94 budget is the City's second under the two-year budget plan. Budgetary control is at the department/division, major object code of expenditure. An encumbrance system is utilized: as purchase orders are issued, corresponding amounts of appropriations are reserved for later payment so that appropriations may not be overspent. Budgets are prepared for all governmental and proprietary funds.

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by City management.

As a part of the single audit, the City's independent auditors studied and evaluated the internal and administrative controls used in administering federal financial assistance programs and the preparation of the City's financial statements to the extent they felt necessary under generally accepted auditing standards. The results of the City's single audit for the fiscal year ended June 30, 1993 revealed no material weaknesses in the internal control structure, or significant violations of applicable laws and regulations.

MAJOR EVENTS

After a national recruitment, June Fleming was selected in December 1992 as the fifth City Manager in Palo Alto history. She had been Assistant City Manager since 1980 and Director of Community Services, as well as Library Director from 1968 to 1980. Ms. Fleming has been responsible for coordinating staff efforts towards the fulfillment of the three Council priorities for 1993: Palo Alto's Economic Future, People in Crisis, and East Palo Alto.

Council Priority: Palo Alto's Economic Future:

The Council set three objectives for itself in focusing on Palo Alto's economic future:

- o Address the structural problems that stand in the way of balancing revenues and expenditures for the long term;
- o Determine appropriate levels of service, with emphasis on delivery systems which reflect high standards of efficiency and quality customer service; and

- o Conduct an organizational review that will provide a comprehensive, objective analysis of the organization and staffing patterns, to identify possible areas of further economy and efficiency.

The first two objectives of this priority have been addressed as part of the Economic Future Study, which is discussed in more detail in the "Economic Outlook and Conditions" section of this report.

The Finance Committee has also been working with a five-member Blue Ribbon Task Force, consisting of top community leaders, on an organizational review of General Fund operations. Hughes, Heiss and Associates, a consulting firm hired for this effort, presented preliminary findings to the City Council and is currently in the second phase of their efforts, developing recommendations for organizational improvement.

Council Priority: People in Crisis:

In 1992, new and increased contract funding was made available through the Human Services Resource Allocation Process for organizations serving this population. Counseling programs for troubled youth, assistance to shelters and homeless child care services were all provided from the additional funding. A new campaign called "Another Way" was developed by the City's Human Relations Commission (HRC), the Human Services and Police Departments and the Palo Alto merchant community, resulting in additional resources for the homeless population. In addition, public/private partnerships were fostered for the purpose of information dissemination and resource sharing, forming a "network" of agency services and resulting in increased public awareness of services available for "People in Crisis".

Council Priority: Relationship with East Palo Alto:

Council also placed priority on exploring new avenues for linkage and improvement of the City's relationship with East Palo Alto, a city which shares Palo Alto's north-eastern border. Response to this priority has resulted in an impressive display of cooperative regional governance.

The unparalleled rise in crime in East Palo Alto, which in the first quarter of 1992 had the highest per capita homicide rate in the nation, was a significant concern in establishing this priority. In April 1992, Council approved the use of Palo Alto police resources in the creation of the Regional Enforcement Detail (RED Team), a regional effort with the objective of augmenting the understaffed East Palo Alto Police Department and providing a proactive, highly visible enforcement operation. Assistance from the RED Team continues to mitigate crime in East Palo Alto and in the surrounding communities.

Also in response to this issue, the East Palo Alto Liaison Committee was formed with representatives from Menlo Park, East Palo Alto and San Mateo County. The Committee not

only seeks a regional approach to provide East Palo Alto with support of its long-term public safety plan, but also has spearheaded efforts to: assist East Palo Alto in identifying and securing grants which would be of benefit to the City; formulate an economic development strategy and provide assistance in key areas of this strategy; coordinate services available through the County and State; and develop a plan of programs and activities which will lead to increased community involvement in all of these efforts.

Mission Driven Budgeting

Under the direction of the City Manager, staff began to explore the concept of developing a budget based on a "program concept" in January 1993. In a break from traditional line-item budgeting, staff attempted to design a budget process which focused on services and performance measurements in order to create a City budget which was aimed primarily at the informational needs of the Council and the public. Utilizing the model of Reinventing Government, the Police Department budget was developed into a prototype for what evolved into "Mission Driven Budgeting" (MDB). For each department, the MDB requires identification of the following:

- o The department's "mission" - the primary premise under which a department provides services;
- o The department's customers, to whom services are provided;
- o The major activities and services provided by the department in achieving its mission, as perceived by the public and the Council; and
- o Impact measures related to the successful performance of major activities which would be meaningful to the public and the Council.

The Council reviewed the MDB proposal at a study session on June 1, 1993, and gave conceptual approval. All City departments have since begun to construct an MDB structure for the services they provide. In addition, an interdepartmental steering committee is examining alternative approaches to issues that range from budgetary controls and policies for creating incentives to save money, to cross-department programs.

Final guidelines for the new MDB will be submitted to Council in October 1994, and the first MDB will be implemented with the 1995-97 Budget.

Palo Alto Centennial 1994

In the 1992-93 fiscal year, the City provided significant support to the Palo Alto Centennial 1994, Inc., a nonprofit public benefit corporation established by the City Council in 1991 to plan the City's Centennial celebration. More than 400 nonprofit groups in Palo Alto have been encouraged to participate in the Centennial activities, which will reflect on the history and heritage that shaped Palo Alto's distinct character and foster community pride. The Centennial Endowment Fund will be a permanent gift to the citizenry; interest earnings on the Fund will provide grants to Palo Alto area nonprofit organizations, projects and programs.

Comprehensive Plan

California law requires that each city and county adopt a general plan for physical development within and outside its boundaries. During 1992, the City Council launched a significant effort in initiating the first major update of Palo Alto's Comprehensive Plan since 1980. A work program was developed which involves maximum community participation, including a 37-member Comprehensive Plan Advisory Committee (CPAC). City Council, staff, the Planning Commission, businesses and community representatives are also involved. Phase I of the Plan update process, which called for the development of visions, goals and issues to be addressed in the Plan, was recently completed. The resulting report articulates a vision of the type of community Palo Alto would like to be in the future, and provides a foundation for developing policy and program options designed to achieve these goals.

Environmental Management

The City made a concentrated effort this year to meet federal water quality regulatory requirements and to provide residents and businesses with a continuing array of environmental services.

A source reduction program helped to limit the discharge of heavy metals to the wastewater treatment plant and storm drain system. The City designated as "Clean Bay Businesses" those businesses which voluntarily complied with strict federal regulations earlier than required and expended extra effort to reduce metal disposal.

In April, the City encouraged energy conservation by issuing vouchers to all residents for the purchase of longer lasting compact fluorescent light bulbs, and commercial customers were offered rebates to replace incandescent light bulbs with compact fluorescents. Utility bill rebates were given to residents who purchased energy-efficient refrigerators.

Hazardous waste disposal, long available to residents, was extended to small businesses for the first time. This year also saw the publication of the "Palo Alto Green Book," a source guide to all City environmental programs.

Economic Condition and Outlook

The fiscal health of California municipalities has been increasingly unpredictable in recent years. The national recession, as well as the State's inability to produce a balanced budget from limited resources, continues to adversely impact local government budgets. In response, staff undertook a comprehensive review of General Fund finances.

The Economic Future Study (EFS), presented to Council in April 1993, was designed to analyze whether structural problems stood in the way of balancing General Fund revenues and expenditures over the long term. In the study, General Fund revenues and expenditures were examined using historical data collection, economic analyses and structured interviews with business leaders and economists. Each major revenue source and expenditure type was discussed in terms of the variables underlying its growth or decline. Utilizing a model developed by the International City Manager's Association (ICMA) for evaluating financial condition, historical information for 14 factors was analyzed to identify warning trends for the City's long-term fiscal health. Finally, as part of the study, an econometric forecasting model was developed. Using the model, a "steady state" scenario was created using explicit assumptions for inflation, revenue growth, and capital improvement program levels.

Although neither the ICMA model nor the "steady state" ten-year forecast indicated a looming budget imbalance, actions by the State of California, continuation of the current recession or changes in the levels of service provided to the community could significantly impact the long-term forecast. Of even greater significance is the fact that the City's infrastructure needs have not been fully analyzed or documented, and may indeed represent the "structural deficit" that the EFS set out to determine.

Utilization of the forecasting model devised in the Economic Future Study will enable the City to carefully monitor the impact of these economic factors, and implement appropriate fiscal strategies.

FINANCIAL HIGHLIGHTS

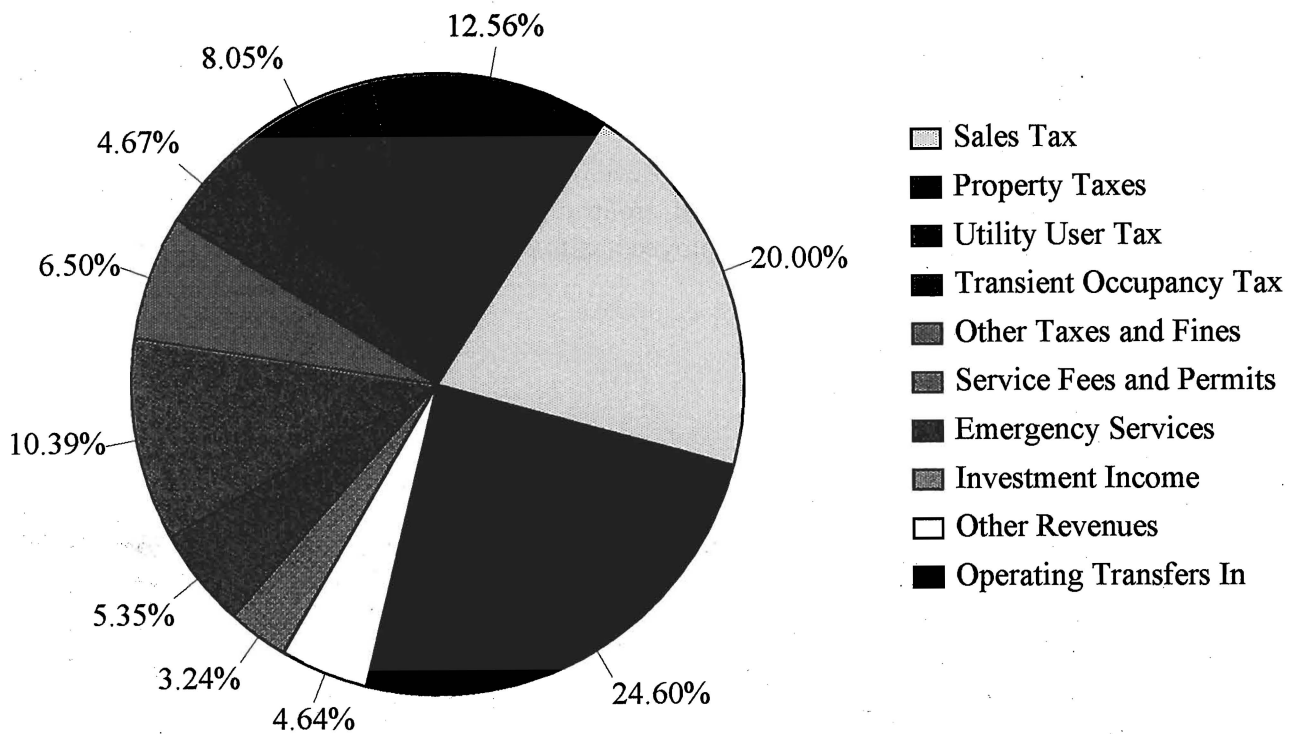
In 1992-93, a \$2.2 million operating surplus was experienced in the City's General Fund. The surplus was primarily the result of one-time events, but reflected as well specific measures which proved effective in keeping operating expenditures in line with stagnant revenues. Actual General Fund revenues showed virtually no growth from prior year levels, while expenditures grew at less than 2 percent. Adjusting for one-time factors in both revenues and expenditures, a budget surplus of \$600,000 was achieved. This is consistent with the results of the ten-year "steady state" forecast contained in the Economic Future Study. This surplus would not be sufficient to absorb any future revenue shifts as those experienced in recent years as a result of the State budget process, and also reflects a lower-than-optimal level of capital spending and infrastructure maintenance.

Revenues: Sales tax receipts, which provide over 20 percent of General Fund revenues, were down 9 percent from 1991-92. When adjusted for one-time negative events (sales tax reallocations and business relocations), revenues from this source still showed a 2 percent decline compared to last year.

Property taxes decreased due to the State's shift of these revenues away from local municipalities. Without this property tax shift, Palo Alto's property taxes would have increased 8 percent in 1992-93. Valuation growth was 2 percent for the fiscal year 1993-94 assessment, which reflects a sharp decline over the 7 percent growth experienced in each of the two previous years. The real property transfer tax rate, which was increased by the City six-fold starting in June, 1992 accounted for an additional \$1.3 million in taxes, and nearly offset the decline in other tax revenues.

Non-tax General Fund revenues managed to remain even with 1991-92 levels because of increased service fees and permits revenues. The increase is the continuing result of past policy decisions which required the identification of the true costs for City services, and recovery of those costs where appropriate. Interest revenue also showed an increase due to growth in the size of the General Fund portfolio, as expenditure savings were realized throughout the fiscal year.

CITY OF PALO ALTO
GENERAL FUND REVENUES BY SOURCE
For the year ended June 30, 1993



<u>Revenues (\$000)</u>	<u>1993 Actual</u>	<u>Percent of Total Revenue</u>	<u>Increase (Decrease) from 1992</u>
Sales Tax	\$13,322	20.00	-1371
Property Tax	8,367	12.56	-188
Utility User Tax	5,362	8.05	213
Transient Occupancy Tax	3,109	4.67	5
Other Taxes and Fines	4,333	6.50	975
Service Fees and Permits	6,923	10.39	353
Joint Service Agreements	3,565	5.35	-343
Interest Earnings	2,157	3.24	94
Other Revenue	<u>3,088</u>	<u>4.64</u>	<u>369</u>
 Total Direct Revenues	 50,226	 75.40	 .107
Operating Transfers In	<u>16,388</u>	<u>24.60</u>	<u>-244</u>
 Total Revenues	 <u>\$66,614</u>	 <u>100.00</u>	 <u>-137</u>

Expenditures: General Fund expenditure increases were held to less than a 2 percent growth over the prior year. Salaries and benefits amounted to \$44 million, which reflects the last year of savings available through the AB 702 credit. AB 702 was passed by the California State legislature as part of the 1991-92 State budget. It eliminated two supplemental benefit accounts within the Public Employee Retirement System (PERS), and authorized disbursement of these monies to member agencies through a credit against current contributions. Within the General Fund, \$2.2 million was credited against Palo Alto's contribution to PERS in 1991-92, and the balance of \$2.6 million was credited in 1992-93. These monies have been reserved per Council direction (see Fund Balance and Reserves).

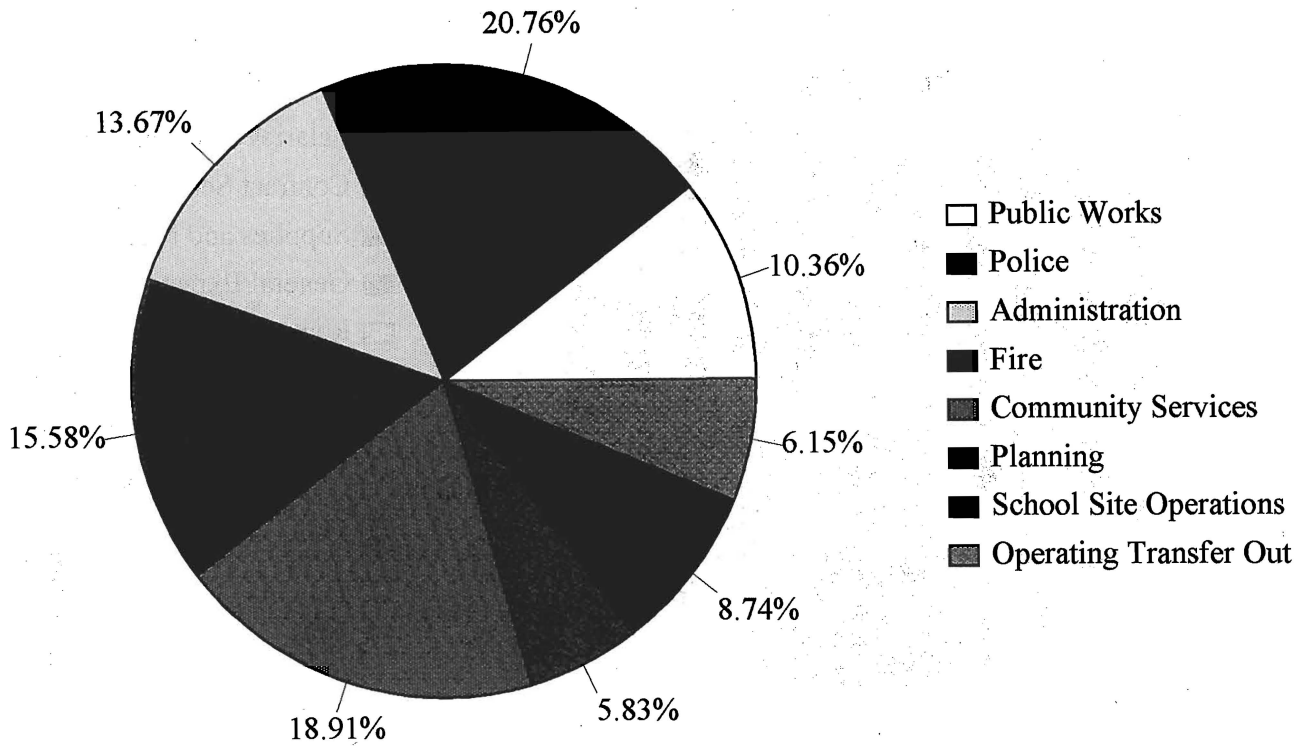
Significant benefit cost increases were also prevented as a result of the change in health care plans from self-insured to a premium-based group of plans administered through PERS. The ability to accurately project the cost of employee health care benefits alleviates unanticipated cost swings in this area of the budget.

Fund Balance and Reserves:

Total fund balance in the General Fund increased \$4 million in 1992-93, as a result of General Fund operations and reimbursement from other agencies for large capital projects. A Reserve for Unfunded Employee Benefits was established for the City's \$4.77 million AB 702 credit (discussed under General Fund Expenditures). The Council's direction to staff with regards to these monies is to prepare a policy directing the use of the credit in accordance with the following criteria: funds would not be used to fund or augment ongoing programs or recurring costs, but would be a one-time application to reflect the one-time nature of the credit; funds would be applied to existing post-employment/employee obligations; the application would have the most positive overall budget impact over a five to ten-year time frame.

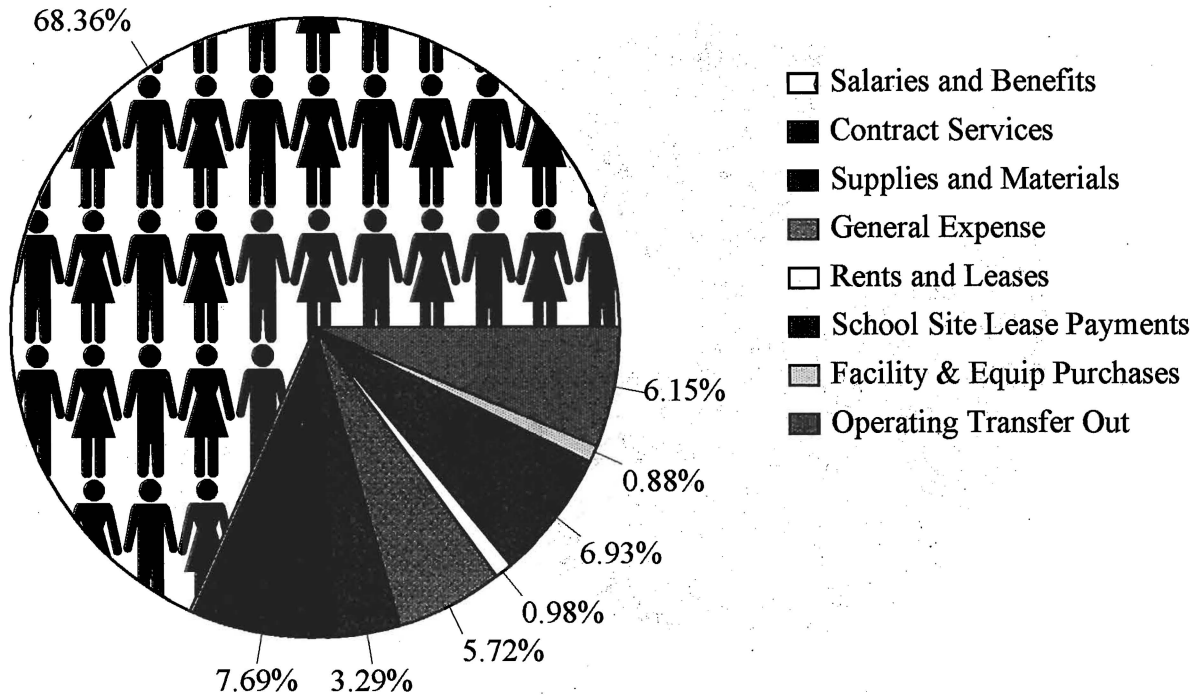
In response to direction from the City Council, staff prepared a recommendation in November 1992 regarding appropriate levels of General Fund reserves. Using general policy guidelines from the Government Finance Officers Association (GFOA), the recommendation was based on an examination of 1) the diversity of Palo Alto's revenue base; 2) the volatility of the revenue structure; 3) political volatility; 4) trends in operating surplus/deficits; and 5) fluctuations in cash flow. The policy adopted by the Council requires that the Budget Stabilization Reserve be maintained at between a minimum of 10 percent and a maximum of 30 percent of General Fund operating expenditures. An additional Reserve for Emergencies (to be used in the event of a major disaster, until federal or state funds became available) will be kept at an amount approximately equal to 10 percent of budgeted General Fund salary and benefit expenditures. The Budget Stabilization Reserve was \$11.6 million at June 30, 1993. This equates to 18 percent of the 1992-93 actual operating expenditures, within the targets adopted by the Council.

CITY OF PALO ALTO
GENERAL FUND EXPENDITURES
For the year ended June 30, 1993



<u>Expenditures (\$000)</u>	<u>1993 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1992</u>
Public Works	\$6,673	10.36	(\$456)
Police	13,380	20.76	304
Administration	8,809	13.67	290
Fire	10,040	15.58	13
Community Services	12,183	18.91	367
Planning/Community Environment	3,757	5.83	444
School Site Operations	<u>5,632</u>	<u>8.74</u>	<u>163</u>
Total Direct Expenditures	60,474	93.85	1,125
Operating Transfers Out	<u>3,962</u>	<u>6.15</u>	<u>1,018</u>
Total Expenditures	<u>\$64,436</u>	<u>100.00</u>	<u>\$2,143</u>

CITY OF PALO ALTO
GENERAL FUND EXPENDITURES BY TYPE
 For the year ended June 30, 1993



<u>Expenditures (\$000)</u>	<u>1993 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1992</u>
Salaries and Benefits	\$44,048	68.36	\$1,152
Contract Services	4,957	7.69	191
Supplies and Materials	2,121	3.29	246
General Expense	3,688	5.72	(631)
Rents and Leases	633	0.98	46
School Site Lease Payments	4,463	6.93	135
Facility & Equip Purchases	564	0.88	(14)
Total Direct Expenditures	60,474	93.85	1,125
Operating Transfers Out	3,962	6.15	1,018
Total Expenditures	\$64,436	100.00	\$2,143

Special Revenue Funds

The Special Revenue Funds include the Street Improvement Fund, Federal Revenue Fund, Housing-in-Lieu Fund, Special Districts Fund and Transportation Mitigation Fund. In November 1992, the City Council authorized the use of Housing-in-Lieu funds in the amount of \$1.4 million, for the purpose of funding a 51-unit low-income senior housing project, known as Lytton IV.

Enterprise Funds

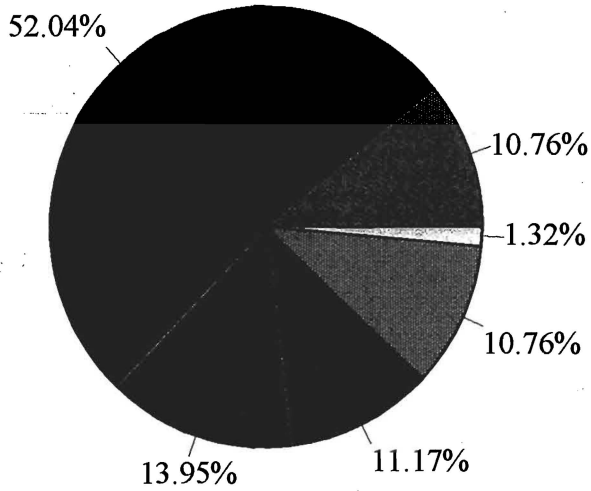
The Enterprise Funds of the City include the Electric, Gas, Water, Wastewater, Refuse and Storm Drainage Funds. Total enterprise revenues grew by 5.2 percent in fiscal year 1992-93, but power purchases grew by over ~~32~~ percent in the same period. Nonetheless, reserves increased in all but two of the enterprise funds. *water only* } *note Δ consumption*

The end of a six-year drought in California resulted in budgetary savings in Water Fund purchases, through a decreased need for resource conservation efforts. Higher rates and water usage yielded an increase of 50 percent over prior year revenues. Although the Water Fund Rate Stabilization Reserve is still below the minimum \$4.8 million balance of the reserve policy guidelines (see "Enterprise Fund Reserves" below), the balance increased over 45 percent in 1992-93, easing fears of a precipitously low reserve.

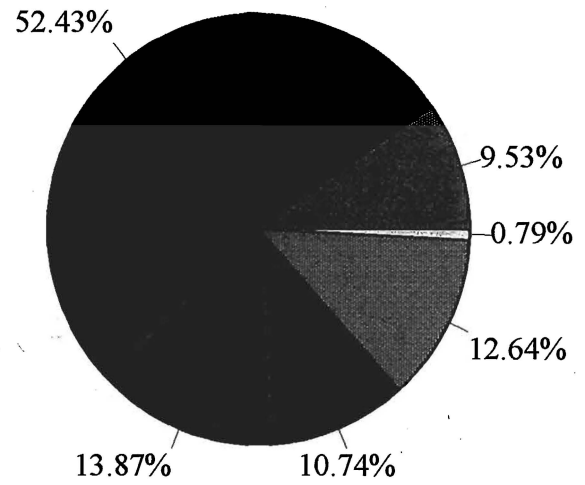
The Electric Fund also benefited from the winter rains, which increased the capacity factor of the Calaveras project, reducing the amount of power which had to be purchased from other, costlier sources. Other savings in the Electric Fund contributed to a \$45.1 million ending balance in its Rate Stabilization Reserve. Because this balance is \$18.4 million higher than the maximum limit per the reserve policies established by Council, a customer refund will be forthcoming in the 1993-94 fiscal year.

Though Gas Fund revenues were \$960,000 below budget due to lower sales, depressed market costs for gas offset the lower revenues with \$600,000 savings in gas purchases. Other savings in operating expenses resulted in an increase to the Gas Fund reserve balances, which remain strong in anticipation of an accelerated infrastructure replacement program.

**CITY OF PALO ALTO
ENTERPRISE FUNDS REVENUE
For the year ended June 30, 1993**



**CITY OF PALO ALTO
ENTERPRISE FUNDS EXPENSES
For the year ended June 30, 1993**



- Water
- Gas
- Refuse
- Electric
- Wastewater
- Storm Drainage

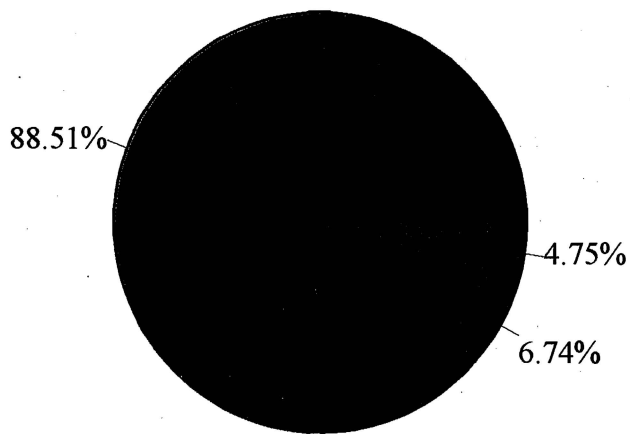
Enterprise Fund

Revenues (\$000)

Expenses (\$000)

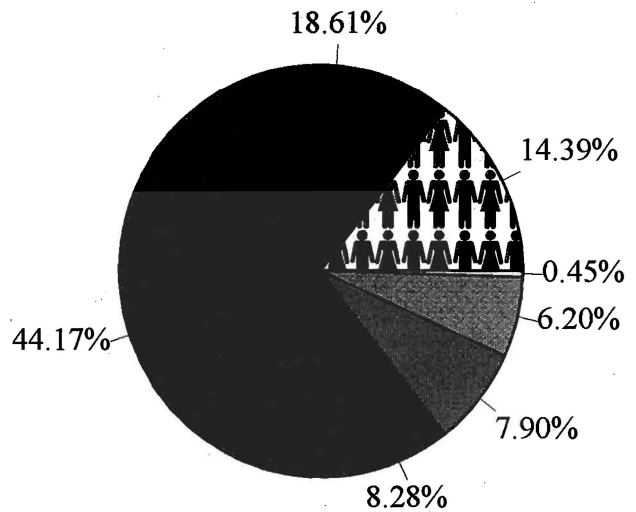
Water	\$14,378	\$10,358
Electric	69,553	56,999
Gas	18,651	15,081
Wastewater	14,931	11,676
Refuse	14,385	13,738
Storm Drainage	1,761	858
 Total	 <u>\$133,659</u>	 <u>\$108,710</u>

**CITY OF PALO ALTO
ENTERPRISE FUNDS REVENUE
For the year ended June 30, 1993**



Utility Sales
 Other Revenue
 Investment Income

**CITY OF PALO ALTO
ENTERPRISE FUNDS EXPENSES
For the year ended June 30, 1993**



Salaries and Benefits
 Operating Expenses
 Purchases
 Transfer to Gen Fund
 Interest Expense
 Rent
 Other Expenses

<u>Revenue (\$000)</u>	<u>1993 Actual</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 1992</u>
Utility Sales	\$118,303	88.51	\$6,070
Other Revenue	9,006	6.74	(814)
Investment Income	6,350	4.75	(281)
Total Revenue	<u>\$133,659</u>	<u>100.00</u>	<u>4,975</u>
 <u>Expenses (\$000)</u>			
Salaries and Benefits	\$15,638	14.39	(1,526)
Operating Expenses	20,232	18.61	2,845
Purchases	48,018	44.17	1,473
Transfer to General Fund	9,001	8.28	(1,144)
Interest Expense	8,593	7.90	822
Rent	6,740	6.20	240
Other Expenses	488	0.45	(1,311)
Total Expenses	<u>\$108,710</u>	<u>100.00</u>	<u>\$1,399</u>

Enterprise Funds Reserves

During fiscal year 1992-93, the Utilities Advisory Commission (UAC) coordinated a comprehensive review of the reserves of each of the Palo Alto utilities. The review included a survey of other municipal utilities reserves policies, which varied widely in terms of approaches to setting desired reserve levels.

The approach taken by Palo Alto is that reserves should be set to finance only extraordinary one-time contingencies. The rates established by each utility should be set to finance all other activities, including current operating, capital and financial obligations, which are of an ongoing nature. Reserve level guidelines should allow reserves to float up or down without unduly falling below the minimum or above the maximum. Using this approach, the original Utilities reserve policy was modified. The new reserve guidelines did not greatly impact the existing reserve policy limits, but provided a mechanism of analyzing reserve levels with respect to both customer rate stabilization and financial challenges of the future.

All utility reserves at the end of the 1992-93 fiscal year were within the targeted levels established by the revised policy, with the exception of the Water Fund. However, the health of the Water Fund continues to strengthen with the return of water to California reservoirs.

Capital Projects Fund:

Traditionally, the City's General Fund Capital Improvement Program (CIP) has been budgeted at about \$3 million. In 1987-88, an additional \$1 million of street and sidewalk replacement projects was added to the "base," funded by the utility use tax. Total expenditures of the Capital Improvement Fund were \$2.6 million in the 1992-93 fiscal year. \$760,000 was expended on the Civic Center Structural Improvement project, the costs of which are to be reimbursed from bond proceeds. The project includes a retrofit of the Police wing, and a sprinkler system for the Civic Center tower. Other CIP projects include the Palo Alto Harbor Improvements project and the new Police Communications Computer System.

It is well recognized that the City's infrastructure is aging, and if facilities, parks, streets and drainage systems are not maintained and repaired to an adequate level, the City opens itself to potential liability and to a major expense for infrastructure replacement. The true costs of deferred maintenance and replacement are not known at this time, but the City has committed to a comprehensive fixed asset inventory as the first step towards quantifying its infrastructure liability.

REPORT FORMAT

The Comprehensive Annual Financial Report (CAFR) has been divided into four sections:

INTRODUCTION: This section transmits the CAFR to the City Council and includes the City's organization chart and table of contents.

FINANCIAL SECTION: This includes:

The Independent Auditor's Report - The City Charter requires an annual audit of the financial statements of all accounts of the City by an independent certified public accountant. Accordingly, this year's audit was completed by Deloitte & Touche.

General Purpose Financial Statements - This section contains the general purpose financial statements (GPFS), also known as the combined financial statements, which reflect a complete summary of the City's activities and encompass all fund types and account groups. They present a combined overview of the financial position, cash flows of proprietary funds and operating results of the completed fiscal year. This section also includes the Notes to the Financial Statements, which communicate information necessary for fair presentation of financial position and results of operations that are not readily apparent or cannot be included in the financial statements themselves. GPFS are "liftable", and may be issued separately from the CAFR, for inclusion in official statements, bond offerings, or for distribution to users requiring less detailed information than is contained in the complete CAFR.

Combining Fund Statements - This section presents combining and individual fund and account group statements and schedules. Combining financial statements are presented in each instance where the City has more than one fund of a given type (e.g., the Enterprise Funds). Individual fund statements and schedules are presented for certain individual funds and account groups where the City has only one fund of a specific type (e.g., the Capital Projects Fund) or to give more detailed information than is presented in the GPFS.

STATISTICAL SECTION: This section presents comparative statistical data for the past ten years and other pertinent information involving taxes, revenues, expenditures and bonded debt.

SINGLE AUDIT REPORTS: This section includes the Single Audit Reports relating to the City's federal financial assistance programs.

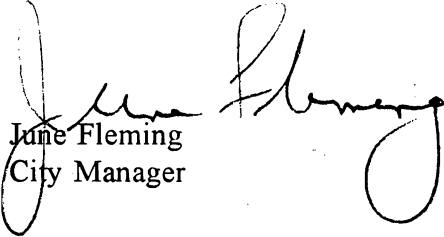
ACKNOWLEDGEMENT

This Comprehensive Annual Financial Report reflects the dedication and effort of the staff members of the Finance Department. Preparation of the report on a timely basis was especially made possible by the Accounting and Budget staff. Each individual has our sincere appreciation for their contributions. We would also like to thank the City Council Finance Committee, whose direction and support are essential in the effort to continually improve financial reporting.

Respectfully submitted,



Emily Harrison
Director of Finance



June Fleming
City Manager

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying general purpose financial statements of the City of Palo Alto, California (the City), as of June 30, 1993 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the general purpose financial statements did not include the financial activities of the City's general fixed assets account group because detailed records and documentation of historical and estimated historical costs are not available. Accordingly, we were unable to audit the financial activities of the City's general fixed assets account group.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial activities of the general fixed assets account group, such general purpose financial statements present fairly, in all material respects, the financial position of the City at June 30, 1993, and the results of its operations and cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying combining, individual fund, and account group financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. This additional information is the responsibility of management of the City. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial activities of the general fixed assets account group, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

The data listed in the statistical section of the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we do not express an opinion thereon.

Deloitte & Touche

October 15, 1993

GENERAL PURPOSE FINANCIAL STATEMENTS

These combined statements provide an overview of the financial position and the operating results of all fund types and account groups. Separate columns are used for each fund type and account group.

CITY OF PALO ALTO, CALIFORNIA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1993 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Project
ASSETS AND OTHER DEBITS				
Cash, cash equivalents and investments	\$27,582	\$ 7,724	\$ 2,069	\$5,698
Restricted:				
Cash and cash equivalents			254	855
Investments			909	
Receivables, net:				
Accounts	3,866	302	7,408	19
Interest	524	102	31	
Notes		2,831		
Due from other fund				
Advances to other fund				
Stores inventories	1,014			
Prepaid items	7			
Property, plant and equipment, net				
Amount available in debt service funds				
Amount to be provided for retirement of general long-term debt				
TOTAL ASSETS AND OTHER DEBITS	<u>\$32,993</u>	<u>\$10,959</u>	<u>\$10,671</u>	<u>\$6,572</u>
LIABILITIES, FUND BALANCES AND OTHER CREDITS				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 2,829	\$ 380		\$ 331
Accrued salaries and benefits	1,518			
Deferred revenue	225		\$ 7,335	91
Deferred compensation				
Accrued compensated absences				
Accrued self insurance				
Landfill closure and postclosure care				
Due to Palo Alto Recreation Foundation				
Due to other fund				
Advances from general fund				
General revenue bonds				
Utility revenue bonds				
Certificates of participation				
Special assessment debt with governmental commitment				
Capital lease obligations				
Total liabilities	<u>4,572</u>	<u>380</u>	<u>7,335</u>	<u>422</u>
FUND EQUITY AND OTHER CREDITS:				
Contributed capital				
Investment in general fixed assets				
Retained earnings				
Fund balances:				
Reserved	6,193	6,374	3,336	5,295
Unreserved:				
Designated	22,228	4,971		855
Undesignated		(766)		
Total fund equity and other credits	<u>28,421</u>	<u>10,579</u>	<u>3,336</u>	<u>6,150</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$32,993</u>	<u>\$10,959</u>	<u>\$10,671</u>	<u>\$6,572</u>

The accompanying notes are an integral part of these general purpose financial statements.

<u>Proprietary Funds</u>		Fiduciary Funds Trust and Agency	<u>Account Groups</u>		<u>Totals</u> (Memorandum Only)	
Enterprise	Internal Service		General Fixed Assets (Unaudited)	General Long-Term Debt	June 30,	
					1993	1992
\$112,749	\$24,627	\$ 265			\$180,714	\$152,890
1,700		25,587			28,396	28,219
531					1,440	1,429
12,813	13				24,421	25,900
1,472	252	3			2,384	2,422
					2,831	3,087
						230
						447
	150				1,164	1,165
253	38				298	206
170,535	7,783		\$110,311		288,629	275,893
				\$ 3,336	3,336	5,373
				16,049	16,049	15,297
<u>\$300,053</u>	<u>\$32,863</u>	<u>\$25,855</u>	<u>\$110,311</u>	<u>\$19,385</u>	<u>\$549,662</u>	<u>\$512,558</u>
\$ 7,636	\$ 901	\$ 14			\$ 12,091	\$ 10,663
633	750				2,901	2,431
					7,651	8,326
		25,587			25,587	21,767
389	7,268				7,657	7,310
1,369	6,959				8,328	6,995
4,841					4,841	
		128			128	131
						230
						447
				\$ 1,075	1,075	1,150
15,382					15,382	16,092
					7,305	7,670
					7,790	8,229
	1,339				3,215	5,435
<u>30,250</u>	<u>17,217</u>	<u>25,729</u>	<u>-</u>	<u>19,385</u>	<u>105,290</u>	<u>96,876</u>
57,831	5,220				63,051	61,843
			\$110,311		110,311	106,215
211,972	10,426				222,398	201,287
					21,198	23,998
					28,054	22,967
		126			(640)	(628)
<u>269,803</u>	<u>15,646</u>	<u>126</u>	<u>110,311</u>	<u>-</u>	<u>444,372</u>	<u>415,682</u>
<u>\$300,053</u>	<u>\$32,863</u>	<u>\$25,855</u>	<u>\$110,311</u>	<u>\$19,385</u>	<u>\$549,662</u>	<u>\$512,558</u>

CITY OF PALO ALTO, CALIFORNIA

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND FOR THE
YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTAL FOR THE YEAR ENDED JUNE 30, 1992
(In thousands of dollars)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
REVENUES:				
Property taxes	\$ 8,367			
Special assessments			\$ 959	
Sales taxes	13,322			
Utility users' tax	5,362			
Transient occupancy tax	3,109			
Other taxes and fines	4,333	\$ 968		
Fire protection and emergency communication services	3,565			
From other agencies	720	843	230	\$ 117
Service fees and permits	6,923			
Interest earnings	2,157	483	151	41
Other	2,368	488		40
Total revenues	<u>50,226</u>	<u>2,782</u>	<u>1,340</u>	<u>198</u>
EXPENDITURES:				
Current operations:				
Administration	8,809			
Public works	6,673			
Community environment	3,757			
Public safety - Police	13,380			
Public safety - Fire	10,040			
Social services	12,183			
School site operations	5,632			
Capital outlay		850		4,475
Debt service: <i>Net Allocated</i>				
Principal retirement			1,274	
Interest and fiscal charges			1,267	
Total expenditures	<u>60,474</u>	<u>850</u>	<u>2,541</u>	<u>4,475</u>
Excess of revenues over (under) expenditures	<u>(10,248)</u>	<u>1,932</u>	<u>(1,201)</u>	<u>(4,277)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	16,389	10	1,021	4,274
Operating transfers out	(3,963)	(1,679)		
Proceeds from bond sales				
Other				
Total other financing sources (uses)	<u>12,426</u>	<u>(1,669)</u>	<u>1,021</u>	<u>4,274</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	2,178	263	(180)	(3)
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED:				
Residual equity transfers in	24,613	10,316	5,041	6,242
Residual equity transfers out	1,630			1,525
			(1,525)	(1,614)
FUND BALANCES, END OF YEAR	<u>\$28,421</u>	<u>\$10,579</u>	<u>\$3,336</u>	<u>\$6,150</u>

The accompanying notes are an integral part of these general purpose financial statements.

Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only) Year Ended June 30	
	1993	1992
	\$ 8,367	\$ 8,555
	959	994
	13,322	14,693
	5,362	5,149
	3,109	3,104
	5,301	4,342
	3,565	3,908
	1,910	2,982
	6,923	6,570
\$ 3	2,835	2,844
31	2,927	3,838
<u>34</u>	<u>54,580</u>	<u>56,979</u>
	8,809	8,519
	6,673	7,129
	3,757	3,313
28	13,408	13,086
	10,040	10,027
1	12,184	11,817
	5,632	5,469
	5,325	6,609
	1,274	1,151
	<u>1,267</u>	<u>1,614</u>
<u>29</u>	<u>68,369</u>	<u>68,734</u>
<u>5</u>	<u>(13,789)</u>	<u>(11,755)</u>
	21,694	20,162
	(5,642)	(3,876)
		2,314
		(229)
<u>-</u>	<u>16,052</u>	<u>18,371</u>
5	2,263	6,616
137	46,349	39,781
	3,155	562
<u>(16)</u>	<u>(3,155)</u>	<u>(622)</u>
<u>\$126</u>	<u>\$48,612</u>	<u>\$46,337</u>

CITY OF PALO ALTO, CALIFORNIA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL - GENERAL, SPECIAL REVENUE AND CAPITAL PROJECT FUNDS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES:						
Property taxes	\$ 8,174	\$ 8,367	\$ 193			
Sales taxes	14,332	13,322	(1,010)			
Utility users' tax	5,597	5,362	(235)			
Transient occupancy tax	3,046	3,109	63			
Other taxes and fines	4,302	4,333	31	\$1,010	\$ 968	\$ (42)
Fire protection and emergency communication services	3,574	3,565	(9)			
From other agencies	450	720	270	665	843	178
Service fees and permits	7,070	6,923	(147)			
Interest earnings	2,178	2,157	(21)	462	483	21
Other	2,838	2,368	(470)	825	488	(337)
Total revenues	51,561	50,226	(1,335)	2,962	2,782	(180)
EXPENDITURES:						
Current operations:						
Administration	9,952	8,809	1,143			
Public works	7,824	6,673	1,151			
Community environment	4,424	3,757	667			
Public safety - Police	13,579	13,380	199			
Public safety - Fire	10,181	10,040	141			
Social services	12,775	12,183	592			
School site operations	5,904	5,632	272			
Capital outlay				1,696	850	846
Total expenditures	64,639	60,474	4,165	1,696	850	846
Excess of revenues over (under) expenditures	<u>(13,078)</u>	<u>(10,248)</u>	<u>2,830</u>	<u>1,266</u>	<u>1,932</u>	<u>666</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in	16,458	16,388	(70)			
Operating transfers out	(3,718)	(3,962)	(244)	(1,475)	(1,669)	(194)
Proceeds from bond sales						
Total other financing sources (uses)	12,740	12,426	(314)	(1,475)	(1,669)	(194)
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>\$ (338)</u>	<u>\$ 2,178</u>	<u>\$2,516</u>	<u>\$ (209)</u>	<u>\$ 263</u>	<u>\$472</u>

The accompanying notes are an integral part of these general purpose financial statements.

Capital Project Fund			Totals (Memorandum Only)		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
			\$ 8,174	\$ 8,367	\$ 193
			14,332	13,322	(1,010)
			5,597	5,362	(235)
			3,046	3,109	63
			5,312	5,301	(11)
			3,574	3,565	(9)
\$ 66	\$ 117	\$ 51	1,181	1,680	499
	41	41	7,070	6,923	(147)
	40	40	2,640	2,681	41
			<u>3,663</u>	<u>2,896</u>	<u>(767)</u>
<u>66</u>	<u>198</u>	<u>132</u>	<u>54,589</u>	<u>53,206</u>	<u>(1,383)</u>
			9,952	8,809	1,143
			7,824	6,673	1,151
			4,424	3,757	667
			13,579	13,380	199
			10,181	10,040	141
			12,775	12,183	592
			5,904	5,632	272
<u>10,436</u>	<u>4,475</u>	<u>5,961</u>	<u>12,132</u>	<u>5,325</u>	<u>6,807</u>
<u>10,436</u>	<u>4,475</u>	<u>5,961</u>	<u>76,771</u>	<u>65,799</u>	<u>10,972</u>
<u>(10,370)</u>	<u>(4,277)</u>	<u>6,093</u>	<u>(22,182)</u>	<u>(12,593)</u>	<u>9,589</u>
4,078	4,274	196	20,536	20,662	126
2,135		(2,135)	(5,193)	(5,631)	(438)
			<u>2,135</u>		<u>(2,135)</u>
<u>6,213</u>	<u>4,274</u>	<u>(1,939)</u>	<u>17,478</u>	<u>15,031</u>	<u>(2,447)</u>
<u>\$ (4,157)</u>	<u>\$ (3)</u>	<u>\$ 4,154</u>	<u>\$ (4,704)</u>	<u>\$ 2,438</u>	<u>\$ 7,142</u>

CITY OF PALO ALTO, CALIFORNIA

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only) Year Ended June 30,	
			1993	1992
OPERATING REVENUES:				
Sales of utilities:				
Customers	\$114,840		\$114,840	\$109,163
City departments	3,463		3,463	3,070
Wastewater treatment	5,651		5,651	5,995
Service connection charges and miscellaneous	342		342	375
Charges for services		\$28,088	28,088	27,927
Other revenues	3,013		3,013	3,450
<u>Total operating revenues</u>	<u>127,309</u>	<u>28,088</u>	<u>155,397</u>	<u>149,980</u>
OPERATING EXPENSES:				
Purchases of utilities	48,018		48,018	46,545
Administration and general	5,874	1,696	7,570	7,413
Engineering (operating)	2,354		2,354	2,449
Resource planning	1,970		1,970	3,332
Operations and maintenance	18,380	2,107	20,487	18,348
Depreciation and amortization	7,292	1,551	8,843	7,707
Self-insured losses		3,336	3,336	2,364
Compensated absences and other benefits		22,494	22,494	22,456
<u>Total operating expenses</u>	<u>83,888</u>	<u>31,184</u>	<u>115,072</u>	<u>110,614</u>
OPERATING INCOME (LOSS)	<u>43,421</u>	<u>(3,096)</u>	<u>40,325</u>	<u>39,366</u>
NONOPERATING REVENUES (EXPENSES):				
Interest revenue	6,350	1,007	7,357	7,695
Interest expense	(1,158)	(101)	(1,259)	(960)
Joint venture debt service	(7,435)		(7,435)	(6,939)
Gain (loss) on disposal of fixed assets	(146)	31	(115)	(1,516)
AB 702 rebate		3,325	3,325	2,772
Other		645	645	359
<u>Total nonoperating revenues (expenses)</u>	<u>(2,389)</u>	<u>4,907</u>	<u>2,518</u>	<u>1,411</u>
INCOME BEFORE OPERATING TRANSFERS	<u>41,032</u>	<u>1,811</u>	<u>42,843</u>	<u>40,777</u>
OPERATING TRANSFERS:				
Operating transfers in	146	31	177	532
Operating transfers out	(16,229)		(16,229)	(16,818)
<u>Net operating transfers</u>	<u>(16,083)</u>	<u>31</u>	<u>(16,052)</u>	<u>(16,286)</u>
NET INCOME	24,949	1,842	26,791	24,491
RETAINED EARNINGS, BEGINNING OF YEAR, AS RESTATED	<u>187,023</u>	<u>8,584</u>	<u>195,607</u>	<u>176,796</u>
RETAINED EARNINGS, END OF YEAR	<u>\$211,972</u>	<u>\$10,426</u>	<u>\$222,398</u>	<u>\$201,287</u>

The accompanying notes are an integral part of these general purpose financial statements.

CITY OF PALO ALTO, CALIFORNIA

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Enterprise Funds	Internal Service Fund	Totals (Memorandum Only)	
			Year Ended June 30, 1993	1992
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 43,421	\$(3,096)	\$ 40,325	\$ 39,366
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	7,292	1,551	8,843	7,707
AB 702 rebate		3,325	3,325	2,772
Other	(904)	676	(228)	(1,157)
Changes in assets and liabilities:				
Decrease in accounts receivable	457	113	570	191
Decrease in interest receivable	14	32	46	
Increase in stores inventories		(27)	(27)	(2)
(Increase) decrease in prepaid expenses	(62)	(25)	(87)	919
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	1,435	602	2,037	(1,527)
Increase in accrued compensated absences	58	289	347	563
Increase in accrued self-insurance	358	976	1,334	975
Increase in accrued landfill closure liability	65		65	
Net cash provided by operating activities	<u>52,134</u>	<u>4,416</u>	<u>56,550</u>	<u>49,807</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out to other funds	(16,083)		(16,083)	(16,818)
Operating transfers in from other funds		31	31	532
Net cash provided by (used in) noncapital financing activities	<u>(16,083)</u>	<u>31</u>	<u>(16,052)</u>	<u>(16,286)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(15,242)	(1,218)	(16,460)	(14,692)
Principal paid on revenue bonds	(736)		(736)	(690)
Proceeds of refunding bonds				4,502
Principal paid on capital leases		(492)	(492)	(463)
Interest paid on revenue bonds and capital leases	(8,593)	(101)	(8,694)	(7,899)
Contributed capital		82	82	276
Repayment of advance from General Fund	(446)		(446)	(1,720)
Net cash used in capital related activities	<u>(25,017)</u>	<u>(1,729)</u>	<u>(26,746)</u>	<u>(20,686)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -				
Interest and dividends on pooled cash and investments	<u>6,350</u>	<u>1,007</u>	<u>7,357</u>	<u>7,695</u>
NET INCREASE IN CASH AND EQUIVALENTS	17,384	3,725	21,109	20,530
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>97,065</u>	<u>20,902</u>	<u>117,967</u>	<u>97,437</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$114,449</u>	<u>\$24,627</u>	<u>\$139,076</u>	<u>\$117,967</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - Increase in contributed capital				
	\$ 1,126		\$ 1,126	\$ 15

The accompanying notes are an integral part of these general purpose financial statements.

CITY OF PALO ALTO, CALIFORNIA

INDEX TO THE NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

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CITY OF PALO ALTO, CALIFORNIA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 1993

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity - The City of Palo Alto, California (the City) was incorporated in 1894 and operates as a charter city, having had its first charter granted by the State of California (State) in 1909. The City operates under the Council-Manager form of government. The City provides a full range of municipal services, in addition to providing its own municipal electric, water, gas, wastewater, storm drain and refuse utilities.

Governmental Entities Included in the General Purpose Financial Statements

All activities and organizations for which the City has the ability to significantly influence operations and exercise oversight responsibility have been included in the City's general purpose financial statements. The following criteria regarding manifestation of oversight were considered by the City in evaluation of City organizations and activities:

- a. *Financial interdependency* - whether the City receives financial support or provides financial benefit to the organization, is responsible for or has directly or indirectly guaranteed the organization's debts.
- b. *Authoritative appointment of governing authority* - whether the City Council appoints the organization's governing authority and maintains a significant continuing relationship with the governing authority pertaining to the public functions of the organization.

Included within the City's financial reporting entity are the City of Palo Alto Golf Course Corporation and the Palo Alto Public Improvement Corporation. Although these entities are legally separate from the City, the City's elected officials have a continuing full or partial oversight responsibility and have accountability for fiscal matters of these other entities.

City of Palo Alto Golf Course Corporation

The Golf Course Corporation (the Corporation) was established in 1977 to finance, acquire, construct and improve a public municipal golf course and recreation facility in the City. The golf course construction was completed and the Corporation leases the golf course to the City. The City continues to maintain and operate the facility. Operating activities of the golf course are included in the activities of the General Fund, while debt service payments and interest revenue and expense are recorded in the Debt Service Funds.

Palo Alto Public Improvement Corporation

The Palo Alto Public Improvement Corporation (the Corporation) was established in 1983 to finance, acquire, construct, improve and lease or sell real or personal property for the benefit of residents of the City and surrounding areas. The Corporation has completed the first phase of improvement and repair of the Palo Alto Civic Center. The Corporation is currently leasing the Civic Center and improvements to the City for a 23-year period through June 2006. The debt service payments for the Corporation are included in the activities of the Debt Service Funds while the operating activities of the Corporation are included in the activities of the Capital Project Funds.

The operations of the Palo Alto Housing Corporation, Palo Alto Senior Coordinating Council, Palo Alto Community Child Care and Palo Alto Unified School District are not part of the defined reporting entity, and financial information for these agencies is not included in the general purpose financial statements of the City. Each of these agencies has an independently elected governing board other than the City Council of the City of Palo Alto.

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources together with all related liabilities, obligations, revenues, expenditures, reserves and equities, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The various funds are grouped in the general purpose financial statements by generic fund types within three broad fund types and two account groups as follows:

GOVERNMENTAL FUND TYPES

General Fund is the general operating fund of the City. It is used to account for all financial resources committed to financing the services that the City performs for its citizens, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term obligation principal and interest, other than obligations payable from Proprietary Fund Types.

Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund Types and Special Revenue Funds).

PROPRIETARY FUND TYPES

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recorded primarily through user charges; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

Expendable Trust Funds are funds for which principal and interest may be expended in the course of their designated operations. They are accounted for in essentially the same manner as Governmental Fund Types.

ACCOUNT GROUPS

General Fixed Assets Account Group is used to maintain control and cost information on property, plant and equipment owned by the City, other than that of the Proprietary Fund Types.

General Long-Term Debt Account Group accounts for long-term debt not recorded in the Agency Funds or Proprietary Fund Types.

Basis of Accounting

The modified accrual basis of accounting is followed by the Governmental Fund Types and the Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the liability is incurred, except for interest on long-term debt which is recorded as due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (grant revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized when the expenditures are incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and essentially irrevocable. These resources are reflected as revenues at the time of receipt.

Licenses and permits, state gas taxes, charges for services, forfeitures and miscellaneous revenues are recognized as revenues when received because they are generally not measurable until actually received. Property taxes, sales taxes, motor vehicle fees, fines and earned grant entitlements are accrued on the modified accrual basis (when they are measurable and available).

All Proprietary Fund Types are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Unbilled utility revenues and related expenses are accrued at year-end using a proration of the number of billing days applicable to the current year.

Appropriated Budget and Budgetary Control - The City Council is required to adopt a budget resolution on or about July 1 of each fiscal year for all Governmental (except debt service funds) and Proprietary Fund Types. These budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The legal level of budgetary control is by fund, although budgets are adopted within funds at the department/division level in the General Fund, program level in the Special Revenue and Enterprise Funds and project level in the Capital Projects Funds.

The City Manager is authorized to revise appropriations within any fund so long as the total appropriations within a department are not increased. Only the City Council has the authority to increase total appropriations subject only to the appropriation limitations established by state law. The budgets included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual include supplemental appropriation increases approved by the Council during the year. Budget appropriations lapse at the end of the fiscal year, with the exception of contract commitments and capital improvements which are carried over until the commitment is met or within a two-year limit, whichever is less.

Cash and Investments - The City maintains a cash and investments pool that is available for use by all funds except the Deferred Compensation Agency Fund investments, which are managed by an administrator. The balance in the pooled cash accounts is available to meet current operating requirements, and any cash in excess of current requirements is invested in various securities. Investments consist mainly of government securities, and are stated at aggregate cost which approximates market value, except for Deferred Compensation Agency Fund investments which are stated at market value.

Cash and Equivalents - For purposes of the Combined Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The Proprietary Fund Types' "deposits" in the cash and investments pool are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the combined Statement of Cash Flows.

Stores Inventories - Materials and supplies are held for consumption and are recorded at average cost (which approximates first-in, first-out basis). The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures when the inventory items are used.

Property, plant and equipment in the General Fixed Assets Account Group are stated at historical cost, or estimated historical cost if actual historical cost is not available. Property, plant and

equipment acquisitions are charged to expenditures in the Governmental Fund Types as purchased and capitalized in the General Fixed Assets Account Group. Construction in progress is not capitalized until the project is completed and has been transferred into the General Fixed Assets Account Group. Maintenance and repairs of property, plant and equipment are charged to expenditures in the Governmental Fund Types as incurred. Expenditures for public domain (infrastructure) general fixed assets such as roads, bridge construction, sidewalks, curbs, gutters and drainage systems are not capitalized as property, plant and equipment. Upon disposal of property, plant and equipment, the historical cost or estimated historical cost is removed from the General Fixed Assets Account Group and any proceeds from sales are generally recorded as revenue in the funds originally acquiring the assets. Depreciation is not computed on the assets capitalized in the General Fixed Assets Account Group.

Property, plant and equipment in the Proprietary Fund Types are capitalized at historical cost or estimated historical cost when historical cost is not available, or the estimated fair market value at the time received in the case of gifts or projects constructed by others and accepted for ownership and maintenance by the City. Significant interest costs incurred under restricted tax-exempt borrowings to finance the construction of property, plant and equipment are capitalized during the construction period, net of interest earned on investment of the proceeds of such borrowings. Maintenance and repairs are expensed as incurred. Depreciation is computed and charged as an expense against operations using the straight-line method over the estimated useful lives of Proprietary Fund Type property, plant and equipment as follows:

- Buildings and structures - 25 to 60 years
- Equipment
 - Vehicles and heavy equipment - 3 to 10 years
 - Machinery and equipment - 10 to 50 years
 - Transmission and distribution equipment - 10 to 100 years

Special Assessments - The City accounts for resources available to pay special assessment debt in its Debt Service Funds. The special assessment obligation is included in the General Long-Term Debt Account Group.

Assessments are recognized as receivables at the time property owners are assessed for property improvements. Current assessments receivable expected to be collected soon enough after year-end to meet liabilities of the current period are considered measurable and available and are generally recognized as revenues. All other assessments receivable (\$7,335,000 at June 30, 1993) are offset by deferred revenue. Interest on special assessment levies is recognized when due, in accordance with the modified accrual basis of accounting employed by the Debt Service Funds. In the event of default by the property owners for certain districts, the City has covenanted to institute foreclosure on properties which are 150 or more days delinquent in order to make the debt payment. Those districts created after the passage of Proposition 13 may have their own reserves which would be drawn on in case of default by property owners.

Compensated Absences - Vacation and sick pay for all City employees is accrued and paid in the Enterprise Funds and the General Benefits and Insurance Internal Service Fund. The General Benefits and Insurance Internal Service Fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay is 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. Accumulated vacation and overtime compensation pay amounted to approximately \$4,575,000 for all funds at June 30, 1993. Vested accumulated sick pay is paid in the event of termination due to disability and under certain conditions specified in employment agreements primarily restricted to individuals with fifteen or more years of continuous service. An accrual of approximately \$3,082,000 at June 30, 1993 for vested accumulated sick pay is included in accrued liabilities of the Enterprise Funds and the Internal Service Funds. No accrual is made for nonvesting accumulated sick pay of employees with less than fifteen years of continuous service.

Bond discount costs are amortized over the related debt repayment period and approximate the interest method of amortization in Proprietary Fund Types; unamortized bond discount costs are offset against bonds payable. In Governmental Fund Types, bond discount costs are netted against bond proceeds in the year of issuance.

Contributed capital is an equity account in the Proprietary Fund Types which shows the amount of permanent fund capital contributed to the fund from general government revenues and resources or, in the case of Enterprise Funds, by subdivision developers and builders.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the Governmental Fund Types.

Designated Fund Balances - Tentative plans for utilization of fund balances in future periods are recorded as designations of fund balances. Planned expenditures include uncompleted construction contracts and other commitments for which fund balances have not been appropriated or specifically segregated. Such plans are subject to change and therefore the designated amounts may never be legally appropriated or result in expenditures.

Property Tax Levy, Collection and Maximum Rates - The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is modified, sold or transferred. The State legislature has determined the method of distribution of receipts from a one percent levy among the counties, cities, school districts and other districts.

Santa Clara County assesses properties and bills for and collects property taxes as follows:

	Secured	Unsecured
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes receivable for the Governmental Fund types which have been collected within sixty days following year-end are considered measurable and available, and are recognized as revenues in the funds.

Total Memorandum Only Columns on the general purpose financial statements represent the aggregate of the columnar statements by fund type and account group; they do not represent consolidated financial information and interfund transactions have not been eliminated. Data in the total columns are presented only to facilitate financial analysis and do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

Comparative data for the prior year has been presented in the general purpose financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data (i.e., presentations of prior year totals by fund) have not been presented in all statements because their inclusion would make the statements unduly complex and difficult to read. Certain amounts from the prior year's financial statements have been reclassified to conform to the current year presentation.

2. CASH AND INVESTMENTS

Under the City's investment policy, investments are to be made with a level of judgment and care, under the circumstances then prevailing, which independent investors exercising a level of prudence, discretion, and intelligence would utilize considering the probable income from as well as safety of their capital.

The City's investment policy authorizes the City to invest in obligations of the U.S. Treasury and U.S. Agencies, nonnegotiable certificates of deposit and negotiable certificates of deposit, bankers' acceptance notes, commercial paper, the State Treasurer's Local Agency Investment Fund (LAIF), repurchase agreements, City of Palo Alto Improvement Bonds, money market accounts and mutual funds. City Management is not aware of any violations of the City's investment policy during the year.

The City has contracted with and maintains demand deposit accounts with Bank of America. A written contract with the City's safekeeping agent, Bank of California, outlines the basic responsibilities with regard to delivery and receipt of securities.

Deposits

State statutes require collateral for all public agency deposits and certificates of deposit not covered by federal deposit insurance. Nonnegotiable certificates of deposit are considered "deposits" for the purposes of these statutes.

Total deposits as of June 30, 1993 follows (in thousands):

portfolio?

	Carrying Value	Bank Balance
Cash in banks or on hand	\$(1,728)	\$ 443
Cash held in trust with fiscal agent	214	214
Nonnegotiable certificates of deposit held in trust with fiscal agent	<u>14,445</u>	<u>14,445</u>
Total	<u>\$12,931</u>	<u>\$15,102</u>

At June 30, 1993, the difference between the carrying amount of the City's cash in banks and on hand is due to outstanding checks of \$2,341,000, deposits in transit of \$165,000 and petty cash of \$5,000. Of the bank balance, \$400,000 was covered by depository insurance and \$14,702,000 was collateralized with securities held in a collateral pool by the pledging financial institution in the City's name in accordance with Section 53652 of the California Government Code.

Included in the cash balance at June 30, 1993 are amounts held with a fiscal agent and held in trust of \$214,000. Included in the amounts held with a fiscal agent are bond proceeds held in a construction fund, which earns interest. As of June 30, 1993, all cash held in trust was in compliance with the respective trust agreements.

Investments

The June 30, 1993 market value information presented herein is based on quotes obtained as of that date. It is presented to reflect the market value of the portfolio if the City were to liquidate the securities on that date.

All the City's investments are insured or registered or held by the City or its agent in the City's name. Investments in the Local Agency Investment Fund and mutual funds of \$45,336,000 at June 30, 1993 are not subject to credit risk categorization. Deferred compensation fund investments of \$25,587,000 at June 30, 1993 are entirely invested in mutual funds. The deferred compensation fund acts solely to invest funds at the discretion of participating employees. Such investments are not subject to statutes relating to City investments.

The City's investments at June 30, 1993 were as follows (in thousands):

	Carrying Value	Market Value
U.S. Treasury obligations	\$ 72,877	\$ 73,587
U.S. Agency obligations	70,450	72,088
Bankers' acceptances	5,945	5,916
Commercial paper	2,991	2,961
Municipal obligations	<u>20</u>	<u>20</u>
Total	152,283	154,572
Investment in Local Agency Investment Fund	15,000	15,000
Mutual funds -	<u>30,336</u>	<u>30,336</u>
Total investments	<u>\$197,619</u>	<u>\$199,908</u>

The City did not enter into any reverse repurchase agreements during the year ended June 30, 1993.

3. PROPERTY, PLANT AND EQUIPMENT

The changes in the General Fixed Assets Account Group for the fiscal year ended June 30, 1993 are as follows (in thousands):

	Balances, July 1, 1992	Additions	Retirements	Balances, June 30, 1993
Land and improvements	\$ 59,519	\$2,686		\$ 62,205
Buildings and structures	35,435	1,031		36,466
Equipment	<u>11,261</u>	<u>1,279</u>	<u>\$900</u>	<u>11,640</u>
Total	<u>\$106,215</u>	<u>\$4,996</u>	<u>\$900</u>	<u>\$110,311</u>

General fixed assets construction-in-progress was composed of the following at June 30, 1993 (in thousands):

	Project Authorization	Expended to June 30, 1993	Committed
Environmental compliance/safety	\$ 2,140	\$ 1,226	\$ 190
Information and communications systems	4,109	2,752	341
Infrastructures	2,213	413	69
Parks and open space	4,492	3,342	643
Public buildings	5,721	3,836	270
Other	<u>786</u>	<u>481</u>	<u>3</u>
Total	<u>\$19,461</u>	<u>\$12,050</u>	<u>\$1,516</u>

A summary of Proprietary Fund Type fixed assets at June 30, 1993 follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and improvements	\$ 1,541	
Buildings and structures	4,454	
Equipment	254,704	\$14,615
Accumulated depreciation	<u>(90,164)</u>	<u>(6,832)</u>
Total	<u>\$170,535</u>	<u>\$ 7,783</u>

Included in equipment at June 30, 1993 for the Enterprise Funds is approximately \$13,987,000 of construction-in-progress. Additionally, included at June 30, 1993 in land and improvements and equipment in the General Fixed Assets Account Group and the Internal Service Funds are assets under capital leases amounting to \$6,386,000 and \$2,470,000, respectively, with accumulated depreciation in the Internal Service Funds of \$1,131,000. Also included in land and improvements in the Enterprise Funds is \$1,169,000 of development and artwork costs incurred by the Refuse Fund as part of a project to convert a portion of a solid waste landfill site into a park.

A summary of Enterprise Funds construction-in-progress at June 30, 1993 follows (in thousands):

	Project Authorization	Expended to June 30, 1993	Committed
Storm drainage structural and water quality improvements	\$ 6,133	\$ 5,975	\$ 496
Gas system extension replacements and improvements	3,061	1,791	147
Electric substations	3,061	1,095	716
Water system extension replacements and improvements	2,879	1,168	211
Street lighting	1,168	543	65
Electric system improvements	2,460	464	125
Installation of underground wiring	4,734	384	3,103
Other electrical improvement projects	1,415	409	107
Water quality control plant equipment replacement and lab facilities	1,381	594	232
Sewer system rehabilitation and extensions	1,623	211	147
Automated mapping	871	651	432
Civic center improvements	1,384	146	109
Other construction in progress	<u>1,135</u>	<u>556</u>	<u>42</u>
	<u>\$31,305</u>	<u>\$13,987</u>	<u>\$5,932</u>

4. LONG-TERM DEBT

Long-term debt at June 30, 1993 follows (in thousands):

	Maturity	Effective Interest Rates	Authorized and Issued	Outstanding at June 30, 1993
General revenue bonds - Golf course bonds (a)	2003	5.00% - 6.00%	\$ 1,800	\$ 1,075
Utility revenue bonds (b):				
1983 Series A	1999	6.25% - 8.25%	4,765	2,520
1990 Series A	2006	5.70% - 6.80%	9,650	8,475
1992 Series A	2007	6.30% - 6.375%	4,750	4,750
Less: unamortized discount				(363)
Total utility revenue bonds			<u>19,165</u>	<u>15,382</u>
Certificates of participation - Civic Center improvement certificates (c)	2012	3.60% - 6.70%	<u>7,670</u>	<u>7,305</u>
Special assessment debt with governmental commitment - utility street improvement and parking district bonds (d)	2008	5.38% - 10.95%	<u>11,305</u>	<u>7,790</u>
Capital lease obligations:				
Terman School (e)	2000	Variable	6,321	3,161
Vehicle equipment (f)	1995	5.70% - 6.10%	2,346	1,306
Other equipment (g)	1997	1.5% - 7.0%	189	132
Less: unamortized discount				(45)
Total capital lease obligations			<u>8,856</u>	<u>4,554</u>
Total long-term debt			<u>\$48,796</u>	<u>\$36,106</u>

Debt service payments are generally made from the following sources:

- (a) Principal and interest on general revenue golf course bonds are paid from lease revenues received by the Palo Alto Golf Course Corporation from the City.
- (b) Principal and interest on all utility revenue bonds are payable from the net revenues of the Electric, Gas, Water and Wastewater Enterprise Funds. Revenues of the Storm Drainage Enterprise Fund are also obligated for the 1990 Series A Bonds. The revenue bonds are collateralized by a lien on the net revenues of the Enterprise Funds. Future interest payments are based on average interest rates of 7.4% for the 1983 Series A; 6.425% for the 1990 Series A; and 6.343% for the 1992 Series A bonds.
- (c) Principal and interest on certificates of participation are paid from lease revenues received by the Palo Alto Public Improvement Corporation from the City.
- (d) Principal and interest on special assessment debt are paid from assessments to benefited properties.
- (e) The variable interest rate for the Terman School site lease is based on the lessor's investment portfolio; the rate at June 30, 1993 was 6%. Future interest payments are based on an estimated

rate of 6% and are payable first from lease revenue of the site, then from the City's general fund revenues.

- (f) The vehicle equipment leases are funded through revenues of the City's Internal Service Funds.
- (g) Other equipment is as follows: copier lease - funded through revenues from printing services within the Internal Service Funds, optical imaging equipment - funded by General Fund operating revenues.

A summary of the changes in long-term debt, net of discounts, where applicable, for the year ended June 30, 1993 follows (in thousands):

	Balance July 1, 1992	Current Maturities and Retirements	Balance June 30, 1993
General revenue bonds	\$ 1,150	\$ 75	\$ 1,075
Utility revenue bonds	16,092	710	15,382
Certificates of participation	7,670	365	7,305
Special assessment debt with governmental commitment	8,229	439	7,790
Capital lease obligations	<u>5,435</u>	<u>881</u>	<u>4,554</u>
Total debt	<u>\$38,576</u>	<u>\$2,470</u>	<u>\$36,106</u>

The annual requirements to amortize all bonds, certificates of participation and capital leases outstanding as of June 30, 1993 are as follows (in thousands):

	Principal	Interest	Total
General revenue bonds:			
1994	\$ 75	\$ 61	\$ 136
1995	75	57	132
1996	100	53	153
1997	100	47	147
1998	100	41	141
Thereafter	<u>625</u>	<u>114</u>	<u>739</u>
Total	<u>\$ 1,075</u>	<u>\$ 373</u>	<u>\$ 1,448</u>
Utility revenue bonds:			
1994	\$ 875	\$1,035	\$ 1,910
1995	925	973	1,898
1996	990	906	1,896
1997	1,060	833	1,893
1998	1,125	755	1,880
Thereafter	<u>10,407</u>	<u>5,363</u>	<u>15,770</u>
Total	<u>\$15,382</u>	<u>\$9,865</u>	<u>\$25,247</u>
Certificates of participation:			
1994	\$ 380	\$ 437	\$ 817
1995	395	421	816
1996	415	402	817
1997	440	380	820
1998	460	356	816
Thereafter	<u>5,215</u>	<u>1,953</u>	<u>7,168</u>
Total	<u>\$ 7,305</u>	<u>\$3,949</u>	<u>\$11,254</u>
Special assessment debt:			
1994	\$ 455	\$ 509	\$ 964
1995	380	482	862
1996	400	445	845
1997	420	430	850
1998	450	401	851
Thereafter	<u>5,685</u>	<u>1,933</u>	<u>7,618</u>
Total	<u>\$ 7,790</u>	<u>\$4,200</u>	<u>\$11,990</u>
Capital lease obligations:			
1994	\$ 928	\$ 266	\$ 1,194
1995	960	211	1,171
1996	720	153	873
1997	410	119	529
1998	395	94	489
Thereafter	<u>1,141</u>	<u>142</u>	<u>1,283</u>
Total	<u>\$ 4,554</u>	<u>\$ 985</u>	<u>\$ 5,539</u>

Long-term debt as of June 30, 1993 is callable on the following terms and conditions:

	Interest Rates	Initial Call Date
General revenue (golf course) bonds issued - 03/01/78	5.00% - 6.00%	03/01/88 (1)
Utility revenue bonds issued:		
06/01/83	6.25% - 8.25%	07/01/93 (6)
08/21/91	5.70% - 6.80%	06/01/01 (5)
04/01/92	6.30% - 6.375%	06/01/01 (5)
Certificates of participation issued - 03/18/92	3.60% - 6.70%	03/01/01 (8)
Special assessment bonds issued:		
09/02/69	6.90%	01/02/71 (2)
04/22/68	5.50% - 6.00%	07/02/77 (4)
04/22/68	5.38% - 6.00%	07/02/77 (4)
01/02/75	7.00% - 7.50%	07/02/85 (1)
05/02/77	6.00%	None
06/02/77	5.40% - 7.75%	07/02/87 (1)
05/02/80	7.25% - 9.50%	07/02/90 (1)
12/02/82	10.95%	07/02/83 (3)
03/30/87	6.70% - 9.25%	09/02/96 (7)
12/18/89	5.75% - 6.90%	09/01/00 (5)

- (1) Callable in inverse numerical order of maturity at par plus a premium of .25% for each year from redemption to maturity date.
- (2) Callable in inverse numerical order of maturity at par.
- (3) Callable in numerical order at 105% of par.
- (4) Callable in inverse numerical order of maturity at par plus .5%, plus .25% for each year from redemption to maturity date.
- (5) Callable in inverse numerical order of maturity at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (6) Callable in inverse numerical order of maturity at par plus a premium of 2.5% beginning on the initial call date. The call price declines subsequent to the initial date.
- (7) Callable in inverse numerical order of maturity at par plus a premium of 3% beginning on the initial call date. The call price declines subsequent to the initial date.
- (8) Callable in any order specified by the City at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.

In addition to the long-term debt discussed above, the Lytton Gardens Convalescent Hospital Bonds, which mature in the years 1997-2016, were issued in 1986 in the name of the City. The City is not obligated in any manner for the repayment of these bonds and accordingly, the obligation is not included in the general purpose financial statements. The outstanding balance of the bonds at June 30, 1993 was \$13,360,000.

In December 1989, the City advance refunded certain special assessment bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the City's financial statements. At June 30, 1993, the outstanding balance on these defeased bonds totaled \$4,335,000.

5. LANDFILL CLOSURE AND POSTCLOSURE CARE

State and federal laws and regulations require the City to place a final cover on the remaining open areas of the Palo Alto Refuse Disposal Site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure costs of

\$1,561,000 were reported in fiscal year 1991-92, when a section of the refuse area was capped with a final cover and Byxbee Park constructed on top of that section. A second section of the refuse area was capped with a final cover during the current fiscal year, with closure costs of \$904,000. The remaining closure and postclosure care costs are expected to be paid only near and after the date that the refuse site stops accepting waste and are anticipated to be \$6,448,446.

The \$4,840,731 reported as landfill closure and postclosure care liability at June 30, 1993 represents 75 percent of the estimated remaining closure and postclosure care costs, which is based upon the estimated capacity of the remaining landfill area utilized to date. The City will recognize a portion of the remaining estimated total cost of closure and postclosure care of \$1,607,715 as an operating expense in each subsequent fiscal year, based on landfill capacity.

Total cost estimates are based on what it would cost to perform all currently mandated closure and postclosure care in 1993 plus an allowance for inflation of \$96,000. The City expects to close the refuse area in the year 2029. Actual closure and postclosure care costs may be higher due to inflation variances, changes in technology, or changes in state or federal regulations.

The City is required by state and federal laws and regulations to make annual funding contributions to finance closure and postclosure care. The City is in compliance with these requirements for the year ended June 30, 1993 with the establishment of the fully-funded liability for this purpose.

6. EMPLOYEES' RETIREMENT PLAN

Plan Description - All permanent employees are eligible to participate in the Public Employees' Retirement Fund of the State of California's Public Employees' Retirement System (CalPERS). CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City contributed to CalPERS 18.65% of payroll for public safety personnel and 6.43% for other covered employees. The City's covered payroll for employees participating in CalPERS for the year ended June 30, 1993 was \$44,429,000. The City's payroll for all employees was \$49,828,000 in 1993. The City, due to a collective bargaining agreement, also has a legal obligation to contribute an additional 9% of payroll on behalf of safety employees and 7% for other covered employees. Employees have no obligation to contribute to CalPERS.

Funding Status and Progress - The "pension benefit obligation" is determined for each participating employer by CalPERS's actuary and is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the City's portion of CalPERS to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used.

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The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1992, the latest available. The significant economic actuarial assumptions used in the 1992 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.75%; annual payroll increases of 4.5% attributable to inflation and 1.75% attributable to merit or seniority for miscellaneous employees and 2% attributable to merit or seniority for safety employees; and no postretirement benefit increases.

Total pension benefit obligation applicable to the City's employees at June 30, 1992 follows (in thousands):

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 75,359
Current employees:	
Accumulated employee contributions and allocated investment earnings	38,978
Employer-financed, vested	49,691
Employer-financed, nonvested	<u>1,836</u>
Total pension benefit obligation	165,864
Net assets available for benefits, at cost (market value, \$178,406)	<u>158,161</u>
Unfunded pension benefit obligation	<u>\$ 7,703</u>

The pension benefit obligation increased by \$13,200,000 during 1992 due to normal changes in the age, length of service and salary of covered employees.

Actuarially Determined Contributions Required and Contributions Made - The funding policy of CalPERS provides for actuarially determined periodic contributions by the City at rates such that sufficient assets will be available to pay CalPERS benefits when due. The cash contribution to CalPERS for the year ended June 30, 1993 of \$4,220,000 was made in accordance with the actuarially determined requirements computed as of June 30, 1991. The contribution consisted of \$6,672,000 for normal cost (15.02% of current covered payroll), \$909,000 (2.05% of covered payroll) for the amortization of the unfunded actuarial liability, and a credit of \$3,361,000 (7.56% of current covered payroll) which was used to offset the City's portion of current year contributions to the Fund. This credit was a result of the State of California's elimination of two PERS special cost of living funds. The City contributed \$923,000 as its share (2.08% of current covered payroll), which is net of the credit of \$3,361,000, and contributed \$3,297,000 (7.42% of current covered payroll) on behalf of employees due to a collective bargaining agreement; employees contributed \$91,000 (.20% of current covered payroll).

The contribution rate for normal cost is determined using the entry age-normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. CalPERS also uses the level percentage of payroll method to amortize the unfunded actuarial liability through the year 2016.

Significant actuarial assumptions used in the 1991 valuation to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information for CalPERS is not yet available.

For the City's share of CalPERS, trend information for the years ended June 30, 1987 through 1992 follows (in millions):

	1993	1992	1991
Net assets available for benefits, at cost		\$158.1	\$144.8
Pension benefit obligation		165.8	152.6
Net assets available for benefits as a percentage of pension benefit obligation		95.4%	94.8%
Unfunded pension benefit obligation		\$ 7.7	\$ 7.8
Annual covered payroll		47.5	44.3
Unfunded pension benefit obligation as a percentage of annual covered payroll		16.2%	17.8%
City contributions, made in accordance with actuarially determined requirements, as a percentage of covered payroll		11.3%	9.5%

Employer's contributions, made in accordance with actuarially determined requirements, as a percentage of annual covered payroll were 9.6% in 1993. Other trend information for 1993 is not yet available.

1990	1989	1988	1987
\$134.7 143.8	\$119.6 127.8	\$104.6 116.2	\$ 91.4 105.1
93.7%	93.6%	90.0%	87.0%
\$ 9.0 41.4	\$ 8.1 38.7	\$11.5 37.6	\$13.6 34.9
21.9%	21.1%	30.7%	39.1%
9.8%	10.6%	N/A	N/A

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Other Post-Retirement Benefits - In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The costs of retiree health care are recognized as expenditures when claims are paid. For fiscal 1993, expenditures for retiree health care for approximately 332 eligible retired employees totaled \$952,000.

7. DEFERRED COMPENSATION PLAN

Employees of the City of Palo Alto may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457, *Deferred Compensation Plans With Respect to Service for State and Local Governments*.

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by three unrelated administrators. Under the terms of IRC Section 457, until paid or made available to the employees or beneficiaries, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the administrators are the property of the City subject only to the claims of the City's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the City, and each participant's rights are equal to his or her share of the fair market value of the plan assets. The City believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

As part of its fiduciary role, the City has an obligation of due care in selecting third party administrators. In the opinion of the City's management, the City has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

At June 30, 1993, net assets available for benefits totaled \$25,587,000, which are included as cash and investments of the Agency Funds and are offset by a corresponding liability.

8. SELF INSURANCE PROGRAMS

The City has self insurance programs to provide for general liability, dental, and workers' compensation claims. Under the self insurance programs, the City retains the risk of loss up to a maximum of \$1 million for each claim. Claims from \$1 million to \$10 million are covered through the Authority for California Cities Excess Liabilities (ACCEL), a joint powers authority of medium-sized California municipalities. Claims in excess of \$10 million are self insured. The activities of the self insurance programs are recorded in the Enterprise and Internal Service Funds.

Estimated liabilities are recorded for claims in cases where such amounts are reasonably determinable and where the liability is likely for incurred but not reported (IBNR) claims. IBNR claims are claims that are incurred through the end of the fiscal year but not reported until after that date. The estimated liability is determined based upon actuarial estimates of the amounts needed to pay prior and current year claims. The estimated liabilities are reported at their present value of \$8,328,000 at June 30, 1993 using a discount rate of 6.47% which approximates the City's rate of return on

short-term, highly liquid investments. Application of the discount rate has the effect of reducing the estimated liability by \$1,451,000.

Changes in the self insurance liabilities during the fiscal years ended June 30, 1992 and 1993 were as follows (in thousands):

	1991-1992	1992-1993
Balance at July 1, 1992	\$6,020	\$6,995
Current claims and changes in estimates	2,364	3,336
Claim payments	(1,389)	(2,003)
Balance at June 30, 1993	6,995	8,328

ACCEL pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL intends to pool virtually every catastrophic loss incurred by its members, thereby eliminating the need for commercial excess insurance protection. As a result, each member's share of the pooled costs will depend on the catastrophic losses of the members. In addition, members with a consistent record of costly claims will pay more than members with a consistent record of lesser claims activity. The City's contribution for the year ended June 30, 1993 was \$438,745.

The following municipalities are also members of ACCEL: Anaheim, Bakersfield, Burbank, Gardena, Modesto, Monterey, Mountain View, Ontario, Santa Barbara, Santa Monica and Visalia. A representative from each member city, appointed to the position by its City Council, serves on the Board of Directors of ACCEL. The Board is responsible for deciding the risks ACCEL will underwrite, monitoring the costs of large claims, and arranging financial programs. Each member of the Board has an equal vote in matters concerning ACCEL. ACCEL does not have any debt outstanding.

In order to provide funds to pay claims, ACCEL collects a deposit from each member. The deposits are credited with investment income at the rate earned on ACCEL's investments. The following is a summary of unaudited financial information of ACCEL as of and for the year ended June 30, 1993 (in thousands):

Total assets	\$35,347
Total liabilities	35,288
Members' equity	59
Total revenues	6,199
Total expenses	6,229
Deficiency of revenues over expenses	(30)

Settlements for each of the past three fiscal years have not exceeded the insurance coverage provided by ACCEL.

The funds invested by the City (\$2,710,000) in this pool are not included as assets of the City as of June 30, 1993. The actuarially determined liability to the City for claims not covered by this insurance pool is included in the City's accrued self-insurance liability as of June 30, 1993.

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9. **FUND BALANCES**

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which is not appropriable for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved fund balance.

Portions of unreserved fund balances may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

At June 30, 1993, fund balances for Governmental Fund Types consists of the following reserves and designations (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Reserved for:				
Encumbrances and reappropriations	\$ 5,179	\$3,543		\$5,295
Notes		2,831		
Debt service			\$3,336	
Stores inventory	<u>1,014</u>	<u> </u>	<u> </u>	<u> </u>
Total reserved fund balances	<u>\$ 6,193</u>	<u>\$6,374</u>	<u>\$3,336</u>	<u>\$5,295</u>
Unreserved; designated for:				
Streets and sidewalks/school site projects	\$ 895			
Capital and special revenue projects		\$4,971		\$ 855
Unfunded employee benefit obligations	4,772			
Budget stabilization	11,561			
Emergencies	<u>5,000</u>	<u> </u>	<u> </u>	<u> </u>
Total unreserved; designated fund balances	<u>\$22,228</u>	<u>\$4,971</u>		<u>\$ 855</u>

At June 30, 1993, fund balance for the Expendable Trust Funds was unreserved; undesignated in the amount of \$126,000.

The Internal Service Fund's retained earnings consists of the following as of June 30, 1993 (in thousands):

Reserved retained earnings:	
Commitments and reappropriations	\$ 772
Unreserved retained earnings	<u>9,654</u>
Total	<u>\$10,426</u>

At June 30, 1993, the Enterprise Funds' retained earnings consists of the following (in thousands):

	Water	Electric	Gas
Reserved retained earnings:			
Emergency plant replacement	\$ 545	\$ 1,929	\$ 520
Systems improvement	391	{ 11,493	{ 5,675
TRANSFER Rate stabilization	{ 2,977	{ 33,572	{ 2,944
Calaveras		22,287	
Gas supplemental supply			3,092
Debt service		59	66
Commitments and reappropriations	1,846	9,803	1,939
Underground loan		518	
Conservation loan			599
	<hr/>	<hr/>	<hr/>
Total	5,759	79,661	14,835
Unreserved retained earnings	<u>11,919</u>	<u>56,333</u>	<u>14,063</u>
Total retained earnings	<u><u>\$17,678</u></u>	<u><u>\$135,994</u></u>	<u><u>\$28,898</u></u>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
\$ 322	\$ 812			\$ 4,128
3,208	2,339	\$ 930	\$1,238	25,274
				39,493
				22,287
				3,092
	416			541
633	1,678	1,198	1,219	18,316
				518
				599
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
4,163	5,245	2,128	2,457	114,248
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
6,164	1,783	5,984	1,478	97,724
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>\$10,327</u>	<u>\$7,028</u>	<u>\$8,112</u>	<u>\$3,935</u>	<u>\$211,972</u>

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Fund balances/retained earnings as of July 1, 1992 have been restated as follows (in thousands):

	General Fund	Debt Service Funds	Enterprise Funds
Fund balances/retained earnings, June 30, 1992 as previously reported	\$24,269	\$5,373	\$192,703
Restatements:			
Application of GASB 18 (a)			(5,680)
Operating transfers to component units (b):			
Golf course	8	(8)	
Civic Center	324	(324)	
Other	12		
	<u>24,613</u>	<u>5,041</u>	<u>187,023</u>
Fund balanced, June 30, 1992, as restated	<u>\$24,613</u>	<u>\$5,041</u>	<u>\$187,023</u>

(a) *Application of GASB 18* - During the year ended June 30, 1993, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" (GASB 18). The City recognized a liability of \$4,841,000 in the Refuse Enterprise Fund for the closure and postclosure care costs related to the portion of the City's landfill site used through June 30, 1993, as disclosed in Note 5. Closure and postclosure care costs of \$5,680,000 relate to prior years based on the landfill capacity used and, accordingly, are reflected in a restatement of July 1, 1992 retained earnings.

(b) *Operating Transfers to Component Units* - During the year ended June 30, 1993, the City changed its method of reporting operating transfers to its component units, Palo Alto Golf Course Corporation and Palo Alto Public Improvement Corporation. In prior years, operating transfers to the component units from the City's General Fund in excess of the amounts necessary to pay the entities' current debt requirements, as provided in the terms of the lease agreements with each entity, were reported in the component units' debt service funds. Accordingly, such excess operating transfers have been reversed and fund balances as of July 1, 1992 restated.

10. CONTRIBUTED CAPITAL

A summary of changes in contributed capital at June 30, 1993 follows (in thousands):

	Enterprise	Internal Service
Balance at July 1, 1992	\$56,705	\$5,138
Additions	<u>1,126</u>	<u>82</u>
Balance at June 30, 1993	<u>\$57,831</u>	<u>\$5,220</u>

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's six Enterprise Funds account for the acquisition, operation and maintenance of water, electric, gas, wastewater, refuse and storm drainage facilities that are supported by user charges. Segment information for the year ended June 30, 1993 is as follows (in thousands):

	Water	Electric
Operating revenues	\$14,135	\$65,307
Depreciation and amortization	466	3,908
Operating income	5,999	24,462
Operating transfers to Governmental Fund Types	2,209	8,744
Net income	4,020	12,554
<hr/>		
Current capital contributions		1,126
Property, plant and equipment:		
Additions (excluding construction in progress)	1,919	14,730
Retirements (net book value)	13	70
Net working capital	5,900	80,100
Total assets	26,543	157,342
Bonds and contracts, net of bond discount, payable from operating revenues		269
Total equity	25,362	152,960

Gas	Wastewater	Refuse	Storm Drainage	Total
\$17,833	\$14,407	\$14,024	\$1,603	\$127,309
482	2,090	340	6	7,292
4,847	3,630	3,300	1,183	43,421
2,007	165	2,897	61	16,083
3,570	3,255	647	903	24,949
				1,126
1,800	2,458	3		20,910
63				146
14,993	9,793	2,260	2,487	115,533
34,042	59,320	14,182	8,624	300,053
303	10,216		4,594	15,382
32,190	47,244	8,112	3,935	269,803

12. JOINT VENTURES

Northern California Power Agency - The City is a member of the Northern California Power Agency (NCPA), which operates under a joint powers agreement among 14 agencies. NCPA was created for the purpose of planning, financing, developing, acquiring, constructing, operating and maintaining projects for the generation or transmission of electric power. Each member has one representative on the NCPA council and one vote for matters of budgeting and financing.

The City is a participant in a number of NCPA projects. Under the terms of the project agreements, the participants are obligated to make payments for their proportionate share of operating and maintenance expenses and debt service, whether or not the projects are operating or have been completed. The City has no investment in the plant. Payments to NCPA are included in cost of utilities purchased in the Combined Statement of Revenues, Expenses and Changes in Retained Earnings in the Enterprise Funds for the year ended June 30, 1993. The project agreements remain in effect until the project bonds outstanding are paid or funds are set aside for such payment and the agreements cannot be terminated or amended without consent of the bond trustees.

The City's share of debt outstanding in conjunction with the various projects at June 30, 1993 is as follows (in thousands):

	Total NCPA Outstanding Debt	City's Participation Percentage	City's Share of Outstanding Debt
Hydroelectric Project #1:			
1985 Series A	\$ 1,910	22.92%	\$ 438
1991 Series E, F, G	315,045	22.92%	72,208
1986 Refunding Series A	4,335	22.92%	994
1992 Refunding Series A	195,610	22.92%	44,834
1993 Refunding Series A	63,600	22.92%	14,577
Transmission Project #1:			
1989 Series A	16,530	11.07%	1,830

The City's participation in a NCPA Geothermal Project was sold to Turlock Irrigation District (Turlock) 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, 1993 is \$728,475,000. The City's participation in this project was 6.15%, or \$44,802,000.

All the debt is secured by certain revenues and funds of NCPA. In addition, the Geothermal Transmission Project debt is also secured under a letter of credit by Swiss Bank Corporation.

In April 1991, the City signed an agreement with the City of Roseville to sell a 6.52% portion of its capacity share of NCPA's Calaveras hydroelectric plant for a period of 14 years. Under the terms of the sale agreement, Roseville will pay all the operation and maintenance costs associated with 6.52% of the plant. In addition, Roseville will also pay the City a portion of the net debt service obligations of the current long-term debt associated with the Hydroelectric Project No. 1. However, if Roseville defaults, the City is secondarily liable for the outstanding debt service obligations.

Following is a condensed balance sheet as of June 30, 1993 and a statement of operations for NCPA for the year ended June 30, 1993 (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 731,766
Restricted assets	692,385
Other assets and deferred charges	412,269
Current assets	<u>44,975</u>
Total assets	<u><u>\$1,881,395</u></u>
Liabilities and retained earnings:	
Long-term debt	\$1,704,870
Current liabilities	89,325
Other liabilities	76,818
Retained earnings	<u>10,382</u>
Total liabilities and retained earnings	<u><u>\$1,881,395</u></u>
Statement of operations:	
Sales to participants	\$ 171,635
Operating expenses	(75,783)
Nonoperating expenses, net	(82,881)
Additions to operating reserve and refunds to participants	<u>(10,488)</u>
Net income	<u><u>\$ 2,483</u></u>

Transmission Agency of Northern California - In December 1984, a number of California municipalities entered into a joint powers agreement which created the Transmission Agency of Northern California (TANC), a political subdivision of the State of California. The purpose of TANC is to provide electric transmission or other facilities for the use of the members. The membership of TANC consists of the City, ten other cities, one utility district, and two irrigation districts. Each member has one representative on the TANC council and one vote for matters of budgeting and finance.

The members pay for operating costs and are entitled to an interest in the right and property of TANC in accordance with specified participation percentages, with each members' share of operating costs not to exceed \$50,000 per year.

The capacity of the Project has been sold to the cities and districts which established TANC and are parties to the joint powers agreement. Under the terms of the Project agreement, the purchasers are obligated to make payments for their proportionate share of operating and maintenance expenses and debt service on revenue bonds, whether or not the Project is operating or has been completed. The Project agreement remains in effect until the revenue bonds are paid, and the agreement cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders.

As of June 30, 1993, the City maintains 4% of the membership in TANC. Amounts outstanding under revenue notes at June 30, 1993 are \$424,742,000, of which the City's share is \$16,990,000.

Following is a condensed balance sheet as of June 30, 1993 and a statement of operations of TANC for the year then ended (in thousands):

	(Unaudited)
Assets:	
Project development costs	\$433,923
Restricted assets	82,609
Current assets	27,443
Noncurrent assets and deferred charges	<u>7,806</u>
Total assets	<u>\$551,781</u>
Liabilities and equity:	
Notes payable	\$424,742
Current liabilities	126,812
Members' equity	<u>227</u>
Total liabilities and equity	<u>\$551,781</u>
Statement of operations:	
Revenues	\$ 12,711
Expenses	<u>14,935</u>
Operating loss	(2,224)
Interest income	<u>2,241</u>
Net income	<u>\$ 17</u>

13. COMMITMENTS AND CONTINGENCIES

Palo Alto Unified School District - The City is currently obligated under an operating lease agreement with the Palo Alto Unified School District (PAUSD) to lease the former Cubberley School site and eleven extended day care sites. The lease is part of a larger agreement which includes a covenant not to develop certain properties owned by the PAUSD. The lease term expires in December 2005 with an option for an additional ten-year term. The City is responsible for insurance, repairs and maintenance expenses related to the leased facilities, which are not to exceed \$250,000 per annum. This lease is subject to annual appropriations by the City Council to make the annual lease payments and 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) limitation in any fiscal year. Lease expenditures for the year ended June 30, 1993 amounted to \$4,462,000. Future minimum annual lease and covenant payments are as follows (in thousands):

Year ending June 30:	
1994	\$ 4,512
1995	4,512
1996	4,512
1997	4,512
1998	4,512
Thereafter	<u>29,329</u>
Total	<u>\$51,889</u>

Included in this lease agreement is an additional commitment to reimburse PAUSD for athletic field improvements at an estimated cost of \$225,000.

Litigation - There are currently pending against the City certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, the ultimate resolution of such actions, not covered by insurance, is not expected to have a significant effect upon the financial position or operations of the City.

Palo Alto Sanitation Company - The City has entered into a 60-month contract, which expires June 1995, with the Palo Alto Sanitation Company (PASCO) for the collection and transportation of refuse, rubbish and garbage. The City is committed to pay PASCO a percentage of refuse revenue billed to City citizens and customers. That percentage, which is negotiated annually, is currently 38.13%. During fiscal 1993, the City made payments of \$5,602,000 for services rendered by PASCO.

Palo Alto Housing Corporation - In January 1991, the City loaned \$2,100,000 to the Palo Alto Housing Corporation (PAHC) to assist in the acquisition of an apartment complex. The loan is evidenced by a promissory note for twenty years bearing 3% interest, the note being secured by a deed of trust. Under the terms of the note, if PAHC operates the complex meeting specified targets for the occupancy by very low, low, and moderate income households (as defined) during the preceding year, each January, \$141,000 of principal and interest shall be forgiven by the City. In January 1992, such an amount was forgiven. The outstanding principal balance of the note at June 30, 1993 is \$1,941,000, which is recorded in the City's Special Revenue Funds.

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 joint operations for 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 Enterprise Fund's property, plant and equipment balance at June 30, 1993. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the property, plant and equipment.

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 will recover recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has capacity share of 21.27 percent of this facility and will reimburse its proportionate capacity share of design, construction, and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24,160,000 revenue bonds to finance the design and construction costs. 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 21.27% 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, 1993 is \$5,139,000.

14. SUBSEQUENT EVENT

On October 18, 1993, the City Council approved an electric customer refund plan for the year ending June 30, 1994, under which a total of \$36.7 million will be credited to all the customers of the City's electric utility. The amount will be credited to customer accounts starting November 1, 1993. The credit arose due to a number of favorable events which resulted in budgetary savings in the utility's operating and capital costs in recent fiscal years. Among them were a \$10.2 million legal settlement with PG&E, the availability of cheaper hydro power due to heavy rains, and the sale of the City's excess power entitlement to other electric utility providers.

$$\frac{145,735}{.2127} = 684,132.50$$

CITY OF PALO ALTO, CALIFORNIA

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GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources committed to financing the services that the City performs for its citizens, except those required to be accounted for in another fund.

CITY OF PALO ALTO, CALIFORNIA

GENERAL FUND BALANCE SHEET

JUNE 30, 1993 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1992
(In thousands of dollars)

	1993	1992
ASSETS		
Cash, cash equivalents and investments	\$27,582	\$22,387
Receivables, net:		
Accounts	3,866	3,795
Interest	524	501
Notes		
Advances to other fund		447
Stores inventory	1,014	1,042
Prepaid expense	<u>7</u>	<u> </u>
TOTAL ASSETS	<u><u>\$32,993</u></u>	<u><u>\$28,172</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 2,829	\$ 2,340
Accrued salaries and benefits	1,518	1,318
Deferred revenue	<u>225</u>	<u>245</u>
Total liabilities	<u>4,572</u>	<u>3,903</u>
 FUND BALANCES:		
Reserved for:		
Encumbrances and reappropriations	4363 <u>5,179</u>	3,763
Notes	1,446	<u> </u>
Advances to other fund		447
Inventory	1,014	1,042
Unreserved		
Designated for:		
Streets and sidewalks/school site projects	125,832.25 <u>895</u>	485
Unfunded employee benefit obligations	4,772	2,166
Budget stabilization	11,561	11,366
Emergencies	<u>5,000</u>	<u>5,000</u>
Total fund balances	<u>28,421</u>	<u>24,269</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$32,993</u></u>	<u><u>\$28,172</u></u>

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CITY OF PALO ALTO, CALIFORNIA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1992 Actual
REVENUES:				
Taxes:				
Property taxes	\$ 8,174	\$ 8,367	\$ 193	\$ 8,555
Sales taxes	14,332	13,322	(1,010)	14,693
Utility users' tax	5,597	5,362	(235)	5,149
Transient occupancy tax	3,046	3,109	63	3,104
Other taxes and fines	<u>4,302</u>	<u>4,333</u>	<u>31</u>	<u>3,358</u>
Total taxes	35,451	34,493	(958)	34,859
Fire protection and emergency communication services	3,574	3,565	(9)	3,908
From other agencies	450	720	270	370
Service fees and permits	7,070	6,923	(147)	6,570
Interest earnings	2,178	2,157	(21)	2,063
Other	<u>2,838</u>	<u>2,368</u>	<u>(470)</u>	<u>2,349</u>
Total revenues	<u>51,561</u>	<u>50,226</u>	<u>(1,335)</u>	<u>50,119</u>
EXPENDITURES - Current operations:				
Administration	9,952	8,809	1,143	8,519
Public works	7,824	6,673	1,151	7,129
Community environment	4,424	3,757	667	3,313
Public safety - Police	13,579	13,380	199	13,076
Public safety - Fire	10,181	10,040	141	10,027
Social services	12,775	12,183	592	11,816
School site operations	<u>5,904</u>	<u>5,632</u>	<u>272</u>	<u>5,469</u>
Total expenditures	<u>64,639</u>	<u>60,474</u>	<u>4,165</u>	<u>59,349</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(13,078)</u>	<u>(10,248)</u>	<u>2,830</u>	<u>(9,230)</u>

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1992 Actual
EXCESS OF EXPENDITURES OVER REVENUES	<u>\$ (13,078)</u>	<u>\$ (10,248)</u>	<u>\$ 2,830</u>	<u>\$ (9,230)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
Street Improvement Special Revenue Fund	171	157	(14)	180
Federal Revenue Special Revenue Fund	259	204	(55)	107
Special District Special Revenue Fund	160	160		200
Enterprise Funds	<u>15,868</u>	<u>15,868</u>		<u>16,145</u>
Total operating transfers in	<u>16,458</u>	<u>16,389</u>	<u>(69)</u>	<u>16,632</u>
Operating transfers out:				
Capital Projects Fund	3,008	2,942	66	2,204
Debt Service	<u>710</u>	<u>1,021</u>	<u>(311)</u>	<u>740</u>
Total operating transfers out	<u>3,718</u>	<u>3,963</u>	<u>(245)</u>	<u>2,944</u>
Total other financing sources	<u>12,740</u>	<u>12,426</u>	<u>(314)</u>	<u>13,688</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (338)</u>	<u>\$ 2,178</u>	<u>\$ 2,516</u>	<u>\$ 4,458</u>

(Concluded)

CITY OF PALO ALTO, CALIFORNIA

GENERAL FUND

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1992 Actual
ADMINISTRATION:				
Salaries and benefits	\$ 6,883	\$ 6,475	\$ 408	\$ 6,449
Contract services	1,808	1,200	608	1,090
Supplies and materials	220	186	34	170
General expense	821	776	45	658
Rents and leases	27	26	1	16
Facilities and equipment purchases	193	146	47	136
Total	9,952	8,809	1,143	8,519
PUBLIC WORKS:				
Salaries and benefits	4,692	4,744	(52)	4,801
Contract services	1,881	1,216	665	972
Supplies and materials	554	483	71	463
General expense	547	149	398	847
Rents and leases	31	9	22	7
Facilities and equipment purchases	119	72	47	39
Total	7,824	6,673	1,151	7,129
COMMUNITY ENVIRONMENT:				
Salaries and benefits	2,975	2,975		2,641
Contract services	822	353	469	377
Supplies and materials	157	70	87	32
General expense	344	268	76	231
Rents and leases	10	10		5
Facilities and equipment purchases	116	81	35	27
Total	4,424	3,757	667	3,313

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1992 Actual
PUBLIC SAFETY - POLICE:				
Salaries and benefits	\$11,893	\$11,893		\$11,474
Contract services	648	506	\$ 142	553
Supplies and materials	241	227	14	196
General expense	682	679	3	742
Rents and leases	18	15	3	13
Facilities and equipment purchases	97	60	37	98
Total	<u>13,579</u>	<u>13,380</u>	<u>199</u>	<u>13,076</u>
PUBLIC SAFETY - FIRE:				
Salaries and benefits	9,345	9,315	30	9,128
Contract services	257	183	74	227
Supplies and materials	105	92	13	84
General expense	346	345	1	399
Rents and leases	7	7		3
Facilities and equipment purchases	121	98	23	186
Total	<u>10,181</u>	<u>10,040</u>	<u>141</u>	<u>10,027</u>
SOCIAL SERVICES:				
Salaries and benefits	7,953	7,992	(39)	7,738
Contract services	1,684	1,354	330	1,428
Supplies and materials	1,057	940	117	846
General expense	1,333	1,225	108	1,172
Rents and leases	580	565	15	540
Facilities and equipment purchases	168	107	61	92
Total	<u>12,775</u>	<u>12,183</u>	<u>592</u>	<u>11,816</u>
NON-DEPARTMENTAL EXPENSE -				
School site operations	<u>5,904</u>	<u>5,632</u>	<u>272</u>	<u>5,469</u>
TOTAL EXPENDITURES,				
GENERAL FUND	<u>\$64,639</u>	<u>\$60,474</u>	<u>\$4,165</u>	<u>\$59,349</u>

(Concluded)

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SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

The City maintains the following Special Revenue Funds:

- ***Street Improvement Fund*** - established to account for the construction and maintenance of the road network system of the City. Financing is provided by the City's share of state gasoline taxes.
- ***Federal Revenue Fund*** - established to account for monies received by the City from the Federal Community Development Block Grant program.
- ***Housing In-Lieu Fund*** - established to account for monies received from industrial and residential developers to provide housing under the City's Below Market Rate program.
- ***Special Districts Fund*** - established to account for monies derived from parking permits and for maintenance of various parking lots within the City.
- ***Transportation Mitigation Fund*** - established to account for monies derived from fees or contributions required for transportation mitigation issues encountered as a result of City development.

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS				
Cash, cash equivalents and investments	\$1,850	\$(274)	\$3,889	\$1,157
Receivables, net of allowance	81	219		2
Interest receivable	24		50	15
Notes	<u> </u>	<u>890</u>	<u>1,941</u>	<u> </u>
TOTAL ASSETS	<u><u>\$1,955</u></u>	<u><u>\$ 835</u></u>	<u><u>\$5,880</u></u>	<u><u>\$1,174</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES -				
Accounts payable and accrued liabilities		<u>\$ 84</u>	<u>\$ 266</u>	<u>\$ 30</u>
Total liabilities		<u>84</u>	<u>266</u>	<u>30</u>
FUND BALANCES:				
Reserved for:				
Encumbrances and reappropriations	\$1,061	627	1,855	
Notes	<u> </u>	<u>890</u>	<u>1,941</u>	
Total	1,061	1,517	3,796	
Unreserved - Designated for special revenue projects	894		1,818	1,144
Unreserved, undesignated	<u> </u>	<u>(766)</u>	<u> </u>	<u> </u>
Total fund balances	<u>1,955</u>	<u>751</u>	<u>5,614</u>	<u>1,144</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$1,955</u></u>	<u><u>\$ 835</u></u>	<u><u>\$5,880</u></u>	<u><u>\$1,174</u></u>

Transportation Mitigation	Totals June 30,	
	1993	1992
\$1,102	\$ 7,724	\$ 7,413
	302	74
13	102	121
<u> </u>	<u>2,831</u>	<u>3,087</u>
<u>\$1,115</u>	<u>\$10,959</u>	<u>\$10,695</u>
	\$ 380	\$ 379
	<u>380</u>	<u>379</u>
	3,543	1,878
	<u>2,831</u>	<u>3,087</u>
	6,374	4,965
\$1,115	4,971	6,116
<u> </u>	<u>(766)</u>	<u>(765)</u>
<u>1,115</u>	<u>10,579</u>	<u>10,316</u>
<u>\$1,115</u>	<u>\$10,959</u>	<u>\$10,695</u>

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 1993

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	\$ 968			
From other agencies:				
Community Development Block Grant		\$ 610		
Federal Urban Aid	147			
State of California	86			
Total from other agencies	<u>233</u>	<u>610</u>		
Interest earnings	<u>108</u>	<u>40</u>	\$ 217	\$ 64
Lease income				
Other:				
Great Western Bank - Loan payoff		21		
Housing-in-lieu - Residential			10	
Housing-in-lieu - Industrial			117	
Sale of Seale Well Site				
Traffic Mitigation - Transportation				
University Avenue Parking				248
California Avenue Parking				72
Contributions and donations				
Total other	<u>-</u>	<u>21</u>	<u>127</u>	<u>320</u>
Total revenues	<u>1,309</u>	<u>671</u>	<u>344</u>	<u>384</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS				
		<u>630</u>	<u>220</u>	
EXCESS OF REVENUES OVER EXPENDITURES				
	<u>1,309</u>	<u>41</u>	<u>124</u>	<u>384</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer in - Transportation Mitigation Fund	10			
Operating transfers out:				
General Fund	(157)	(204)		(160)
Capital Project Fund	(1,148)			
Street Improvement Fund				
Total transfers out	<u>(1,305)</u>	<u>(204)</u>		<u>(160)</u>
Refund of prior years' program income				
Total other financing uses	<u>(1,295)</u>	<u>(204)</u>	<u>-</u>	<u>(160)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	14	(163)	124	224
FUND BALANCES, BEGINNING OF YEAR				
	<u>1,941</u>	<u>914</u>	<u>5,490</u>	<u>920</u>
FUND BALANCES, END OF YEAR				
	<u>\$ 1,955</u>	<u>\$ 751</u>	<u>\$ 5,614</u>	<u>\$ 1,144</u>

Transportation Mitigation	Totals June 30,	
	1993	1992
	\$ 968	\$ 984
	610	1,100
	147	193
	86	42
	<u>843</u>	<u>1,335</u>
\$ 54	<u>483</u>	<u>548</u>
		525
	21	10
	10	141
	117	213
20	20	67
	248	254
	72	79
		<u>150</u>
<u>20</u>	<u>488</u>	<u>914</u>
<u>74</u>	<u>2,782</u>	<u>4,306</u>
	850	1,959
<u>74</u>	<u>1,932</u>	<u>2,347</u>
	10	
	(521)	(487)
	(1,148)	(445)
<u>(10)</u>	<u>(10)</u>	
(10)	(1,679)	(932)
		<u>(229)</u>
<u>(10)</u>	<u>(1,669)</u>	<u>(1,161)</u>
64	263	1,186
<u>1,051</u>	<u>10,316</u>	<u>9,130</u>
<u>\$ 1,115</u>	<u>\$ 10,579</u>	<u>\$ 10,316</u>

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Street Improvement		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Other taxes and fines	\$1,010	\$ 968	\$ (42)
From other agencies:			
Community Development Block Grant			
Federal Urban Aid		147	147
State of California	25	86	61
Total from other agencies	25	233	208
Interest earnings	109	108	(1)
Lease income			
Other:			
Great Western Bank - Loan payoff			
Housing-in-lieu - Residential			
Housing-in-lieu - Industrial			
Sale of Seale Well Site			
Traffic Mitigation - Transportation			
University Avenue Parking			
California Avenue Parking			
Contributions and donations			
Total other	-	-	-
Total revenues	1,144	1,309	165
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	1,144	1,309	165
OTHER FINANCING SOURCES (USES):			
Operating transfer in - Transportation Mitigation Fund		10	10
Operating transfers out:			
General Fund	(171)	(157)	14
Capital Project Fund	(845)	(1,148)	(303)
Street Improvement Fund			
Total transfers out	(1,016)	(1,305)	(289)
Refund of prior years' program income			
Total other financing uses	(1,016)	(1,295)	(279)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 128	\$ 14	\$(114)

<u>Federal Revenue</u>		<u>Variance Favorable</u>	<u>Housing-In-Lieu</u>		<u>Variance Favorable</u>
<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>
\$ 640	\$ 610	\$ (30)			
<u>640</u>	<u>610</u>	<u>(30)</u>			
	<u>40</u>	<u>40</u>	<u>\$ 248</u>	<u>\$ 217</u>	<u>\$(31)</u>
	21	21	85	10	(75)
			400	117	(283)
<u>-</u>	<u>21</u>	<u>21</u>	<u>485</u>	<u>127</u>	<u>(358)</u>
<u>640</u>	<u>671</u>	<u>31</u>	<u>733</u>	<u>344</u>	<u>(389)</u>
<u>691</u>	<u>630</u>	<u>61</u>	<u>1,005</u>	<u>220</u>	<u>785</u>
<u>(51)</u>	<u>41</u>	<u>92</u>	<u>(272)</u>	<u>124</u>	<u>396</u>
(259)	(204)	55			
(40)		40			
<u>(299)</u>	<u>(204)</u>	<u>95</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(299)</u>	<u>(204)</u>	<u>95</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$(350)</u>	<u>\$(163)</u>	<u>\$187</u>	<u>\$ (272)</u>	<u>\$ 124</u>	<u>\$396</u>

(Continued)

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Special Districts		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Other taxes and fines			
From other agencies:			
Community Development Block Grant			
Federal Urban Aid			
State of California			
Total from other agencies			
Interest earnings	\$ 48	\$ 64	\$16
Lease income			
Other:			
Great Western Bank - Loan payoff			
Housing-in-lieu - Residential			
Housing-in-lieu - Industrial			
Sale of Seale Well Site			
Traffic Mitigation - Transportation			
University Avenue Parking	260	248	(12)
California Avenue Parking	80	72	(8)
Contributions and donations			
Total other	340	320	(20)
Total revenues	388	384	(4)
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	388	384	(4)
OTHER FINANCING SOURCES (USES):			
Operating transfer in - Transportation Mitigation Fund			
Operating transfers out:			
General Fund	(160)	(160)	
Capital Project Fund			
Street Improvement Fund			
Total transfers out	(160)	(160)	-
Refund of prior years' program income			
Total other financing uses	(160)	(160)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	228	224	(4)
FUND BALANCES, BEGINNING OF YEAR	920	920	
HOUSING IMPROVEMENT PROGRAM NOTES			
FUND BALANCES, END OF YEAR	\$1,148	\$1,144	\$ (4)

Transportation Mitigation		Variance Favorable (Unfavorable)	Total Special Revenue Funds			
			Budget 1993	Actual 1993	Variance Favorable (Unfavorable)	Actual 1992
			\$ 1,010	\$ 968	\$ (42)	\$ 984
			640	610	(30)	1,100
				147	147	193
			<u>25</u>	<u>86</u>	<u>61</u>	<u>42</u>
			<u>665</u>	<u>843</u>	<u>178</u>	<u>1,335</u>
\$ 57	\$ 54	\$ (3)	<u>462</u>	<u>483</u>	<u>21</u>	<u>548</u>
						<u>525</u>
				21	21	10
			85	10	(75)	141
			400	117	(283)	213
	20	20		20	20	67
			260	248	(12)	254
			80	72	(8)	79
						<u>150</u>
-	<u>20</u>	<u>20</u>	<u>825</u>	<u>488</u>	<u>(337)</u>	<u>914</u>
<u>57</u>	<u>74</u>	<u>17</u>	<u>2,962</u>	<u>2,782</u>	<u>(180)</u>	<u>4,306</u>
-	-	-	<u>1,696</u>	<u>850</u>	<u>846</u>	<u>1,959</u>
<u>57</u>	<u>74</u>	<u>17</u>	<u>1,266</u>	<u>1,932</u>	<u>666</u>	<u>2,347</u>
				10	10	
			(590)	(521)	69	(487)
			(885)	(1,148)	(263)	(445)
	<u>(10)</u>	<u>(10)</u>		<u>(10)</u>	<u>(10)</u>	
-	<u>(10)</u>	<u>(10)</u>	<u>(1,475)</u>	<u>(1,679)</u>	<u>(204)</u>	<u>(932)</u>
						<u>(229)</u>
-	<u>(10)</u>	<u>(10)</u>	<u>(1,475)</u>	<u>(1,669)</u>	<u>(194)</u>	<u>(1,161)</u>
57	64	7	(209)	263	472	1,186
1,051	1,051		10,316	10,316		9,130
<u>\$1,108</u>	<u>\$1,115</u>	<u>\$ 7</u>	<u>\$10,107</u>	<u>\$10,579</u>	<u>\$472</u>	<u>\$10,316</u>

(Concluded)

DEBT SERVICE FUNDS

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal and interest, other than obligations payable from Enterprise and Internal Service Funds.

The City maintains the following Debt Service Funds:

- ***Terman Lease Fund*** - established to account for resources used solely for the purpose of paying the principal and interest on the long-term lease of the former Terman School with the Palo Alto Unified School District.
- ***Golf Course Fund*** - established to account for resources provided from the General Fund for the payment of principal and interest associated with general obligation debt issued for the City's golf course, and certain reserve requirements.
- ***Civic Center Fund*** - established to account for resources provided from the General Fund and used solely for the purpose of paying the Civic Center Certificates of Participation as they become due, and certain reserve requirements.
- ***Special Assessment Debt Fund*** - established to account for the collection of bonded assessments from certain property owners for the purpose of paying the principal and interest on improvement bonds as they become due and for collection of special assessments from property owners within the University Avenue and California Avenue Parking districts solely for the purpose of paying the principal and interest on the parking bonds of the two districts.

CITY OF PALO ALTO, CALIFORNIA

DEBT SERVICE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1993	1992
ASSETS						
Cash, cash equivalents and investments	\$1,544			\$ 525	\$ 2,069	\$ 4,596
Restricted:						
Cash and cash equivalents		\$ 1	\$ 39	214	254	32
Investments		158	751		909	898
Interest receivable	20	1	10		31	28
Accounts receivable:						
Special assessments				7,335	7,335	7,995
Other				73	73	56
Total accounts receivable				<u>7,408</u>	<u>7,408</u>	<u>8,051</u>
TOTAL ASSETS	<u>\$1,564</u>	<u>\$160</u>	<u>\$800</u>	<u>\$8,147</u>	<u>\$10,671</u>	<u>\$13,605</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Deferred revenue and other liabilities				\$7,335	\$ 7,335	\$ 8,002
Due to Capital Projects Fund						230
Total liabilities				<u>7,335</u>	<u>7,335</u>	<u>8,232</u>
FUND BALANCES:						
Fund balances - reserved for debt service	<u>\$1,564</u>	<u>\$160</u>	<u>\$800</u>	<u>812</u>	<u>3,336</u>	<u>5,373</u>
Total fund balances	<u>1,564</u>	<u>160</u>	<u>800</u>	<u>812</u>	<u>3,336</u>	<u>5,373</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,564</u>	<u>\$160</u>	<u>\$800</u>	<u>\$8,147</u>	<u>\$10,671</u>	<u>\$13,605</u>

CITY OF PALO ALTO, CALIFORNIA

DEBT SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1993	1992
REVENUES:						
Special assessments				\$ 959	\$ 959	\$ 994
From other agencies	\$ 230				230	224
Interest earnings	<u>97</u>	<u>\$ 5</u>	<u>\$ 49</u>		<u>151</u>	<u>229</u>
Total revenues	<u>327</u>	<u>5</u>	<u>49</u>	<u>959</u>	<u>1,340</u>	<u>1,447</u>
EXPENDITURES - Debt service:						
Principal retirement	395	75	365	439	1,274	1,151
Interest and fiscal charges	<u>213</u>	<u>65</u>	<u>451</u>	<u>538</u>	<u>1,267</u>	<u>1,614</u>
Total expenditures	<u>608</u>	<u>140</u>	<u>816</u>	<u>977</u>	<u>2,541</u>	<u>2,765</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(281)</u>	<u>(135)</u>	<u>(767)</u>	<u>(18)</u>	<u>(1,201)</u>	<u>(1,318)</u>
OTHER FINANCING SOURCES -						
Operating transfers in	<u>75</u>	<u>130</u>	<u>816</u>		<u>1,021</u>	<u>2,638</u>
Total other financing sources	<u>75</u>	<u>130</u>	<u>816</u>	<u>-</u>	<u>1,021</u>	<u>2,638</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>(206)</u>	<u>(5)</u>	<u>49</u>	<u>(18)</u>	<u>(180)</u>	<u>1,320</u>
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	1,770	165	2,276	830	5,041	4,053
RESIDUAL EQUITY TRANSFER OUT			<u>(1,525)</u>		<u>(1,525)</u>	
FUND BALANCES, END OF YEAR	<u>\$1,564</u>	<u>\$160</u>	<u>\$ 800</u>	<u>\$812</u>	<u>\$3,336</u>	<u>\$5,373</u>

CAPITAL PROJECT FUND

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and special revenue funds.

CITY OF PALO ALTO, CALIFORNIA

CAPITAL PROJECT FUND BALANCE SHEET

JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	<u>June 30</u>	
	<u>1993</u>	<u>1992</u>
ASSETS		
Cash equivalents and investments	\$5,698	\$4,799
Restricted - cash and equivalents	855	1,871
Accounts receivable	19	585
Due from other fund	<u> </u>	<u>230</u>
TOTAL ASSETS	<u>\$6,572</u>	<u>\$7,485</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 331	\$1,157
Deferred revenue	<u>91</u>	<u>86</u>
Total liabilities	<u>422</u>	<u>1,243</u>
 FUND BALANCES:		
Reserved for -		
Reappropriations and encumbrances	5,295	6,242
Unreserved:		
Designated for capital projects	<u>855</u>	<u> </u>
Total fund balances	<u>6,150</u>	<u>6,242</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$6,572</u>	<u>\$7,485</u>

CITY OF PALO ALTO, CALIFORNIA

CAPITAL PROJECT FUND STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Year Ended June 30, 1993			Actual 1992
	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES:				
From other agencies:				
State of California		\$ 74	\$ 74	\$1,017
Stanford University	\$ 66	43	(23)	
Total from other agencies	66	117	51	1,017
Interest earnings		41	41	
Other revenues		40	40	36
Total revenues	66	198	132	1,053
EXPENDITURES FOR CAPITAL PROJECTS	10,436	4,475	5,961	4,650
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,370)	(4,277)	6,093	(3,597)
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund	3,008	2,942	(66)	2,204
Utilities - General Fund projects	185	184	(1)	141
Special Revenue Funds:				
Street Improvement	845	1,148	303	443
Traffic mitigation				2
Community Development Block Grant	40		(40)	
Total operating transfers in	4,078	4,274	196	2,790
Proceeds of refunding bonds	2,135		(2,135)	416
Total other financing sources (uses)	6,213	4,274	(1,939)	3,206
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (4,157)	\$ (3)	\$4,154	\$ (391)

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ENTERPRISE FUNDS

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

A separate fund is maintained for each of the City-owned utilities, each of which is a self-supporting activity that renders services on a user charge basis to residents and businesses located in Palo Alto.

The City maintains the following Enterprise Funds:

- Water Fund
- Electric Fund
- Gas Fund
- Wastewater Fund
- Refuse Fund
- Storm Drainage Fund

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS COMBINING BALANCE SHEET JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Water	Electric	Gas
ASSETS			
CURRENT ASSETS:			
Cash, cash equivalents and investments	\$ 4,897	\$ 75,618	\$14,685
Restricted:			
Cash and cash equivalents		48	54
Investments		58	65
Accounts receivable, net	1,869	6,912	1,109
Interest receivable	64	982	191
Prepaid expense			253
Total current assets	<u>6,830</u>	<u>83,618</u>	<u>16,357</u>
Property, plant and equipment, net	<u>19,713</u>	<u>73,724</u>	<u>17,685</u>
TOTAL ASSETS	<u>\$26,543</u>	<u>\$157,342</u>	<u>\$34,042</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accounts payable and accrued liabilities	\$ 858	\$ 3,239	\$ 1,233
Accrued salaries and benefits	<u>72</u>	242	89
Current portion of revenue bonds, net		37	42
Accrued landfill closure liability			
Current portion of advance due to general fund			
Total current liabilities	<u>930</u>	<u>3,518</u>	<u>1,364</u>
Accrued compensated absences	116	121	48
Self insurance	135	511	179
Revenue bonds, net of current portion		<u>232</u>	<u>261</u>
Total liabilities	<u>1,181</u>	<u>4,382</u>	<u>1,852</u>
FUND EQUITY:			
Contributed capital	7,684	16,966	3,292
Retained earnings	<u>17,678</u>	<u>135,994</u>	<u>28,898</u>
Total fund equity	<u>25,362</u>	<u>152,960</u>	<u>32,190</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$26,543</u>	<u>\$157,342</u>	<u>\$34,042</u>

Wastewater	Refuse	Storm Drainage	Totals June 30,	
			1993	1992
\$ 9,453	\$ 6,866	\$1,230	\$112,749	\$ 92,758
343		1,255	1,700	4,307
408			531	531
1,532	1,243	148	12,813	13,270
130	89	16	1,472	1,486
			253	192
<u>11,866</u>	<u>8,198</u>	<u>2,649</u>	<u>129,518</u>	<u>112,544</u>
<u>47,454</u>	<u>5,984</u>	<u>5,975</u> ^{CIP}	<u>170,535</u>	<u>161,579</u>
<u>\$59,320</u>	<u>\$14,182</u>	<u>\$8,624</u>	<u>\$300,053</u>	<u>\$274,123</u>
\$ 1,201	\$ 1,047	\$ 58	\$ 7,636	\$ 6,297
166	50	14	633	537
706		90	875	736
	4,841		4,841	
				447
<u>2,073</u>	<u>5,938</u>	<u>162</u>	<u>13,985</u>	<u>8,017</u>
85	4	15	389	331
408	128	8	1,369	1,011
<u>9,510</u>		<u>4,504</u>	<u>14,507</u>	<u>15,356</u>
<u>12,076</u>	<u>6,070</u>	<u>4,689</u>	<u>30,250</u>	<u>24,715</u>
29,889			57,831	56,705
<u>17,355</u>	<u>8,112</u>	<u>3,935</u>	<u>211,972</u>	<u>192,703</u>
<u>47,244</u>	<u>8,112</u>	<u>3,935</u> (→)	<u>269,803</u>	<u>249,408</u>
<u>\$59,320</u>	<u>\$14,182</u>	<u>\$8,624</u>	<u>\$300,053</u>	<u>\$274,123</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Water	Electric	Gas
OPERATING REVENUES:			
Sales of utilities:			
Customers	\$12,993	\$ 62,161	\$17,216
City departments	1,034	1,559	386
Wastewater treatment			
Service connection charges and miscellaneous	41	89	194
Other revenues	<u>67</u>	<u>1,498</u>	<u>37</u>
Total operating revenues	<u>14,135</u>	<u>65,307</u>	<u>17,833</u>
OPERATING EXPENSES:			
Purchase of utilities	4,872	27,693	9,851
Administration and general	771	2,234	648
Engineering	144	501	168
Resource planning	302	1,245	423
Operations and maintenance	1,581	5,264	1,414
Depreciation and amortization	<u>466</u>	<u>3,908</u>	<u>482</u>
Total operating expenses	<u>8,136</u>	<u>40,845</u>	<u>12,986</u>
OPERATING INCOME	<u>5,999</u>	<u>24,462</u>	<u>4,847</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	243	4,246	818
Interest expense		(22)	(25)
Joint venture debt service		(7,318)	
Loss on disposal of fixed assets	<u>(13)</u>	<u>(70)</u>	<u>(63)</u>
Total nonoperating revenues (expenses)	<u>230</u>	<u>(3,164)</u>	<u>730</u>
INCOME BEFORE OPERATING TRANSFERS	<u>6,229</u>	<u>21,298</u>	<u>5,577</u>
OPERATING TRANSFERS:			
Operating transfers in		146	
Operating transfers out	<u>(2,209)</u>	<u>(8,890)</u>	<u>(2,007)</u>
Net operating transfers	<u>(2,209)</u>	<u>(8,744)</u>	<u>(2,007)</u>
NET INCOME	4,020	12,554	3,570
RETAINED EARNINGS, BEGINNING OF YEAR, AS RESTATED	<u>13,658</u>	<u>123,440</u>	<u>25,328</u>
RETAINED EARNINGS, END OF YEAR	<u>\$17,678</u>	<u>\$135,994</u>	<u>\$28,898</u>

Wastewater	Refuse	Storm Drainage	Totals Years Ended June 30,	
			1993	1992
\$ 8,165	\$12,787	\$1,518	\$114,840	\$109,163
158	243	83	3,463	3,070
5,651			5,651	5,995
18			342	375
<u>415</u>	<u>994</u>	<u>2</u>	<u>3,013</u>	<u>3,450</u>
<u>14,407</u>	<u>14,024</u>	<u>1,603</u>	<u>127,309</u>	<u>122,053</u>
	5,602		48,018	46,545
855	1,301	65	5,874	5,844
895	602	44	2,354	2,449
			1,970	3,332
6,937	2,879	305	18,380	16,682
<u>2,090</u>	<u>340</u>	<u>6</u>	<u>7,292</u>	<u>6,244</u>
<u>10,777</u>	<u>10,724</u>	<u>3 420</u>	<u>83,888</u>	<u>81,096</u>
<u>3,630</u>	<u>3,300</u>	<u>1,183</u>	<u>43,421</u>	<u>40,957</u>
524	361	158	6,350	6,631
(734)		(377)	(1,158)	(832)
	(117)		(7,435)	(6,939)
			(146)	(1,626)
<u>(210)</u>	<u>244</u>	<u>(219)</u>	<u>(2,389)</u>	<u>(2,766)</u>
<u>3,420</u>	<u>3,544</u>	<u>964</u>	<u>41,032</u>	<u>38,191</u>
			146	
<u>(165)</u>	<u>(2,897)</u>	<u>(61)</u>	<u>(16,229)</u>	<u>(16,818)</u>
<u>(165)</u>	<u>(2,897)</u>	<u>(61)</u>	<u>(16,083)</u>	<u>(16,818)</u>
3,255	647	903	24,949	21,373
<u>14,100</u>	<u>7,465</u>	<u>3,032</u>	<u>187,023</u>	<u>171,330</u>
<u>\$17,355</u>	<u>\$ 8,112</u>	<u>\$3,935</u>	<u>\$211,972</u>	<u>\$192,703</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE

YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Water	Electric	Gas
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$5,999	\$24,462	\$ 4,847
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	466	3,908	482
Other nonoperating loss			
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(482)	731	60
(Increase) decrease in interest receivable	(25)	23	17
(Increase) decrease in prepaid expenses			(62)
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	595	101	246
Increase (decrease) in accrued compensated absences	27	7	6
Increase in accrued self insurance	38	128	56
Increase in accrued landfill closure liability			
Net cash provided by operating activities	<u>6,618</u>	<u>29,360</u>	<u>5,652</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES -			
Operating transfers out to other funds	<u>(2,209)</u>	<u>(8,744)</u>	<u>(2,007)</u>
Net cash used in noncapital financing activities	<u>(2,209)</u>	<u>(8,744)</u>	<u>(2,007)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,790)	(4,768)	(2,833)
Principal paid on revenue bonds		(35)	(39)
Proceeds of refunding bonds			
Principal paid on capitalized leases			
Interest paid on revenue bonds and capital leases		(7,340)	(25)
Contributed capital			
Repayment of advance from General Fund			
Net cash used in capital related activities	<u>(1,790)</u>	<u>(12,143)</u>	<u>(2,897)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -			
Interest and dividends on pooled investments	<u>243</u>	<u>4,246</u>	<u>818</u>
Net cash provided by investing activities	<u>243</u>	<u>4,246</u>	<u>818</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,862	12,719	1,566
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>2,035</u>	<u>62,947</u>	<u>13,173</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$4,897</u>	<u>\$75,666</u>	<u>\$14,739</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES -			
Increase in contributed capital		\$ 1,126	

Wastewater	Refuse	Drainage	Totals Years Ended June 30,	
			1993	1992
\$ 3,630	\$3,300	\$1,183	\$ 43,421	\$40,957
2,090	340 (904)	6	7,292 (904)	6,244 (1,626)
167 (17)	(32) 11	13 5	457 14 (62)	149 180 803
204 15 98	377 (1) 31 65	(88) 4 7	1,435 58 358 65	(1,407) (3) 209
<u>6,187</u>	<u>3,187</u>	<u>1,130</u>	<u>52,134</u>	<u>45,506</u>
<u>(165)</u>	<u>(2,897)</u>	<u>(61)</u>	<u>(16,083)</u>	<u>(16,818)</u>
<u>(165)</u>	<u>(2,897)</u>	<u>(61)</u>	<u>(16,083)</u>	<u>(16,818)</u>
(2,723) (662)	(21)	(3,107)	(15,242) (736)	(12,255) (690) 4,502 (15)
(734)	(117)	(377)	(8,593)	(7,771) 15
<u>(4,119)</u>	<u>(138)</u>	<u>(446)</u>	<u>(446)</u>	<u>(1,720)</u>
<u>(4,119)</u>	<u>(138)</u>	<u>(3,930)</u>	<u>(25,017)</u>	<u>(17,934)</u>
<u>524</u>	<u>361</u>	<u>158</u>	<u>6,350</u>	<u>6,631</u>
<u>524</u>	<u>361</u>	<u>158</u>	<u>6,350</u>	<u>6,631</u>
2,427	513	(2,703)	17,384	17,385
<u>7,369</u>	<u>6,353</u>	<u>5,188</u>	<u>97,065</u>	<u>79,680</u>
<u>\$ 9,796</u>	<u>\$6,866</u>	<u>\$2,485</u>	<u>\$114,449</u>	<u>\$97,065</u>
			\$ 1,126	\$ 15

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS COMBINING BALANCE SHEET - WASTEWATER FUNDS JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Collection	Treatment	Eliminations	Totals June 30,	
				1993	1992
ASSETS					
CURRENT ASSETS:					
Cash, cash equivalents, and investments	\$ 3,309	\$ 6,144		\$ 9,453	\$ 7,019
Restricted:					
Cash and cash equivalents		343		343	408
Investments		408		408	350
Accounts receivable, net	1,159	373		1,532	1,699
Interest receivable	38	92		130	113
Total current assets	4,506	7,360		11,866	9,589
Property, plant and equipment, net	17,223	30,231		47,454	46,803
Investments	438		\$(438)		
TOTAL ASSETS	<u>\$22,167</u>	<u>\$37,591</u>	<u>\$(438)</u>	<u>\$59,320</u>	<u>\$56,392</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 81	\$ 1,120		\$ 1,201	\$ 1,015
Accrued salaries and benefits	53	113		166	148
Current portion of revenue bonds, net	139	567		706	662
Total current liabilities	273	1,800		2,073	1,825
Compensated absences	35	50		85	70
Self insurance	110	298		408	310
Revenue bonds, net	2,477	7,033		9,510	10,198
Total liabilities	2,895	9,181		12,076	12,403
FUND EQUITY:					
Contributed capital	8,945	21,382	\$(438)	29,889	29,889
Retained earnings	10,327	7,028		17,355	14,100
Total fund equity	19,272	28,410	(438)	47,244	43,989
TOTAL LIABILITIES AND FUND EQUITY	<u>\$22,167</u>	<u>\$37,591</u>	<u>\$(438)</u>	<u>\$59,320</u>	<u>\$56,392</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - WASTEWATER FUNDS FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars)

	Collection	Treatment	Eliminations	Totals Years Ended June 30,	
				1993	1992
OPERATING REVENUES:					
Sales of utilities:					
Customers	\$ 8,165			\$ 8,165	\$ 7,428
City departments	119	\$ 3,496	\$(3,457)	158	130
Wastewater treatment		5,651		5,651	5,995
Service connection charges and miscellaneous	18			18	10
Other revenues	373	42		415	520
Total operating revenues	<u>8,675</u>	<u>9,189</u>	<u>(3,457)</u>	<u>14,407</u>	<u>14,083</u>
OPERATING EXPENSES:					
Purchase of utilities	3,457		(3,457)		
Administration and general	177	678		855	1,306
Engineering (operating)	106	789		895	1,071
Operations and maintenance	926	6,011		6,937	6,156
Depreciation and amortization	655	1,435		2,090	1,969
Total operating expenses	<u>5,321</u>	<u>8,913</u>	<u>(3,457)</u>	<u>10,777</u>	<u>10,502</u>
OPERATING INCOME	<u>3,354</u>	<u>276</u>		<u>3,630</u>	<u>3,581</u>
NONOPERATING REVENUES (EXPENSES):					
Interest income	161	363		524	485
Interest expense	(181)	(553)		(734)	(778)
Total nonoperating revenues (expenses)	<u>(20)</u>	<u>(190)</u>		<u>(210)</u>	<u>(293)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>3,334</u>	<u>86</u>		<u>3,420</u>	<u>3,288</u>
OPERATING TRANSFERS OUT	<u>(128)</u>	<u>(37)</u>		<u>(165)</u>	<u>(109)</u>
NET INCOME	3,206	49		3,255	3,179
RETAINED EARNINGS, BEGINNING OF YEAR	<u>7,121</u>	<u>6,979</u>		<u>14,100</u>	<u>10,921</u>
RETAINED EARNINGS, END OF YEAR	<u>\$10,327</u>	<u>\$ 7,028</u>	<u>\$ -</u>	<u>\$17,355</u>	<u>\$14,100</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS - WASTEWATER FUNDS FOR THE YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Collection	Treatment	Totals Years Ended June 30,	
			1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income	\$3,354	\$ 276	\$3,630	\$3,581
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	655	1,435	2,090	1,969
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(212)	379	167	(427)
(Increase) decrease in interest receivable	(18)	1	(17)	(20)
Decrease in prepaid expenses				108
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(13)	217	204	(172)
Increase (decrease) in accrued compensated absences	15		15	(36)
Increase in accrued self insurance	18	80	98	59
Net cash provided by operating activities	<u>3,799</u>	<u>2,388</u>	<u>6,187</u>	<u>5,062</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES -				
Operating transfers out to other funds	<u>(128)</u>	<u>(37)</u>	<u>(165)</u>	<u>(109)</u>
Net cash used in noncapital financing activities	<u>(128)</u>	<u>(37)</u>	<u>(165)</u>	<u>(109)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(1,527)	(1,196)	(2,723)	(934)
Principal paid on revenue bonds	(131)	(531)	(662)	(621)
Interest paid on revenue bonds	(181)	(553)	(734)	(778)
Contributed capital				(1,164)
Net cash used in capital related activities	<u>(1,839)</u>	<u>(2,280)</u>	<u>(4,119)</u>	<u>(3,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -				
Interest and dividends on pooled investments	<u>161</u>	<u>363</u>	<u>524</u>	<u>485</u>
Net cash provided by investing activities	<u>161</u>	<u>363</u>	<u>524</u>	<u>485</u>
NET INCREASE IN CASH AND INVESTMENTS	1,993	434	2,427	1,941
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>1,316</u>	<u>6,053</u>	<u>7,369</u>	<u>5,428</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$3,309</u>	<u>\$6,487</u>	<u>\$9,796</u>	<u>\$7,369</u>

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

The City maintains the following Internal Service Funds:

- ***Equipment Replacement Fund*** - established to account for the accumulation of resources to provide for current and future replacement of the City's motor vehicle equipment.
- ***Vehicle Maintenance Fund*** - established to account for central maintenance services on all City-owned vehicles.
- ***Printing Services Fund*** - established to account for central duplicating and printing services provided to City departments.
- ***Mailing Services Fund*** - established to account for central postage and mailing services provided to City departments.
- ***General Benefits and Insurance Fund*** - established to account for employee compensated absences and health benefits, and the City's self-insured workers compensation and general liability programs.

CITY OF PALO ALTO, CALIFORNIA

**INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1992
(In thousands of dollars)**

	Equipment Replacement	Vehicle Maintenance	Printing Services
ASSETS			
CURRENT ASSETS:			
Cash, cash equivalents and investments	\$ 5,498	\$527	\$133
Accounts receivable, net		7	2
Interest receivable	70	7	2
Stores inventory		150	
Prepaid expense	<u> </u>	<u> </u>	<u> </u>
Total current assets	5,568	691	137
Property, plant and equipment, net	<u>7,629</u>	<u> </u>	<u>154</u>
TOTAL ASSETS	<u>\$13,197</u>	<u>\$691</u>	<u>\$291</u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Accounts payable and accrued liabilities	\$ 162	\$ 86	\$ 3
Accrued salaries and benefits		26	4
Accrued compensated absences			
Accrued self insurance			
Capital leases - current portion	<u>500</u>	<u> </u>	<u>22</u>
Total current liabilities	662	112	29
Accrued compensated absences			
Self insurance			
Capital leases	<u>761</u>	<u> </u>	<u>56</u>
Total liabilities	1,423	112	85
EQUITY:			
Contributed capital	4,921	103	196
Retained earnings	<u>6,853</u>	<u>476</u>	<u>10</u>
Total equity	<u>11,774</u>	<u>579</u>	<u>206</u>
TOTAL LIABILITIES AND EQUITY	<u>\$13,197</u>	<u>\$691</u>	<u>\$291</u>

Mailing Services	General Benefits and Insurance	Totals June 30	
		1993	1992
\$81	\$18,388	\$24,627	\$20,902
	4	13	125
1	172	252	284
		150	123
	38	38	14
82	18,602	25,080	21,448
		7,783	8,099
<u>\$82</u>	<u>\$18,602</u>	<u>\$32,863</u>	<u>\$29,547</u>
\$ 2	\$ 650	\$ 901	\$ 472
	718	750	576
	4,859	4,859	4,759
	3,115	3,115	2,972
		522	492
2	9,342	10,147	9,271
	2,409	2,409	2,220
	3,844	3,844	3,012
		817	1,322
2	15,595	17,217	15,825
		5,220	5,138
<u>80</u>	<u>3,007</u>	<u>10,426</u>	<u>8,584</u>
<u>80</u>	<u>3,007</u>	<u>15,646</u>	<u>13,722</u>
<u>\$82</u>	<u>\$18,602</u>	<u>\$32,863</u>	<u>\$29,547</u>

CITY OF PALO ALTO, CALIFORNIA

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS FOR THE
 YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE
 YEAR ENDED JUNE 30, 1992
 (In thousands of dollars)

	Equipment Replacement	Vehicle Maintenance	Printing Services
OPERATING REVENUES -			
Charges for services	<u>\$ 1,880</u>	<u>\$ 2,185</u>	<u>\$ 313</u>
OPERATING EXPENSES:			
Administration and general	11		304
Operations and maintenance		2,107	
Depreciation and amortization	1,524		27
Self insured losses			
Compensated absences and other benefits			
Total operating expenses	<u>1,535</u>	<u>2,107</u>	<u>331</u>
OPERATING INCOME (LOSS)	<u>345</u>	<u>78</u>	<u>(18)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	322	32	8
Interest expense	(100)		(1)
Gain on disposal of fixed assets	31		
AB 702 rebate			
Other		<u>16</u>	
Total nonoperating revenues	<u>253</u>	<u>48</u>	<u>7</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>598</u>	<u>126</u>	<u>(11)</u>
OPERATING TRANSFERS IN	<u>31</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	629	126	(11)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>6,224</u>	<u>350</u>	<u>21</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 6,853</u>	<u>\$ 476</u>	<u>\$ 10</u>

Mailing Services	General Benefits and Insurance	Totals June 30	
		1993	1992
<u>\$371</u>	<u>\$23,339</u>	<u>\$28,088</u>	<u>\$27,927</u>
351	1,030	1,696	1,569
		2,107	1,666
		1,551	1,463
	3,336	3,336	2,364
<u> </u>	<u>22,494</u>	<u>22,494</u>	<u>22,456</u>
351	26,860	31,184	29,518
<u> 20</u>	<u>(3,521)</u>	<u>(3,096)</u>	<u>(1,591)</u>
4	641	1,007	1,064
		(101)	(128)
		31	110
	3,325	3,325	2,772
<u> </u>	<u>629</u>	<u>645</u>	<u>359</u>
4	4,595	4,907	4,177
<u> 24</u>	<u>1,074</u>	<u>1,811</u>	<u>2,586</u>
<u> -</u>	<u>-</u>	<u>31</u>	<u>532</u>
24	1,074	1,842	3,118
<u> 56</u>	<u>1,933</u>	<u>8,584</u>	<u>5,466</u>
<u>\$ 80</u>	<u>\$ 3,007</u>	<u>\$10,426</u>	<u>\$ 8,584</u>

CITY OF PALO ALTO, CALIFORNIA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS FOR THE

YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE

YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	Equipment Replacement	Vehicle Maintenance	Printing Services
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ 345	\$ 78	\$ (18)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,524		27
AB 702 rebate			
Other	31	16	
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	78	2	(1)
Decrease (increase) in interest receivable	2	(1)	
Increase in stores inventories		(27)	
Increase (decrease) in prepaid expenses			
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	99	31	(4)
Increase in accrued compensated absences			
Increase in accrued self insurance			
Net cash provided by operating activities	<u>2,079</u>	<u>99</u>	<u>4</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES -			
Operating transfers in	<u>31</u>		
Net cash provided by noncapital financing activities	<u>31</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,200)		(18)
Principal paid on capital leases	(471)		(21)
Interest paid on capital leases	(100)		(1)
Contributed capital	82		
Net cash used in capital related activities	<u>(1,689)</u>	<u>-</u>	<u>(40)</u>
CASH FLOWS FROM INVESTING ACTIVITIES -			
Interest and dividends on pooled investments	<u>322</u>	<u>32</u>	<u>8</u>
Net cash provided by investing activities	<u>322</u>	<u>32</u>	<u>8</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>743</u>	131	(28)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>4,755</u>	<u>396</u>	<u>161</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$5,498</u>	<u>\$527</u>	<u>\$133</u>

Mailing Services	General Benefits and Insurance	Totals June 30	
		1993	1992
\$ 20	\$ (3,521)	\$ (3,096)	\$ (1,591)
		1,551	1,463
	3,325	3,325	2,772
	629	676	469
	34	113	(99)
	31	32	(39)
		(27)	(2)
	(25)	(25)	116
	476	602	(120)
	289	289	566
	976	976	766
<u>20</u>	<u>2,214</u>	<u>4,416</u>	<u>4,301</u>
		31	532
<u>-</u>	<u>-</u>	<u>31</u>	<u>532</u>
		(1,218)	(2,437)
		(492)	(448)
		(101)	(128)
		82	261
<u>-</u>	<u>-</u>	<u>(1,729)</u>	<u>(2,752)</u>
<u>4</u>	<u>641</u>	<u>1,007</u>	<u>1,064</u>
<u>4</u>	<u>641</u>	<u>1,007</u>	<u>1,064</u>
24	2,855	3,725	3,145
<u>57</u>	<u>15,533</u>	<u>20,902</u>	<u>17,757</u>
<u>\$ 81</u>	<u>\$18,388</u>	<u>\$24,627</u>	<u>\$20,902</u>

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TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

The City uses Expendable Trust Funds to account for programs from which the fund balances and revenue may be expended for purposes specifically designated by the program agreements:

- *The Police Academy Scholarship Fund* - established to account for financing of scholarships for this training program.
- *The Hazardous Materials Training Fund* - established to account for the activity of hazardous materials emergency response training classes hosted by the City.
- *The Animal Services Donations Fund* accounts for all donations in this division of the Police Department.
- *The Assets Seizure Fund* - established to account 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.
- *The Child Care Fund* - established to account for funding of the Child Care Master Plan through the efforts of the Child Care Task Force.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains the Deferred Compensation program established for employees in an Agency Fund. In addition, the Palo Alto Recreation Foundation Fund accounts for funds received by the Foundation in its promotion of social, cultural and recreational events.

CITY OF PALO ALTO, CALIFORNIA

TRUST AND AGENCY FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE
 YEAR ENDED JUNE 30, 1992
 (In thousands of dollars)

	Expendable Trust Funds		
	Police Academy Scholarship	Hazardous Materials Training	Animal Services Donations
ASSETS			
Cash, cash equivalents and investments			\$78
Restricted - Investments			
Interest receivable	—	—	—
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$78</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and other accrued liabilities			\$ 1
Due to participants			
Due to Palo Alto Recreation Foundation			—
Total liabilities			1
FUND BALANCE -			
Fund balances, unreserved and undesignated	—	—	<u>77</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$78</u>

Expendable Trust Funds		Agency Funds		Totals June 30	
Assets Seizure	Child Care	Palo Alto Recreation Foundation	Deferred Compensation	1993	1992
\$36	\$20	\$131		\$ 265	\$ 277
			\$25,587	25,587	21,767
<u>1</u>	<u>—</u>	<u>2</u>	<u>—</u>	<u>3</u>	<u>2</u>
<u>\$37</u>	<u>\$20</u>	<u>\$133</u>	<u>\$25,587</u>	<u>\$25,855</u>	<u>\$22,046</u>
\$ 8		\$ 5		\$ 14	\$ 11
		128	\$25,587	25,587	21,767
<u>—</u>		<u>128</u>	<u>—</u>	<u>128</u>	<u>131</u>
8		133	25,587	25,729	21,909
<u>29</u>	<u>\$20</u>	<u>-</u>	<u>-</u>	<u>126</u>	<u>137</u>
<u>\$37</u>	<u>\$20</u>	<u>\$133</u>	<u>\$25,587</u>	<u>\$25,855</u>	<u>\$22,046</u>

CITY OF PALO ALTO, CALIFORNIA

TRUST AND AGENCY FUNDS

EXPENDABLE TRUST FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 1993 WITH
 COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992
 (In thousands of dollars)

	Expendable Trust Funds		
	Police Academy Scholarship	Hazardous Materials Training	Animal Services Donation
REVENUES:			
Interest earnings			
Other			\$ 6
Total revenues			6
EXPENDITURES:			
Public safety - police			4
Social services			—
Total expenditures			4
EXCESS OF REVENUES OVER EXPENDITURES			<u>2</u>
FUND BALANCES, BEGINNING OF YEAR	\$13	\$ 3	75
RESIDUAL EQUITY TRANSFER OUT - General Fund	<u>(13)</u>	<u>(3)</u>	—
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$77</u>

<u>Expendable Trust Funds</u>		<u>Totals</u>	
<u>Assets</u>	<u>Child</u>	<u>Years Ended</u>	
<u>Seizure</u>	<u>Care</u>	<u>June 30</u>	
		<u>1993</u>	<u>1992</u>
\$ 2	\$ 1	\$ 3	\$ 4
<u>25</u>	<u> </u>	<u>31</u>	<u>50</u>
27	1	34	54
24		28	10
<u> </u>	<u>1</u>	<u>1</u>	<u>1</u>
24	1	29	11
<u>3</u>	<u> </u>	<u>5</u>	<u>43</u>
26	20	137	94
<u> </u>	<u> </u>	<u>(16)</u>	<u> </u>
<u>\$29</u>	<u>\$20</u>	<u>\$126</u>	<u>\$137</u>

CITY OF PALO ALTO, CALIFORNIA

TRUST AND AGENCY FUNDS
 DEFERRED COMPENSATION PROGRAM AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 1993
 (In thousands of dollars)

	Balances July 1, 1992	Additions	Deductions	Balances June 30, 1993
ASSETS				
CASH WITH FISCAL AGENTS:				
The Hartford	\$16,005	\$2,995	\$821	\$18,179
ICMA	4,695	1,738	96	6,337
Great Western Savings	1,067	59	55	1,071
Total cash with fiscal agents	<u>21,767</u>	<u>4,792</u>	<u>972</u>	<u>25,587</u>
TOTAL ASSETS	<u><u>\$21,767</u></u>	<u><u>\$4,792</u></u>	<u><u>\$972</u></u>	<u><u>\$25,587</u></u>
LIABILITIES				
DUE TO PARTICIPANTS	<u>\$21,767</u>	<u>\$4,792</u>	<u>\$972</u>	<u>\$25,587</u>
TOTAL LIABILITIES	<u><u>\$21,767</u></u>	<u><u>\$4,792</u></u>	<u><u>\$972</u></u>	<u><u>\$25,587</u></u>

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group includes those fixed assets which are used in the performance of general governmental functions and excludes the fixed assets of the enterprise and internal service funds. Fixed assets in this account group are stated at historical cost, or estimated historical cost if actual historical cost is not available.

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars) (Unaudited)

	<u>June 30</u>	
	<u>1993</u>	<u>1992</u>
GENERAL FIXED ASSETS:		
Land and improvements	\$ 62,205	\$ 59,519
Buildings and structures	36,466	35,435
Equipment	<u>11,640</u>	<u>11,261</u>
TOTAL GENERAL FIXED ASSETS	<u>\$110,311</u>	<u>\$106,215</u>
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
Investment in assets, beginning of year	\$106,215	\$101,731
Investment in assets acquired from current activities, net	<u>4,096</u>	<u>4,484</u>
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	<u>\$110,311</u>	<u>\$106,215</u>

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1992 (In thousands of dollars) (Unaudited)

	Land and Improvements	Buildings and Structures	Equipment	June 30,	
				1993	1992
ADMINISTRATION:					
City clerk and council			\$ 162	\$ 162	\$ 160
City manager			144	144	140
City attorney			156	156	141
City auditor			37	37	40
Finance			768	768	806
Personnel			149	149	147
Information resources			1,893	1,893	1,728
General government	<u>\$ 1,755</u>	<u>\$12,834</u>	<u>2,922</u>	<u>17,511</u>	<u>17,170</u>
Total administration	1,755	12,834	6,231	20,820	20,332
PUBLIC SAFETY:					
Police			605	605	600
Fire	392	1,864	1,298	3,554	3,377
Communications			860	860	712
Animal services	<u>38</u>	<u>398</u>	<u>33</u>	<u>469</u>	<u>470</u>
Total public safety	430	2,262	2,796	5,488	5,159
LIBRARIES	245	3,132	635	4,012	4,040
PARKS, RECREATION AND CULTURE	21,912	10,142	1,978	34,032	32,650
PARKING FACILITIES	14,921	8,096		23,017	21,176
OPEN SPACE	13,130			13,130	13,046
HOUSING	<u>9,812</u>			<u>9,812</u>	<u>9,812</u>
TOTAL GENERAL FIXED ASSETS	<u>\$62,205</u>	<u>\$36,466</u>	<u>\$11,640</u>	<u>\$110,311</u>	<u>\$106,215</u>

CITY OF PALO ALTO, CALIFORNIA

**GENERAL FIXED ASSETS ACCOUNT GROUP
SCHEDULE OF CHANGES IN GENERAL FUND ASSETS
BY FUNCTION AND ACTIVITY FOR THE
YEAR ENDED JUNE 30, 1993
(In thousands of dollars) (Unaudited)**

	Balances July 1, 1992	Additions	Deletions/ Transfers	Balances June 30, 1993
ADMINISTRATION:				
City clerk and council	\$ 160	\$ 15	\$ 13	\$ 162
City manager	140	16	12	144
City attorney	141	26	11	156
City auditor	40		3	37
Finance	806	26	64	768
Personnel	147	13	11	149
Information resources	1,728	303	138	1,893
General government	<u>17,170</u>	<u>568</u>	<u>227</u>	<u>17,511</u>
Total administration	20,332	967	479	20,820
PUBLIC SAFETY:				
Police	600	53	48	605
Fire	3,377	274	97	3,554
Communications	712	205	57	860
Animal services	<u>470</u>	<u>1</u>	<u>2</u>	<u>469</u>
Total public safety	5,159	533	204	5,488
LIBRARIES	4,040	25	53	4,012
PARKS, RECREATION AND CULTURE	32,650	1,546	164	34,032
PARKING FACILITIES	21,176	1,841		23,017
OPEN SPACE	13,046	84		13,130
HOUSING	<u>9,812</u>	<u></u>	<u></u>	<u>9,812</u>
TOTAL GENERAL FIXED ASSETS	<u><u>\$106,215</u></u>	<u><u>\$4,996</u></u>	<u><u>\$900</u></u>	<u><u>\$110,311</u></u>

GENERAL LONG-TERM DEBT ACCOUNT GROUP

General long-term debt is the unmatured principal of bonds, warrants, notes or other forms of noncurrent or long-term general obligation indebtedness that are not specific liabilities of any proprietary fund or trust fund, and noncurrent liabilities and other long-term commitments of the governmental funds.

CITY OF PALO ALTO, CALIFORNIA

GENERAL LONG-TERM DEBT ACCOUNT GROUP

BALANCE SHEET

JUNE 30, 1993 WITH COMPARATIVE TOTAL FOR THE

YEAR ENDED JUNE 30, 1992

(In thousands of dollars)

	<u>June 30</u>	
	<u>1993</u>	<u>1992</u>
AMOUNTS AVAILABLE AND TO BE PROVIDED FOR RETIREMENT OF GENERAL LONG-TERM DEBT:		
Amount available in debt service funds	\$ 3,336	\$ 5,373
Amount to be provided for retirement of general long-term debt	<u>16,049</u>	<u>15,297</u>
TOTAL	<u>\$19,385</u>	<u>\$20,670</u>
GENERAL LONG-TERM DEBT PAYABLE:		
General revenue bonds	\$ 1,075	\$ 1,150
Certificates of participation	7,305	7,670
Special assessment debt with governmental commitment	7,790	8,229
Capital lease obligation	<u>3,215</u>	<u>3,621</u>
TOTAL	<u>\$19,385</u>	<u>\$20,670</u>

STATISTICAL TABLES AND OTHER SCHEDULES (UNAUDITED)

Statistical Tables and Other Schedules are included to provide detailed data on the physical, economic, social and political characteristics of the reporting government. They are intended to provide the user with a broader and more complete understanding of the City and its financial affairs than is possible from the General Purpose Financial Statements and supporting schedules included in the Financial Section.

4

CITY OF PALO ALTO, CALIFORNIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Sales Taxes	Property Taxes	Other Taxes	Service Fees and Permits	Fines, Forfeits and Penalties
1983-84	\$10,838	\$4,493	\$ 4,262	\$2,805	\$ 718
1984-85	11,798	4,643	5,857	3,133	789
1985-86	11,470	6,105	6,980	3,148	858
1986-87	12,080	6,748	6,332	4,727	935
1987-88	12,590	6,578	10,056	4,835	998
1988-89	12,409	6,887	12,376	5,024	1,383
1989-90	13,987	7,512	12,158	5,615	1,251
1990-91	14,140	8,109	12,317	6,168	1,222
1991-92	14,692	8,555	12,493	6,570	1,097
1992-93	13,322	8,367	13,663	6,923	1,068

Note: Includes general, special revenue, debt service and capital projects funds. Data presented for fiscal years 1984 to 1986 was not restated as a result of the adoption of GASB Statement No. 6, *Accounting and Reporting for Special Assessments*.

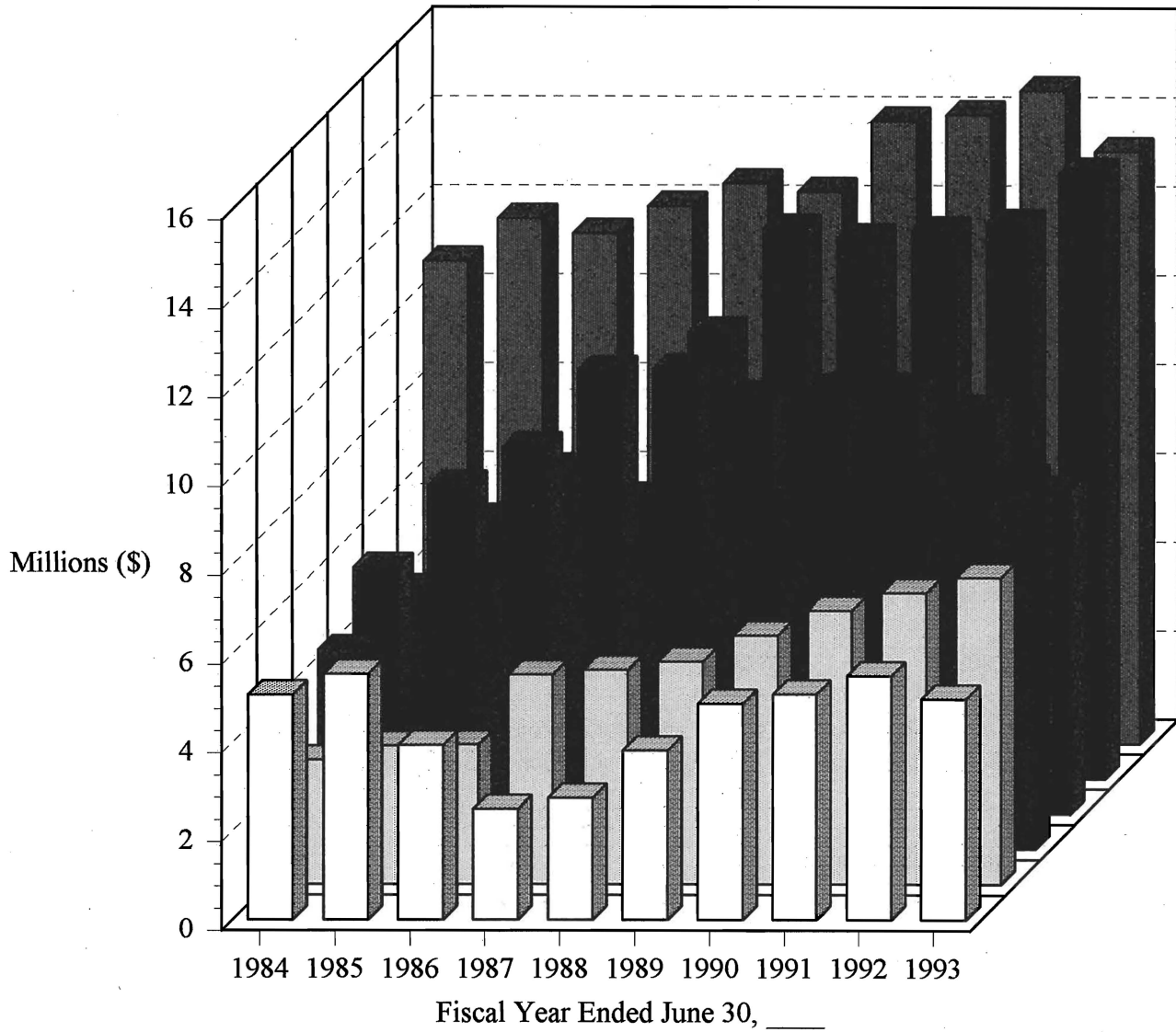
Interest and Rentals	Fire Protection and Emergency Communication Services	From Other Agencies	Other	Total
\$5,075	\$3,529	\$1,142	\$ 161	\$33,023
5,548	3,816	1,529	1,259	38,372
3,937	2,724	1,490	3,200	39,912
2,495	3,172	1,328	4,547	42,364
2,754	3,479	1,365	4,182	46,837
3,821	3,227	1,193	3,628	49,948
4,870	3,029	1,269	4,038	53,729
5,094	3,561	1,711	3,110	55,432
5,501	3,908	2,982	1,127	56,925
4,985	3,565	1,910	743	54,546

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CITY OF PALO ALTO

GENERAL REVENUES BY SOURCE

(unaudited)



- Interest and Rentals
 Service Fees and Permits
 Property Tax
- (1) All Other Revenues
 Other Taxes
 Sales Tax

(1) Includes all revenues from categories: Fines, Forfeits and Penalties; Fire Protection and Emergency Communication Services; From Other Agencies; and Other. (pp 102-103)

CITY OF PALO ALTO, CALIFORNIA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Administration	Public Works	Community Environment	Police	Fire
1983-84	\$6,530	\$ 6,859	\$1,788	\$ 9,071	\$ 6,524
1984-85	5,229	8,732	1,923	9,879	7,045
1985-86	6,827	11,215	2,345	10,216	7,954
1986-87	7,279	11,344	2,652	11,426	8,676
1987-88	7,660	11,384	2,553	11,347	8,562
1988-89	9,117 (A)	7,953	2,807	10,954	8,339
1989-90	7,788	7,729	3,065	11,881	9,067
1990-91	7,830	5,871	2,881	12,867	9,762
1991-92	8,519	7,129	3,313	13,076	10,027
1992-93	8,809	6,673	3,757	13,380	10,040

Note: Includes general, special revenue, debt service and capital project funds. Data presented for fiscal years 1984 to 1986 was not restated as a result of the adoption of GASB Statement No. 6.

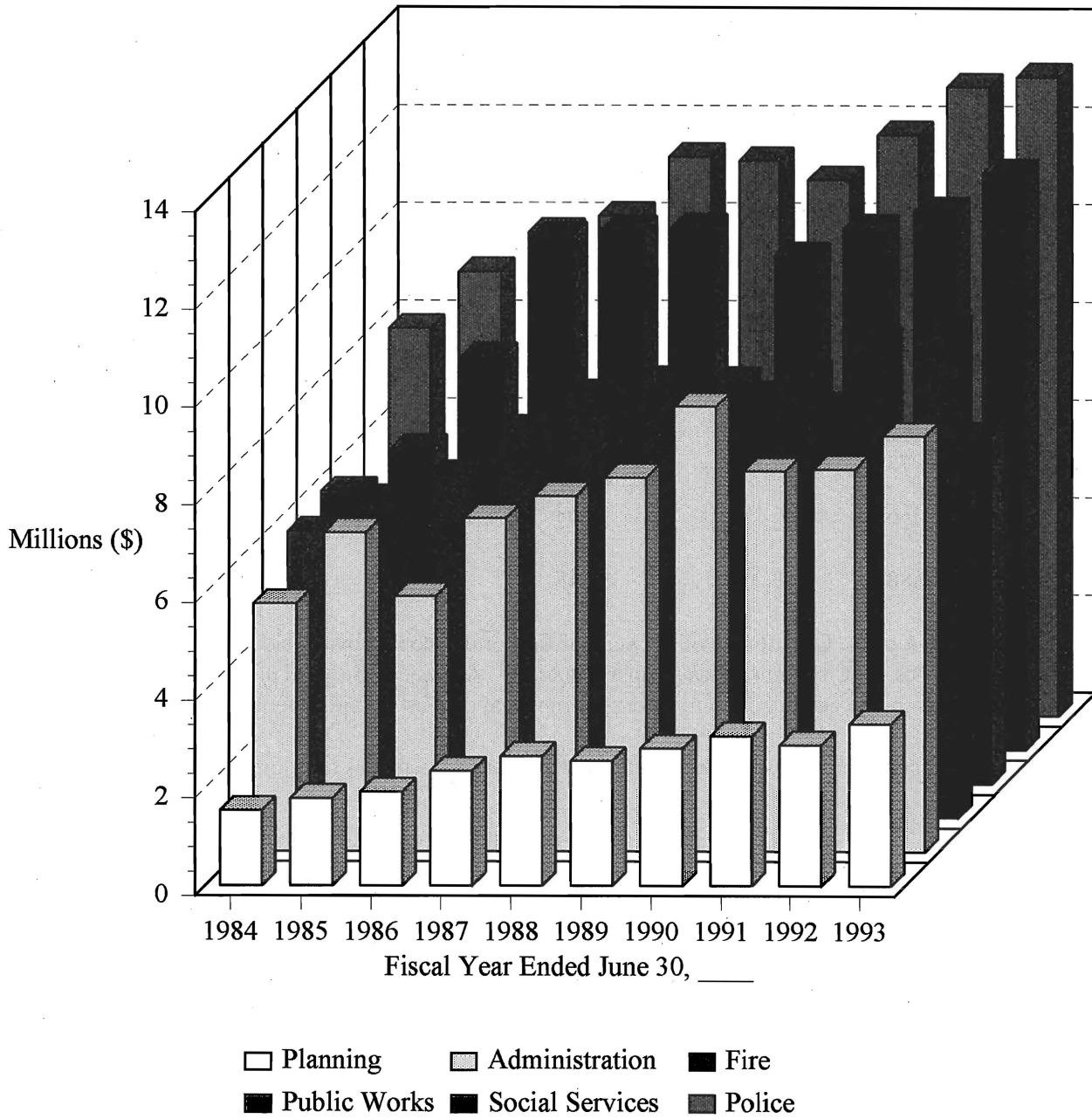
(A) Includes litigation settlement of \$1,820.

Social Services	School Site Operations	Special Revenue and Capital Projects	Debt Service	Total
\$ 4,756		\$3,137	\$2,369	\$41,034
5,271		9,170	1,970	49,219
6,162		6,363	1,845	52,927
7,559		6,679	2,728	58,343
7,547	\$ 850	4,171	2,916	56,990
10,098	2,378	6,470	2,789	60,905
10,674	3,434	5,641	2,547	61,826
11,025	5,164	9,303	3,139	67,842
11,816	5,469	6,609	2,765	68,723
12,183	5,632	5,325	2,541	68,340

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CITY OF PALO ALTO

GENERAL FUND DEPARTMENTAL EXPENDITURES (unaudited)



CITY OF PALO ALTO, CALIFORNIA

PROPERTY TAX RATES, LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

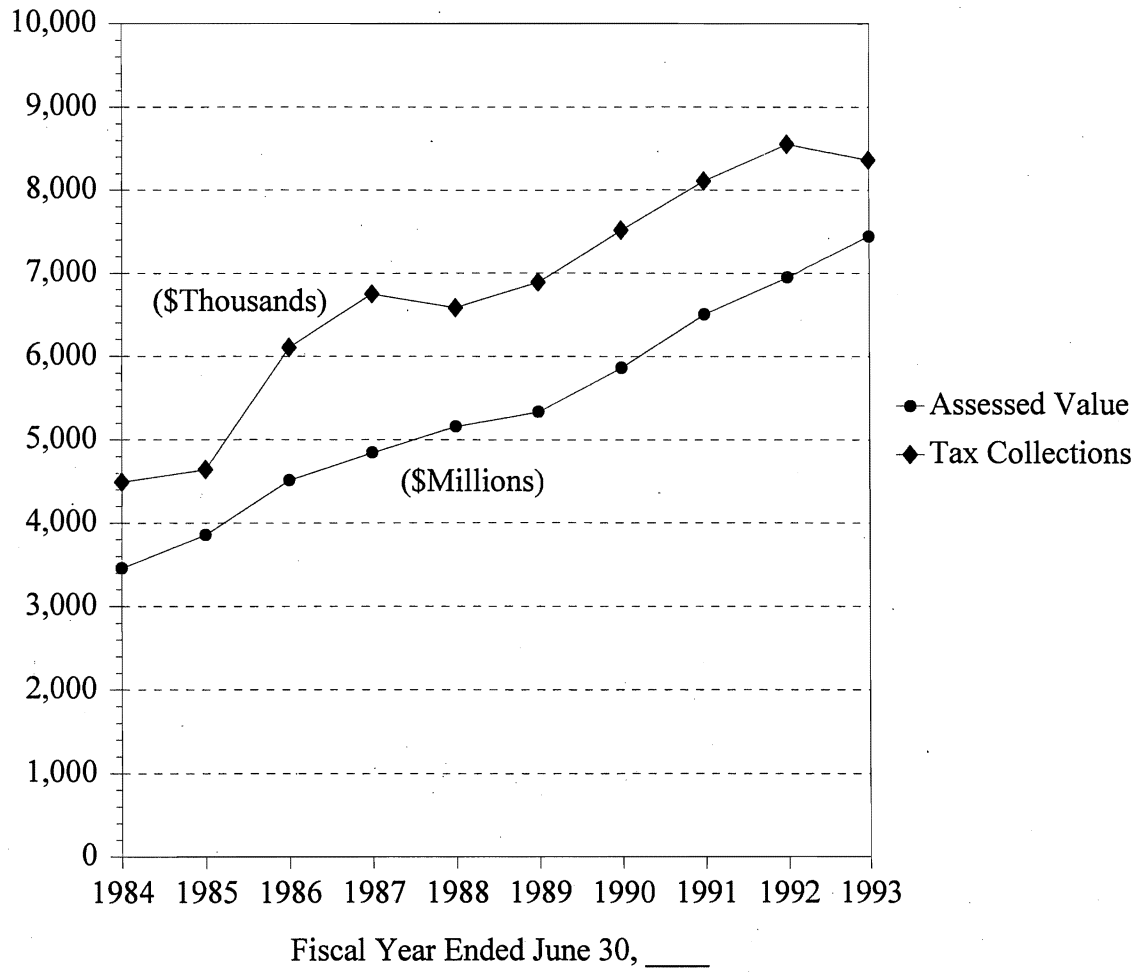
Fiscal Year	Assessed Value	Total Tax Levy (1)	Current Tax Collections	Delinquent Tax Collections	Total Tax Collections (2)
1983-84	\$3,457,251	\$4,438	\$4,265	\$228	\$4,493
1984-85	3,855,877	4,610	4,470	173	4,643
1985-86	4,515,649	6,094	5,965	140	6,105
1986-87	4,844,145	6,762	6,616	132	6,748
1987-88	5,162,625	6,586	6,437	141	6,578
1988-89	5,339,581	6,869	6,726	161	6,887
1989-90	5,864,061	7,509	7,356	156	7,512
1990-91	6,501,973	8,192	7,970	139	8,109
1991-92	6,949,429	8,617	8,372	183	8,555
1992-93	7,443,688	8,373	8,148	219	8,367

- Note: (1) Article XIII-A of the Constitution of the State of California adopted by the electorate in June 1978 precludes the City from a local property tax levy. All general purpose property taxes are levied by the county and allocated to other governmental entities on a predetermined formula.
- (2) Includes collection of the current levy plus delinquencies and penalties of prior years.

CITY OF PALO ALTO

ASSESSED VALUES vs TAX COLLECTION

(unaudited)



CITY OF PALO ALTO, CALIFORNIA

ASSESSED VALUE OF TAXABLE PROPERTY LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Secured Roll			Public Utilities
	Land	Improvements	Personal Property	
1983-84	\$ 965,719	\$1,742,793	\$ 78,129	\$110,582
1984-85	1,067,596	1,924,830	68,517	119,432
1985-86	1,255,547	2,106,016	63,990	128,316
1986-87	1,377,464	2,348,713	69,470	130,299
1987-88	1,543,130	2,588,554	120,321	130,952
1988-89	1,670,237	2,809,962	142,484	7,295 (1)
1989-90	1,897,944	3,019,530	134,389	8,138
1990-91	2,168,956	3,253,018	107,494	10,139
1991-92	2,324,109	3,446,205	275,237	13,666
1992-93	2,533,275	3,758,000	356,415	3,200

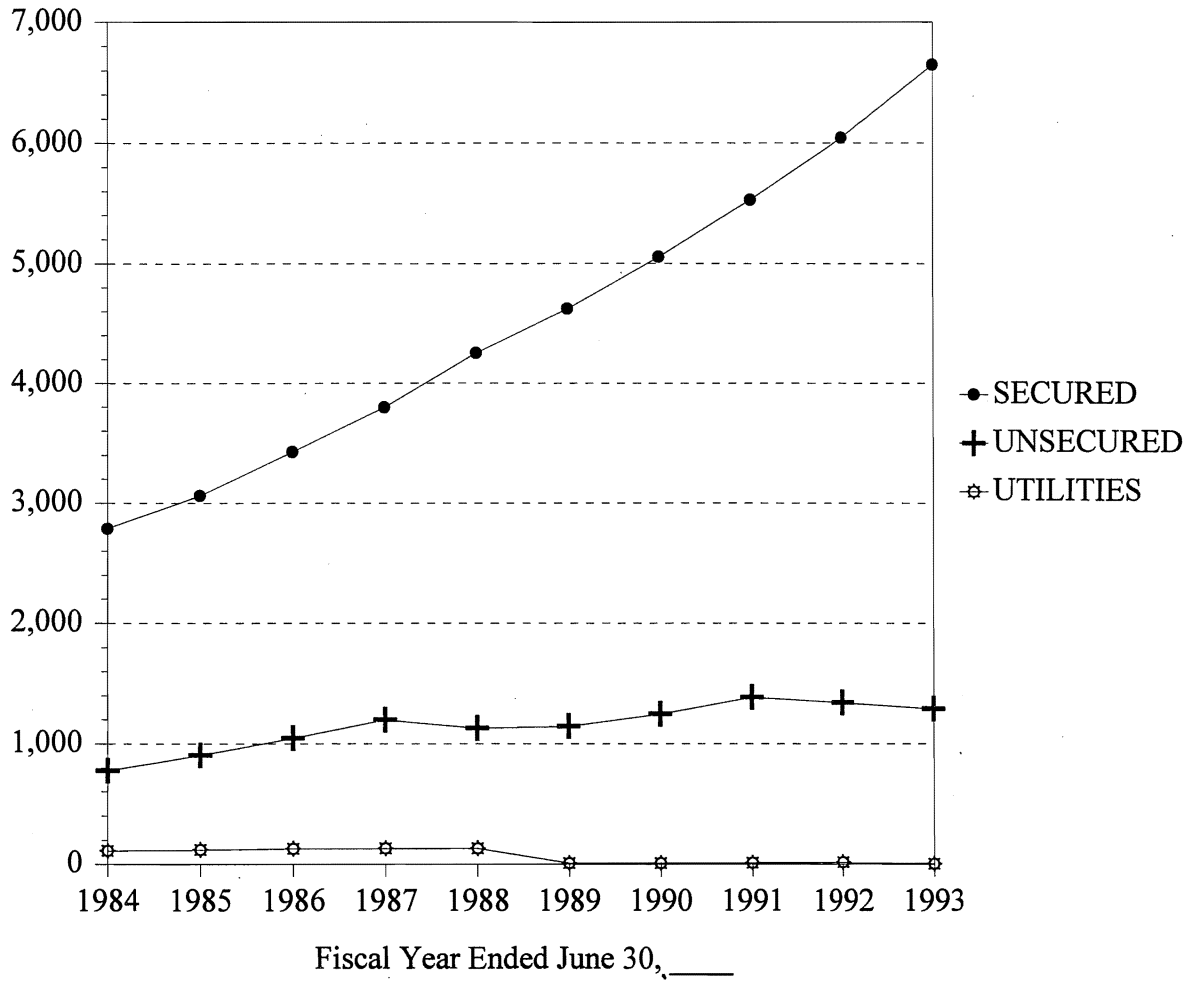
Note: (1) Beginning in fiscal year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single county-wide tax rate area for the assignment of the assessed value of certain types of state-assessed utility property and sets forth formulas for the determination of county-wide tax rates for this particular type of property.

Source: County of Santa Clara Assessor's Office

Unsecured Roll	Less Exemptions Net of State-Aid	Total Assessed Value
\$ 775,745	\$215,717	\$3,457,251
902,624	227,122	3,855,877
1,044,827	443,047	4,155,649
1,198,144	279,945	4,844,145
1,128,227	348,559	5,162,625
1,145,899	436,296	5,339,581
1,248,028	443,968	5,864,061
1,384,622	422,256	6,501,973
1,340,081	449,869	6,949,429
1,290,140	497,342	7,443,688

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CITY OF PALO ALTO
ASSESSED VALUE OF TAXABLE PROPERTY
(unaudited)



CITY OF PALO ALTO, CALIFORNIA

PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS (PER \$100 OF ASSESSED VALUE) LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year	County of Santa Clara	School Districts	Special Districts	Total	Parking District
1983-84	\$1.047	\$.029	\$.003	\$1.079	\$.131
1984-85	1.044	.022	.003	1.069	.104
1985-86	1.036	.017	.003	1.056	.042
1986-87	1.024	.017	.001	1.042	-
1987-88	1.039	.016	.002	1.057	-
1988-89	1.038	.011	.000	1.049	-
1989-90	1.038	.008	.000	1.046	-
1990-91	1.039	.004	.000	1.043	-
1991-92	1.039	.002	.000	1.041	-
1992-93	1.029	.003	.000	1.032	-

Note: Tax rates stated are the rates applicable to the tax area having the highest assessed valuation of all areas within the City of Palo Alto. Rates are based on \$100 assessed valuation.

Source: County of Santa Clara, Tax Rates and Information

CITY OF PALO ALTO, CALIFORNIA

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent and Penalties Collected	Total (1) Collections
1983-84	\$ 401	\$ 384	\$ 26	\$ 410
1984-85	343	323	8	331
1985-86	1,112	1,087	20	1,107
1986-87	984	953	30	983
1987-88	1,017	981	35	1,016
1988-89	1,127	1,086	31	1,117
1989-90	989	954	36	990
1990-91	1,016	997	23	1,020
1991-92	994	984	14	998
1992-93	959	939	11	950

Note: (1) Includes collections of the current year levy plus delinquencies and penalties of prior year.

CITY OF PALO ALTO, CALIFORNIA

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Population	Assessed Value	Bonded Debt (1)	Percent of Bonded Debt to Assessed Value	Bonded Debt Per Capita
1983-84	56,100	\$3,457,251	\$17,160	.496%	\$.31
1984-85	56,200	3,855,877	22,079	.573	.39
1985-86	56,800	4,515,649	21,773	.482	.38
1986-87	56,600	4,844,145	21,869	.451	.39
1987-88	56,900	5,162,625	20,671	.400	.36
1988-89	56,950	5,339,581	19,616	.367	.34
1989-90	57,400	5,864,061	20,334	.347	.35
1990-91	56,000	6,501,973	19,046	.293	.34
1991-92	56,330	6,949,429	20,605	.296	.37
1992-93	57,300	7,443,688	19,331	.261	.34

(1) General Bonded Debt includes: General Revenue Bonds, Certificates of Participation, Special Assessment Debt, and Capital Lease Obligations. It excludes the lease purchase of optical imaging equipment and copiers in the amount of \$132.

CITY OF PALO ALTO, CALIFORNIA

COMPUTATION OF LEGAL DEBT MARGIN

JUNE 30, 1993

(In thousands of dollars) (Unaudited)

1992-93 Assessed value		<u>\$7,443,688</u>
Debt limit - 15% of assessed value		\$1,116,553
Amount of debt applicable to debt limit:		
General revenue bonds	\$ 1,075	
Certificates of participation	7,305	
Capital lease obligations	4,554	
Special assessment debt with governmental commitment	<u>7,790</u>	
Total	20,724	
Less amount available in debt service funds	<u>3,336</u>	
Total amount of debt applicable to debt limit		<u>17,388</u>
Legal debt margin		<u>\$1,099,165</u>

Note: (1) Capital lease obligations include lease purchase obligations of internal service funds, but exclude debt recorded in the Enterprise Funds because such debt is not subject to the legal debt margin.

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT

JUNE 30, 1993

(In thousands of dollars) (Unaudited)

1992-93 Assessed Valuation	\$7,443,688	
Direct and Overlapping Bonded Debt	% Applicable	June 30, 1993 Bonded Debt
Santa Clara County Building Authorities	7.675	\$24,537
Santa Clara County FC & WCD, Zone W-1	0.508	110
Foothill-DeAnza Community College District	22.037	6,431
Palo Alto Unified School District	89.953	54
Other School Districts and School Authorities	Various	291
City of Palo Alto General Fund Obligations	100.000	12,847 (1)
City of Palo Alto Special Assessment Bonds	100.000	7,790
Midpeninsula Regional Park District	13.533	7,154
Santa Clara Valley Water District Certificates of Participation	7.675	2,851
Other Special Districts	Various	<u>4</u>
 Total Gross Direct and Overlapping Bonded Debt		 62,069
 Less: El Camino Hospital Authority (100% Self-Supporting)		 <u>4</u>
 Total Net Direct and Overlapping Bonded Debt		 <u><u>\$62,065</u></u>
Ratios to Assessed Valuation:		
Gross Direct Debt (\$12,847)	0.17%	
Total Gross Debt	0.83%	
Total Net Debt	0.83%	

Note: (1) Includes \$3,161 Terman School Capital Lease Obligation and \$1,306 Equipment Lease.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO, CALIFORNIA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Principal	Interest and Other Charges	Total Debt Service	Total General Expenditures (1)	Ratio of Debt Service to Total General Expenditures
1983-84	\$1,073	\$1,243	\$2,316	\$37,844	6.12
1984-85	645	1,325	1,970	40,049	4.92
1985-86	565	1,280	1,845	46,564	3.96
1986-87	940	1,147	2,087	55,411	3.77
1987-88	1,198	1,718	2,916	53,375	5.44
1988-89	1,113	1,676	2,789	55,566	5.02
1989-90	1,112	1,435	2,547	57,433	4.43
1990-91	1,289	1,850	3,139	59,519	5.27
1991-92	1,151	1,614	2,765	64,073	4.32
1992-93	1,274	1,267	2,541	63,865	3.98

Note: (1) Includes general, special revenue and debt service funds but excludes capital projects.

(2) Data presented for fiscal years 1982 to 1986 was not restated to include special assessments as a result of the adoption of GASB Statement No. 6.

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CITY OF PALO ALTO, CALIFORNIA

REVENUE BOND COVERAGE - WATER, ELECTRIC, GAS, AND WASTEWATER FUNDS LAST TEN FISCAL YEARS

(In thousands of dollars) (Unaudited)

Fiscal Year	Gross Revenue	Direct Operating Expenses (1)	Net Revenue Available for Debt Service	Debt Service		Requirements	
				Principal	Interest	Total	Coverage
1983-84	\$ 69,660	\$50,583	\$19,077	\$ - (2)	\$ 208	\$ 208	\$91.71
1984-85	82,607	58,690	23,917	170	351	521	45.90
1985-86	89,996	66,920	23,076	210	657	867	26.62
1986-87	96,803	68,919	27,884	220	856	1,076	25.91
1987-88	97,084	63,382	33,702	334	1,044	1,378	24.46
1988-89	97,790	60,344	37,446	534	1,011	1,545	24.24
1989-90	104,948	70,090	34,858	565	935	1,500	23.24
1990-91	109,115	70,302	38,813	950	922	1,872	20.73
1991-92	115,659	65,861	49,798	690	829	1,519	32.78
1992-93	119,274	66,212	53,062	735	1,159	1,894	28.02

Note: (1) Excludes depreciation and amortization expense.

(2) No bond principal was paid in fiscal 1983-84 due to defeasance of 1979 Bonds with 1983 Refunding Bond Issue.

CITY OF PALO ALTO, CALIFORNIA

DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year	City Size Square Miles	Street Miles	City Population (1)	County Population (1)
1983-84	25.98	190.10	56,100	1,363,300
1984-85	25.98	190.10	56,200	1,376,900
1985-86	25.98	190.10	56,800	1,403,100
1986-87	25.98	190.10	56,600	1,407,900
1987-88	25.98	193.12	56,900	1,431,600
1988-89	25.98	193.12	56,950	1,440,900
1989-90	25.98	193.12	57,400	1,463,500
1990-91	25.98	193.12	56,000	1,513,100
1991-92	25.98	193.12	56,330	1,531,700
1992-93	25.98	193.12	57,300	1,563,800

Sources: (1) State Department of Finance
(2) Palo Alto Unified School District
(3) State Employment Development Office

City Population as a % of County	School Population (2)	Unemployment Rate (3)
4.12	8,290	Not Available
4.08	8,145	3.6%
4.05	7,914	3.4%
4.02	7,835	2.8%
3.97	7,683	2.6%
3.95	7,477	2.6%
3.92	7,443	2.3%
3.70	7,496	3.9%
3.68	7,756	4.5%
3.66	7,970	3.8%

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CITY OF PALO ALTO, CALIFORNIA

CONSTRUCTION ACTIVITY LAST TEN FISCAL YEARS

(In thousands of dollars) (Unaudited)

Fiscal Year	Industrial		Commercial or Office		Residential		All Others	
	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation
1983-84*	113	\$79,906	268	\$53,600	747	\$28,922	82	\$ 8,961
1984-85	75	5,937	255	54,558	772	31,461	197	15,547
1985-86	32	5,145	280	30,676	910	29,560	135	8,509
1986-87	16	2,229	330	61,099	1,108	39,205	83	11,011
1987-88	10	1,125	311	42,062	1,100	40,870	81	13,033
1988-89	3	182	316	59,835	1,130	47,334	65	5,192
1989-90	7	249	331	66,373	1,195	43,378	53	3,474
1990-91	6	470	342	79,998	1,088	41,862	70	9,935
1991-92	11	814	355	82,088	1,087	38,101	63	2,692
1992-93	7	2,244	388	68,923	1,079	33,065	65	2,506

*Calendar year basis

CITY OF PALO ALTO, CALIFORNIA

PRINCIPAL PROPERTY TAXPAYERS

JUNE 30, 1993

(In thousands of dollars) (Unaudited)

	Type of Business	Assessed Valuation	% of Total Assessed Valuation
Leland Stanford Jr. University	University and Ancillary	\$1,161,239	15.60
Space Systems/Loral, Inc.	Research and Development	150,779	2.03
Harbor Investment Partners	General Industrial	48,493	0.65
S I Palo Alto, Inc.	Offices, Banks and Clinics	44,274	0.59
Cowper-Hamilton Associates	Offices, Banks and Clinics	31,225	0.42
Sun Microsystems, Inc.	Computers and Electronics	27,964	0.38
University Avenue Partners	Offices, Banks and Clinics	20,586	0.28
Barrick Palo Alto Limited Partners	Offices, Banks and Clinics	20,046	0.27
Digital Equipment Corporation	Computers and Electronics	17,627	0.24
Maytai Investments, Inc.	Offices, Banks and Clinics	<u>14,972</u>	<u>0.20</u>
Totals		<u>\$1,537,205</u>	<u>20.66</u>

Source: Center for Urban Analysis, County of Santa Clara

CITY OF PALO ALTO, CALIFORNIA

MISCELLANEOUS STATISTICAL INFORMATION

JUNE 30, 1993

(Unaudited)

Discovered	1769
Incorporated	April 16, 1894
Incorporated as charter city	July 1, 1909
Government	Council - City Manager Form
Population	57,300
Land Area	25.98 Square Miles
City Maintained Trees	41,000
Police Protection	1 Station 169 Regular Employees 27 Police Patrol Vehicles
Fire Protection	7 Stations 113 Regular Employees 24 Fire Apparatus 1,500 Fire Hydrants
Parks and Recreation	141 Acres - Downtown Parks 3,997 Acres - Open Space 34 Parks 1 Golf Course 45 Tennis Courts 1 Athletic Center 3 Community Centers 2 Theatres 3 Clubhouses 4 Arts and Craft Centers
Number of Housing Units	25,384 Units
Commercial and Industrial Space	26.7 Million Square Feet
Municipal Utility Plants:	
Water	4.8 Million CCF Sold, 19,060 Accounts 221 Miles of Mains
Wastewater	8,138 Million Gallons Processed 21,621 Accounts 215 Miles of Sanitary Sewer Lines
Electric	1,042 Million KWH Sold, 27,267 Accounts 230 Pole Miles, 186 Trench Miles
Gas	35 Million Therms Sold, 23,140 Accounts 177 Miles of Gas Mains

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CITY OF PALO ALTO, CALIFORNIA

SINGLE AUDIT REPORTS

for the year ended June 30, 1993

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**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

Except as explained in the preceding paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of the City for the year ended June 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the City is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash receipts, receivables, billing
- Cash disbursements, payables, purchasing, receiving
- Payrolls
- Journal entries

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated October 15, 1993.

This report is intended for the information of the mayor, members of the city council, finance committee, management, and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF THE
GENERAL PURPOSE FINANCIAL STATEMENTS**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

Except as explained in the preceding paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City is the responsibility of the management of the City. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the City complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which we reported to the management of the City in our reports dated October 15, 1993 on general requirements, on specific requirements for major programs, and on specific compliance for nonmajor program transactions.

This report is intended for the information of the mayor, members of the city council, finance committee, management, and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

**INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group. These general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

Except as explained in the preceding paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City taken as a whole. The accompanying Supplementary Schedule of Federal Financial Assistance for the year ended June 30, 1993, which is also the responsibility of the management of the City, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the mayor, members of the city council, finance committee, management, and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

CITY OF PALO ALTO, CALIFORNIA

SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 1993

Federal Grantor/ Program Title	CFDA Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT - Direct Program: Community Development Block Grant - entitlement	14.218*	\$830,481
U.S. DEPARTMENT OF TRANSPORTATION: Pass-Through Federal Highway Administration: Highway Planning and Construction	20.205	<u>147,090</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$977,571</u></u>

*Major Program

See Notes to the Supplementary Schedule of Federal Financial Assistance.

CITY OF PALO ALTO, CALIFORNIA

NOTES TO THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Note 1 *Basis of Accounting* - Expenditures are recognized on the Supplementary Schedule of Federal Financial Assistance when they become a demand on current available financial resources.

Federal financial assistance provided to subrecipients is treated as an expenditure when it is paid to the subrecipient.

Note 2 *Reporting Entity* - The Supplementary Schedule of Federal Financial Assistance includes all the federal financial assistance received by any fund, activity or organization under the oversight and control of the City Council. The reporting entity for this schedule is the same as that used for the City's general purpose financial statements.

The City administers certain federal financial assistance programs through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group. We have also audited the City's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 15, 1993.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

Except as explained in the preceding paragraph, we conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the City complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1993, we considered the City's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major federal financial assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated October 15, 1993.

The management of the City is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose

financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- Internal Accounting:
 - Cash receipts, receivables, billing
 - Cash disbursements, payables, purchasing, receiving
 - Payrolls
 - Journal entries

- Administrative:

<ul style="list-style-type: none"> •• General Requirements Political activity (Hatch Act and Intergovernmental Personnel Act of 1970, as amended) Davis-Bacon Act Civil rights Cash management Relocation assistance and real property acquisition Federal financial reports Allowable costs/cost principles Drug-Free Workplace Act Administrative requirements 	<ul style="list-style-type: none"> •• Specific Requirements Types of services allowed or unallowed Eligibility Matching, level of effort, and/or earmarking requirements Special reporting requirements Special tests and provisions related to the Community Development Block Grant Program
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 - Claims for advances and reimbursements
 - Amounts claimed or used for matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1993, the City expended 85% of its total federal financial assistance under its major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching

that are applicable to the City's major federal financial assistance program, which is identified in the accompanying Supplementary Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure used in administering federal financial assistance programs and its operations that we consider to be material weaknesses as defined above.

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to management of the City in a report dated October 15, 1993.

However, we noted other matters involving the internal control structure and its operation that we have reported to management of the City in a separate letter dated October 15, 1993.

This report is intended for the information of the mayor, members of the city council, finance committee, management, and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE GENERAL
REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group. We have also audited the City's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated October 15, 1993.

As discussed in Note 9 to the general purpose financial statements, the City changed its method of accounting for landfill closure and postclosure care costs and changed its method of reporting for certain component units of the City. Accordingly, the July 1, 1992 fund balances have been restated.

We have applied procedures to test the City's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the accompanying Supplementary Schedule of Federal Financial Assistance, for the year ended June 30, 1993:

- Political activity (Hatch Act and Intergovernmental Personnel Act of 1970, as amended)
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of

noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the City management in our report dated October 15, 1993.

This report is intended for the information of the mayor, members of the city council, finance committee, management, others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group.

We have also audited the City's compliance with the requirements governing:

- Specific Requirements
 - Types of services allowed or unallowed
 - Eligibility
 - Matching, level of effort, and/or earmarking requirements
 - Special reporting requirements
 - Special test and provisions related to the Community Development Block Grant program
- Claims for advances and reimbursements
- Amounts claimed or used for matching

that are applicable to its major federal financial assistance program, which is identified in the accompanying Supplementary Schedule of Federal Financial Assistance, for the year ended June 30, 1993. The management of the City is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City complied, in all material respects, with the requirements listed in the second paragraph of this report that are applicable to its major federal financial assistance program for the year ended June 30, 1993.

This report is intended for the information of the mayor, members of the city council, finance committee, management and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM
TRANSACTIONS**

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

We have audited the general purpose financial statements of City of Palo Alto, California (the City) as of June 30, 1993, and for the year then ended, and have issued our report thereon dated October 15, 1993, that included our qualified opinion regarding the effects on the general purpose financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to audit the City's general fixed assets account group. We have also audited the City's compliance applicable to specific requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated October 15, 1993.

In connection with our audit of the 1993 general purpose financial statements of the City and with our consideration of the City's control structure used to administer federal financial assistance programs, and assessment of control risk as required by Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, we did not select for testing any transactions applicable to nonmajor federal financial assistance programs for the year ended June 30, 1993.

Nothing came to our attention during our audit that caused us to believe that the City had not complied, in all material respects, with the requirements governing:

- Types of services allowed or unallowed
- Matching, level of effort, and/or earmarking requirements
- Special reporting requirements
- Special tests and provisions

that are applicable to nonmajor federal financial assistance programs.

This report is intended for the information of the mayor and members of the city council, management and others within the City, and officials of applicable federal grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche

October 15, 1993

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 1993

Finding - Drug-Free Workplace Act - All Grants

Questioned Cost: 0

Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments states that a grantee receiving grants from any federal agency certifies it is providing a drug-free workplace by establishing a drug-free workplace policy and an ongoing drug-free program for its employees. The City has published a drug-free workplace policy statement; however, it does not include a statement regarding notification to the employer by an employee who has been convicted of a drug charge.

The City of Palo Alto should adopt the specific wording of the Federal Drug-Free Workplace Policy.

City's Response

The City's policy statement will be updated to include the specific verbiage from the Federal Drug-Free Workplace Act.

