

PALO  
ALTO



Comprehensive Annual  
Financial Report For The  
Fiscal Year Ended June 30, 1994

100  
YEARS  
1894-1994

City of Palo Alto, California



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF PALO ALTO**

for the  
**Fiscal Year Ended June 30, 1994**



prepared by  
**DEPARTMENT OF FINANCE**

**Emily Harrison**  
**Director of Finance**





# CITY OF PALO ALTO, CALIFORNIA

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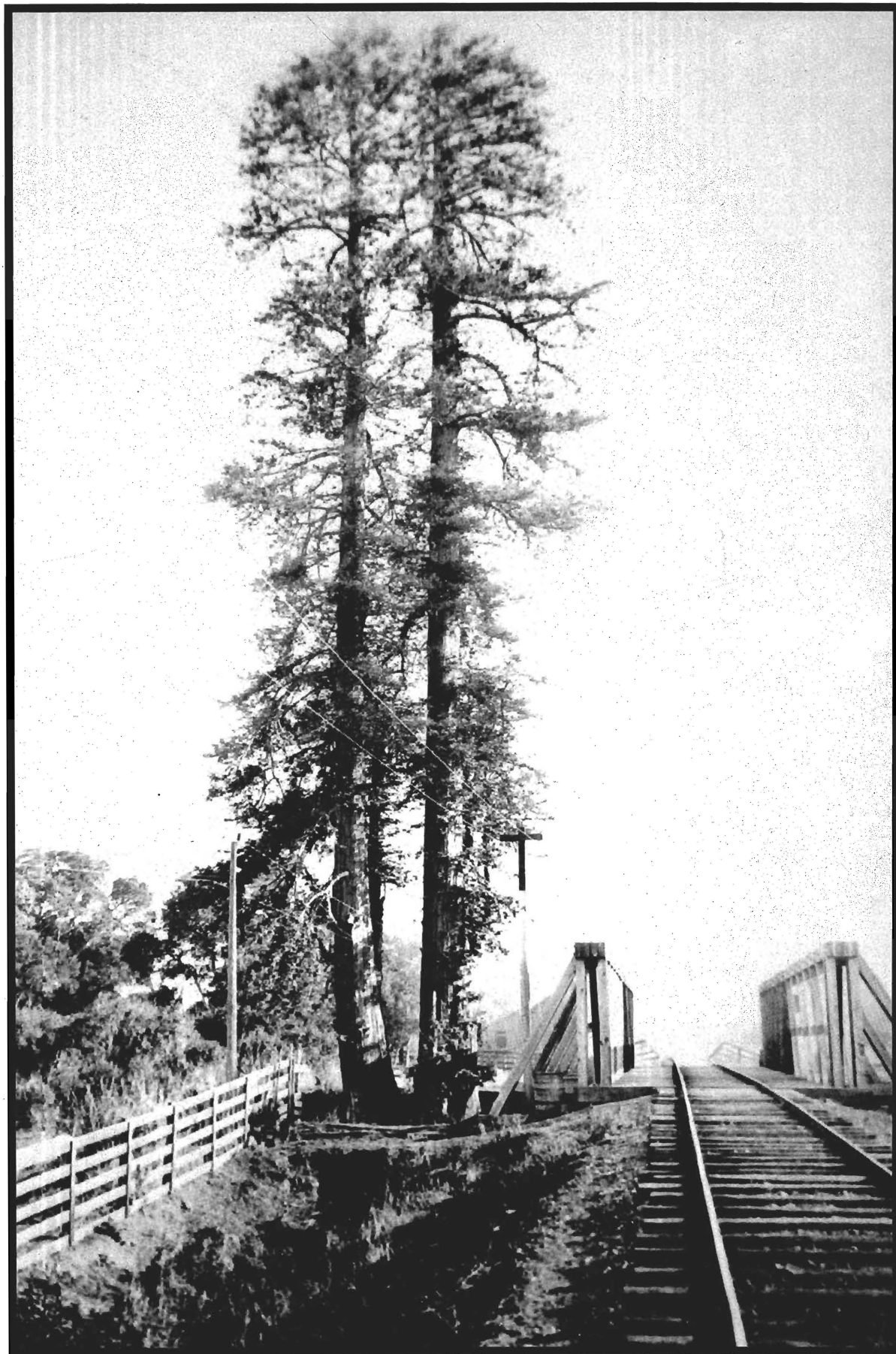
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# CITY OF PALO ALTO, CALIFORNIA

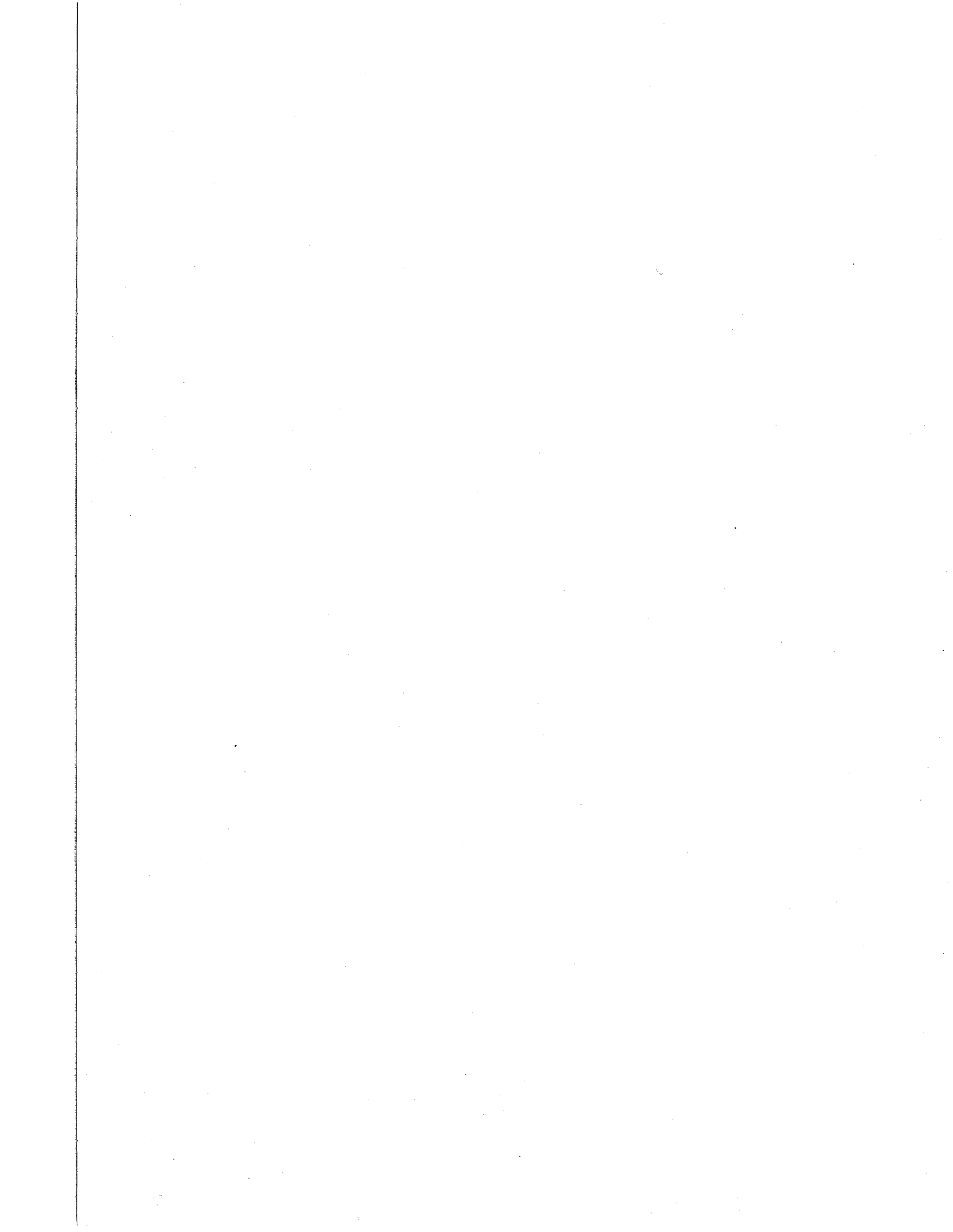
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Palo Alto Tree – Twin Trunk, 1883



CITY OF PALO ALTO

CITY OFFICIALS

June 30, 1994

City Council

Liz Kniss  
Mayor

Joe Simitian  
Vice Mayor

Lanie Wheeler  
Chairperson,  
Finance Committee

Joseph Huber  
Chairperson,  
Policy and Services Committee

Gary Fazzino

Ron Andersen

Dick Rosenbaum

Jean McCown

Joe Simitian

Micki Schneider

Council-Appointed  
Officers

June Fleming  
City Manager

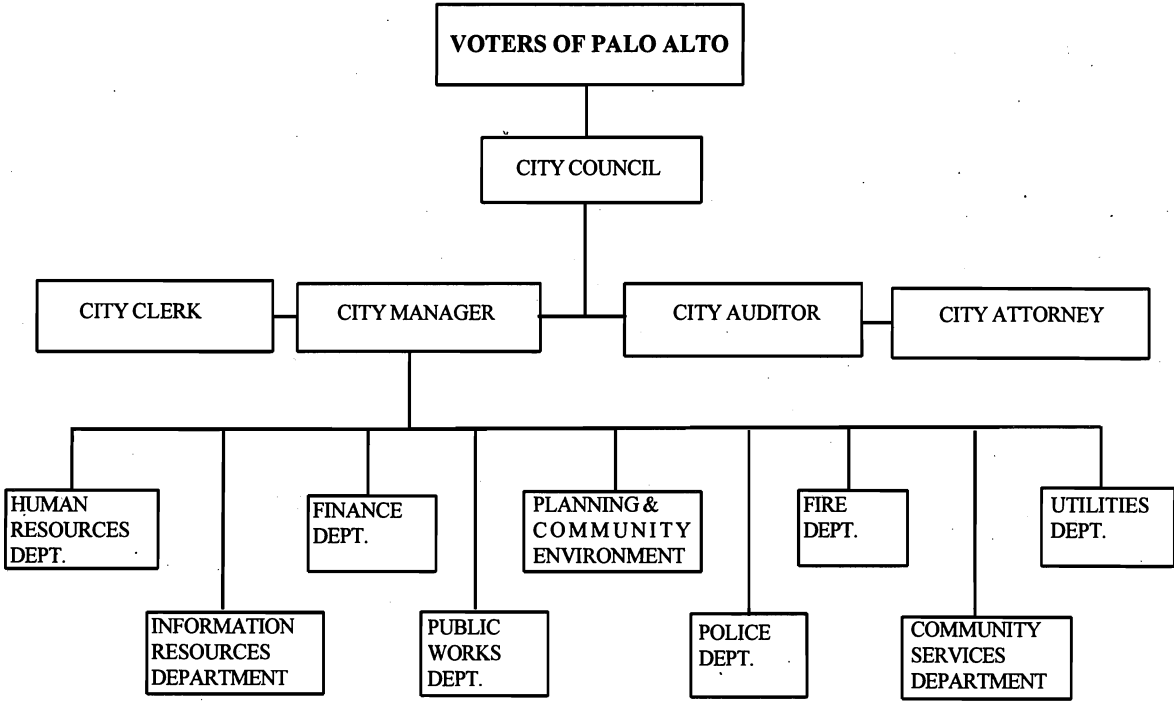
Gloria L. Young  
City Clerk

Ariel Calonne  
City Attorney

William Vinson  
City Auditor

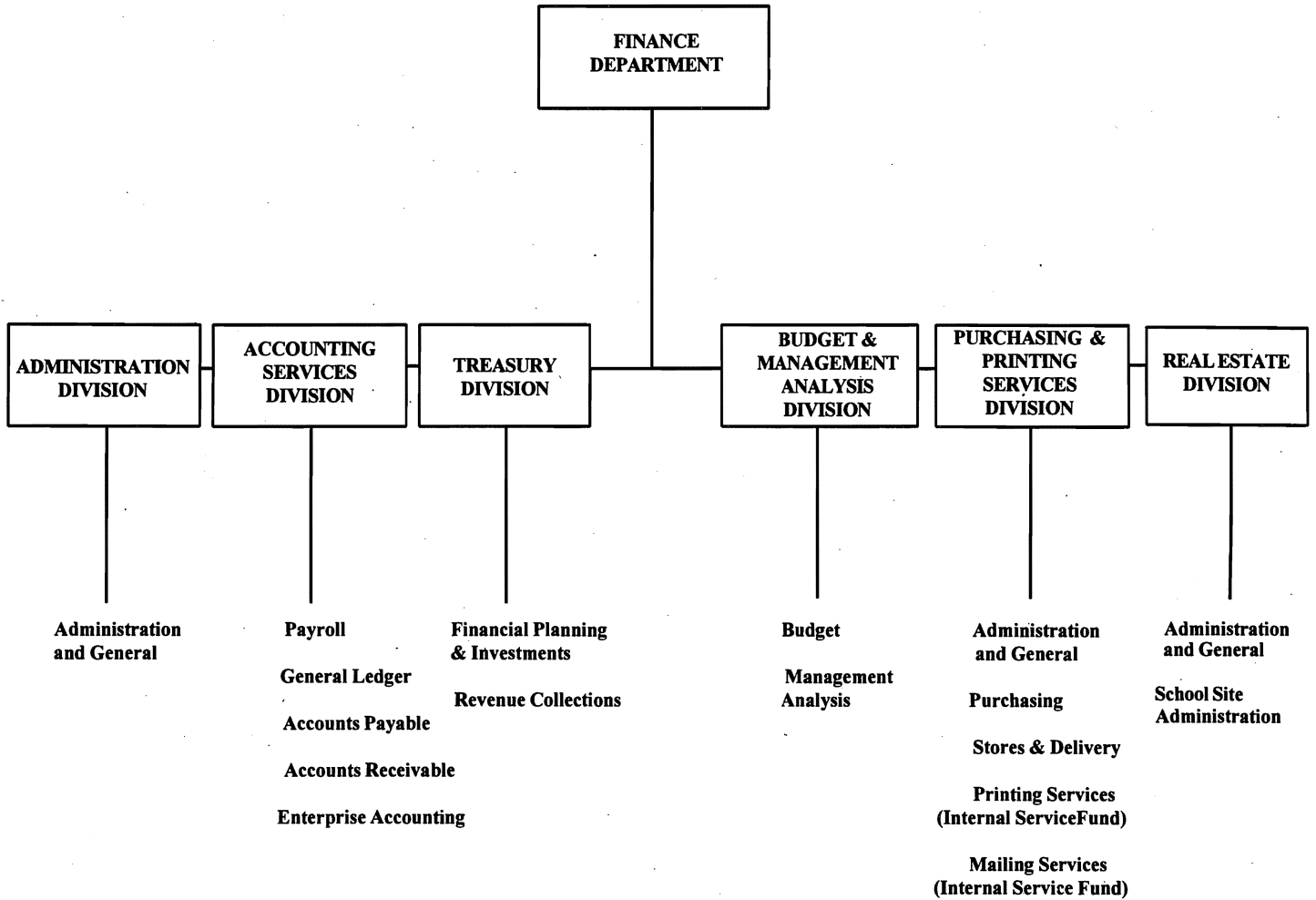
# CITY OF PALO ALTO

## ORGANIZATIONAL CHART





# CITY OF PALO ALTO FINANCE DEPARTMENT ORGANIZATIONAL CHART



**Mission Driven Budgeting Statement:**

To responsibly manage the City's financial resources; to report timely, accurate financial information; and to provide quality service to the public, decision-makers and City departments.



November 18, 1994

THE HONORABLE CITY COUNCIL  
Palo Alto, California

Attention: Finance Committee

**COMPREHENSIVE ANNUAL FINANCIAL REPORT, ENDING JUNE 30, 1994**

Members of the Council:

The Comprehensive Annual Financial Report, including the Independent Auditors' Report, for the fiscal year ended June 30, 1994, is submitted for Council review, in accordance with Article IV, Section 13 of the City Charter. Responsibility for both the accuracy of the data and the fairness of the presentation, including all disclosures, rests with the City's management. We believe the data is accurate in all material respects, and that it fairly represents the financial position and results of operations of the City's various funds and account groups. All disclosures necessary to enable the reader to understand the City's financial affairs have been included.

**GENERAL INFORMATION**

Located approximately 35 miles south of San Francisco in Santa Clara County, Palo Alto was named by an early Spanish exploration party for the tall redwood tree it camped beneath in 1769. The City has a population of 58,100, and is part of the San Francisco Bay metropolitan area. Partly because of the presence of Stanford University, located directly adjacent to the City, Palo Alto is considered to be the birthplace of the high technology industry, which has made Santa Clara County famous worldwide as the Silicon Valley. The 630-acre

Stanford Research Park includes among its tenants the headquarters of such prestigious and innovative high-tech leaders as Hewlett-Packard, Varian Associates, and Alza. The City is a major employment center; including Stanford University, the number of jobs in Palo Alto in 1993-1994 was about 76,500. Palo Alto is also one of the area's most desirable and unique residential communities, with about 25,448 housing units.

### **REPORTING ENTITY**

For financial reporting purposes, and in conformance with Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity", 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 dependence 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. In addition, the Palo Alto Centennial 1994, Inc., a not-for-profit corporation established by private citizens, is also included as a component unit. Although the Corporation is not an agency of the City, the City Council maintains ultimate control over the policies and actions of the Corporation through its ability to appoint directors.

### **GOVERNMENT ORGANIZATION**

The City of Palo Alto was incorporated in 1894, celebrating its centennial this year. Its first charter was granted by the State of California in 1909, and Palo Alto continues to operate as a charter city today. Municipal operations are conducted 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 over all Council meetings. The city manager is responsible for the operation of all municipal functions except the offices of the city attorney, city clerk, and city auditor. These officials are appointed by, and report directly to, the City Council.

## **SERVICES PROVIDED**

The City provides a full range of municipal services and maintains municipal electric, water, gas, wastewater, storm drainage, and refuse utilities for the benefit of Palo Alto residents and businesses. Its parks, recreation and cultural facilities are outstanding. The City owns 34 parks totaling more than 4,000 acres, a golf course, two community centers, a Cultural Center, a Community Theater, a Children's Theater, and a 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 safekeeping of assets against loss from unauthorized user 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, which is amended by Council action, as required throughout the year. In 1990, the Council adopted a two-year budget plan. Budgets for the period are presented to Council for review, comment, and action. Council votes to formally approve the first year's budget; the second year's budget is approved in concept, with formal adoption occurring the following June. The 1992-1994 budget was the City's second under the two-year budget plan. The City is required under the terms of Proposition 4 (Gann) to adhere to an annual appropriation limit, necessitating the two-step budget adoption procedure. The Council takes similar action on the first two years of the Five-Year Capital Improvement Program (CIP). Department budgets are controlled at the major object code of expenditure. An encumbrance system is utilized: as purchase orders are issued, corresponding appropriations amounts are reserved for later payment, so that appropriations may not be overspent. Budgets are prepared for all governmental and proprietary funds.

## Single Audit

As a recipient of federal and state financial assistance, the City is also 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 City's single audit, the City's independent auditors studied and evaluated the internal and administrative controls used in administering the federal financial assistance programs and the preparation of the City's financial statements to the extent they felt necessary to evaluate the systems as required by generally accepted auditing standards. The results of the City's single audit for the fiscal year ended June 30, 1994 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

## SIGNIFICANT EVENTS AND ACCOMPLISHMENTS

### **Palo Alto Centennial 1994**

Palo Alto celebrated its 100th anniversary as a city in a year-long gala of special events and activities designed to honor the past, examine the present, and plan for the future. During the fiscal year, the City provided significant financial support to Palo Alto Centennial 1994, Inc., a nonprofit public benefit corporation established by private citizens appointed by the City Council in 1991, to plan the Centennial celebration. The Centennial was celebrated with nearly 300 sanctioned events; approximately 360,000 people turned out to wish Palo Alto a happy birthday. Citizen involvement was high: about 1,500 volunteers contributed more than 18,500 hours of service to the Centennial. The Corporation, feeling a gift to the City was appropriate, was able to raise a \$525,000 Centennial Endowment Fund. The interest earnings on the Fund will be used to provide Palo Alto-area nonprofit agencies with grants to finance a variety of programs and projects. The Centennial was memorialized by erecting a Centennial Walk at Plaza Ramona, across from City Hall. Plaques honoring donors who contributed to the success of the Centennial were included on the Centennial Walk.

### **Palo Alto's Economic Future**

The City Council identified two continuing priorities for the 1993-94 fiscal year which have served to direct the plans and projects of Council and City staff:

Council focused on the objectives of this priority, first established in 1992, through two channels: further development of the Economic Resources Plan, an economic strategy for the City of Palo Alto; and completion of the organizational review initiated in 1992 for the purpose of providing a comprehensive, objective analysis of the City's organization and staffing patterns, and to identify possible areas of further efficiency.

Economic Resources Plan: A draft of the Economic Resources Plan was adopted by Council in November 1993. The five-point plan is the cornerstone of the Council's first objective. It includes:

- o The initiation of a business Outreach Program, promoting closer ties and greater cooperation between the City and businesses;
- o A business retention program, offering targeted assistance to major revenue-generating areas, such as Downtown, Stanford University, and Stanford Research Park;
- o Development of a program that would help existing businesses expand within the community, encourage new businesses to locate in Palo Alto, and ward off the invasion of economic development "pirates" seeking to persuade businesses to relocate elsewhere;
- o Active assistance in East Palo Alto's development efforts; and
- o Exploration of the use of traditional economic development tools to accomplish specific goals for the City's future. The Economic Resources Plan is designed to keep Palo Alto competitive as a desirable city in which to locate and expand a business.

Implementation of the Economic Resources Plan has yielded specific results which should further the City's future economic health.

In recognition of the economic factors affecting neighborhood shopping districts, the City Council authorized a consultant to prepare a market analysis of the Midtown commercial area. The City Council's interest in helping revitalization efforts in neighborhood shopping districts has been instrumental in renewed commercial interest in the Midtown area. The Economic Resources Plan program was instrumental in the decision by a major bioscience firm to locate its headquarters and research and development facilities in Palo Alto's Stanford Research Park.

Finally, a large high-technology firm's request for City assistance to develop a communications link between its downtown buildings eventually led to a Council-approved fiber optics installation agreement with the company. The firm also coordinated a demonstration project of Palo Alto's connection to Internet. One outcome of this arrangement has been to examine the various options for a City-owned and operated communications utility system.

Organizational Review: During the fiscal year, an organizational review of General Fund operations was substantially completed by Hughes, Heiss & Associates. The Hughes, Heiss study examined the General Fund operations of the City in great detail. The study emphasized organizational structure, productivity, efficiency, and the maintenance of existing service levels. To achieve these ends, the consultant conducted numerous meetings to reach an understanding of existing operations; determined benchmark cities for comparison purposes; reviewed and evaluated current service levels; and, participated in joint meetings with the Council's Finance Committee and Blue Ribbon Task Force. The Hughes, Heiss findings and preliminary recommendations were discussed in great detail by the Council.

The recommendations resulting from the organizational review are being studied further by the Council, and have been incorporated into the City Manager's review of the organization. Implementation of key plans resulting from the review will be reflected in the City's 1995-96 Budget.

### **Relationship with East Palo Alto**

Another continued Council priority for the year was to continue to improve the City's relationship with neighboring East Palo Alto. Representatives of East Palo Alto's concerned neighbors, including Palo Alto, established the Regional Enforcement Detail (RED Team) in 1992. Composed of police officers from nearby jurisdictions, the RED Team augmented the efforts of an understaffed East Palo Alto Police Department and provided a visible, proactive presence in the community. Funding for the RED Team was extended into 1993-94. By targeting drug dealers and violent offenders, the RED Team's presence led to a dramatic drop in the violent crime rate and restored a sense of calm to the streets of East Palo Alto. Increased patrols by the RED Team in East Palo Alto also helped to mitigate crime in surrounding communities, where the troubled city's crime activities often spilled over.

The East Palo Alto Liaison Committee, composed of representatives from Palo Alto, Menlo Park, and San Mateo County, investigated other issues and circumstances that may help East Palo Alto develop a viable economic base. One of the most successful ventures of the Committee was the development of a grant writing team, which has proven to be skilled in responding to, applying for, and receiving grants in areas of interest to East Palo Alto. The most successful project was an implementation of a comprehensive summer youth program, a resource not available in East Palo Alto during the past six years. Over 1,200 children and youth participated in the 12 different programs under the project, and 45 low-income East Palo Alto youth were employed as staff. Grant writing activities during the fiscal year also concentrated on obtaining additional federal grants for year-round youth programs and additional state and federal grant funding for public safety.



## **Other Major Initiatives**

Comprehensive Plan: In December 1992, in compliance with California law which mandates that each city and county adopt a general plan for physical development within and outside its boundaries, Council launched a significant effort to initiate the first major update of Palo Alto's Comprehensive Plan since 1980.

The project was divided into four phases. Phase I, which called for the development of community visions, goals, and issues, was substantially completed during fiscal year 1992-1993. Phase II involved the development of policy and program options to achieve the visions and goals identified in Phase I. Phase III is the preparation of a Draft Comprehensive Plan, which incorporates the results of the first two phases of the project, and the preparation of a Draft Environmental Impact Report (EIR) on the Comprehensive Plan. The final phase involves public review of both drafts, and the preparation and adoption of the Final Comprehensive Plan and Environmental Impact Report.

Development of the updated Comprehensive Plan has included broad public participation, achieved by the organization of a 37-member Comprehensive Plan Advisory Committee (CPAC). CPAC identified two new issues for inclusion in the Comprehensive Plan, community character and design, and governance, (which would foster greater citizen and neighborhood participation in government). The Committee also designated three Community Design Workshop areas in which to funnel public input.

World Cup Soccer: Stanford Stadium was one of the nine U. S. venue locations at which the 1994 World Cup Soccer games were played. Four first-round games were played in June, followed by an elimination match on July 4 and a quarterfinal on July 10. The July 4 game, which pitted the first-round winner, Brazil, against the United States, the third place winner from another venue, was among the highlights of the events.

Palo Alto's primary responsibilities were traffic management and public safety; security within the Stadium premises was the responsibility of Stanford, the County of Santa Clara, and the World Cup Association. Significant staff hours were devoted to World Cup planning for well over a year in advance. The City fostered partnerships as ways to contain costs, while assuring that World Cup visitors would experience a safe, efficient, and festive community. The Chamber of Commerce and the business community did extensive promotion and event planning. The World Cup national sponsors bore the expense of the banners which decorated the business district streets during the period of the games.

Preliminary reports indicate that World Cup Soccer generated an estimated increase of \$15,000 to \$40,000 in transient occupancy tax revenue during the fiscal year. This estimate is based on comparing revenue received during the same period in fiscal 1992-1993, the estimated growth that would have occurred regardless of World Cup Soccer events, and actual revenue received. When the final data on transient occupancy tax and sales tax revenues for

the reporting quarters containing the games period becomes available in fiscal year 1994-1995, the actual fiscal impact of World Cup for the City can be better determined.

Sunnyvale Material and Recovery Transfer (SMaRT) Station: Funded by the cities of Sunnyvale, Mountain View, and Palo Alto, the SMaRT Station was built at the edge of the San Francisco Baylands as an innovative attempt to reduce the amount of recyclable matter in the waste stream sent to the Kirby Canyon Refuse Disposal Area in San Jose. Each municipality diverts a percentage of the waste stream intended for its refuse disposal area to the SMaRT Station, where further recyclables are extracted. Costs for maintenance and operation are assigned on a percentage of use basis. In October 1993, the SMaRT Station began operations. The City's participation in this unique program, in addition to ensuring that a greater amount of reusable materials is salvaged, will prolong the life of the landfill. Diversion to the SMaRT Station also helps the City meet the requirements of AB 939, which mandates a 25 percent reduction in landfilled refuse by 1995, and a 50 percent reduction by 2000. Municipalities which fail to reduce landfilled refuse by these percentages will face fines up to \$10,000 per day. By participating in the SMaRT Station and other recycling programs Citywide, Palo Alto is on track for full compliance with this important environmental legislation.

Mission Driven Budgeting: In January 1993, under the direction of the City Manager, staff began to explore the concept of developing a "program" budget. An innovative break in tradition from line-item budgeting, mission driven budgeting is an attempt to design a budget process which focuses on services and measurements of performance in a way that can be readily understood by the City Council and the public. For each department, mission driven budgeting requires the identification of the following four items:

- o The department's "mission" -- the primary premise under which a department provides services, running the gamut from loaning library books to conducting internal audits;
- 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.

All City departments have constructed a mission driven budgeting structure for the services they provide, have established major activities and functional areas, and have identified impact measures. In addition, an interdepartmental steering committee is continuing to examine alternative approaches to issues that range from budgetary controls, incentives for departmental savings, to accountability for cross-department programs.

The transition from a traditional line-item budget to mission driven budgeting is a monumental task, but expected to be completed in time for adoption of the 1995-96 budget.

Electric Rebate: Beginning in November 1993, the City began issuing refunds to all qualifying Palo Alto electric ratepayers in amounts that would eventually total \$36.7 million. A surplus in the Electric Fund, due primarily to savings on purchases of power and a reimbursement from the settlement of a lawsuit, led to Council approval of the massive refund, which, for most residential ratepayers, took the form of a credit against payment for all utilities for several months. Former Palo Alto ratepayers were contacted as well, and those who qualified were sent refund payments.

Fixed Assets: An inventory and valuation of the City's general fixed assets was completed during the fiscal year. Maintenance of adequate records associated with the City's general fixed assets ensures accountability and control of these significant resources. With the inclusion of financial information on these records, the City satisfies all external reporting requirements, eliminating the qualification in the Independent Auditors' Report on the City's financial reports.

## **FINANCIAL HIGHLIGHTS**

Although the rest of the country appears to be climbing out of a lingering recession, California continues to feel the impact of the economic downturn of the past years. Cities and counties in particular have been sensitive to the economic shortfalls that have plagued California. The state has proven unable to produce a balanced budget from limited and ever-dwindling resources, and the state's ongoing budget crises continue to adversely impact local government budgets. Several revenue shifts from local coffers to the state treasury have been proposed, including a reapportionment of sales tax revenue. Palo Alto's sales tax per capita is extremely high, making the City's budget vulnerable to any changes in distribution, especially proposals which call for equalizing sales tax statewide on a per capita basis.

Fortunately, there are indications that the recession which has produced flattened revenues for the City is beginning to end. Sales tax data from fiscal year 1993-1994 showed a late but significant turnaround, allowing for a 2 percent growth forecast for next year.

### **General Fund**

The adopted 1993-94 budget reflected a General Fund operating deficit of \$0.23 million. Despite increased pressure on local tax revenues by the state and a generally sluggish economy, the adopted budget provided for the maintenance of current service levels. In addition, the budget included continued support for police assistance in East Palo Alto (\$324,000), increased funding for capital improvement projects (\$0.4 million), and one-time funding for World Cup Soccer (\$186,000) and Palo Alto Centennial (\$97,000) activities.

Council approved adjustments to the budget throughout the year, which included increased General Fund revenues from property and transfer taxes (increased by \$1.3 million at mid-year), and receipt of the General Fund portion of the Electric Fund rebate. Appropriations were made for purchases of assets, as well as enhanced services such as the Comprehensive Plan, and a reclaimed water project for the Golf Course. As adjusted, the General Fund budget reflected a net operating deficit of \$248,000, which was anticipated to be offset by \$500,000 of savings in departmental expenses.

The General Fund actually ended the year with a net operating surplus of \$792,000. Not only were departmental expenditure savings realized, but revenues came in 1.2 percent higher than budget overall.

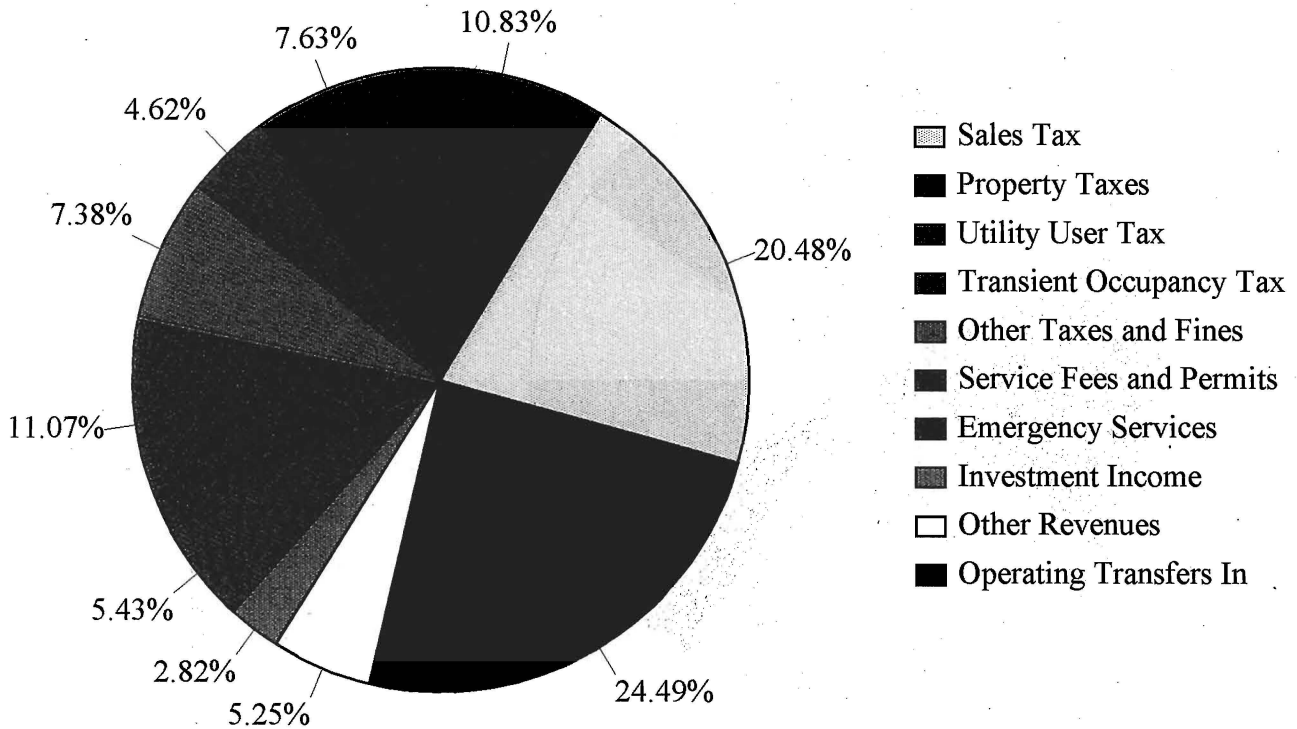
Revenues: Sales tax revenue, which comprises approximately 20 percent of the City's annual revenues, increased moderately in 1993-94, when compared to prior years. Revenue figures for this year include an upward adjustment for a prior year reallocation by the State Board of Equalization. True sales tax revenue increased moderately (just 1.2 percent) over last year. The last quarter's sales tax activity showed an increase of 4.8 percent over the same quarter of the previous year. Retail sales appear to be driving this moderate growth.

Property taxes decreased, due to the \$1.2 million shift in taxes to schools as part of the state budget. Offsetting this decrease was the one-time buy-out of delinquent secured property taxes by the county. This change in property tax apportionment (the "Teeter Plan"), adopted by the City in November 1993, resulted in the receipt of an additional \$486,000. Actual property taxes assessed reflect a valuation growth of approximately 2 percent in 1993-94.

Non-tax revenues increased almost 12 percent from 1992-93 levels, due in large part to increased service fees and permit revenues. Actual revenues in this area reflect a larger volume of paramedic transports with the addition of a second paramedic unit, and an increase in paramedic fees, which together resulted in an additional \$0.5 million in revenues. Various other fee increases were implemented in the current fiscal year, in keeping with the City's policy of obtaining recovery of the costs of certain services through fees.

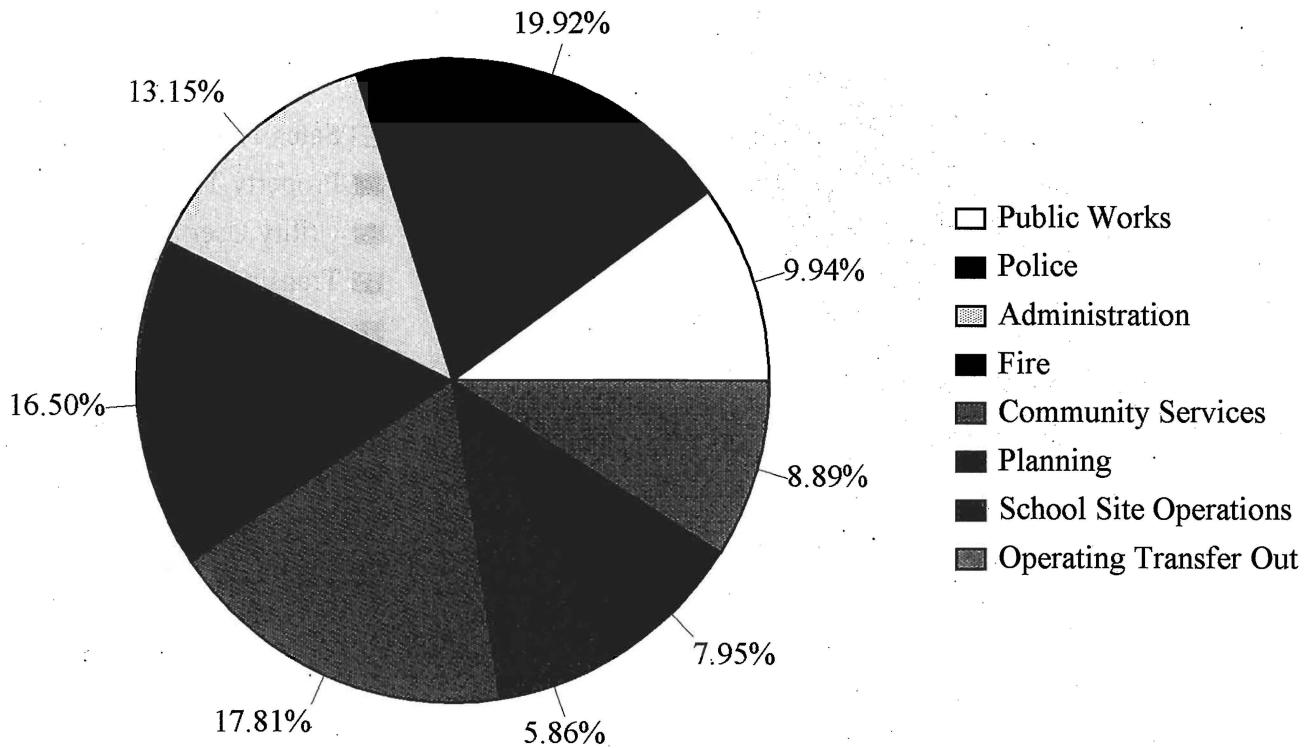
Expenditures: General Fund expenditures increased by slightly over 10 percent from the previous fiscal year. The large increase was due mainly to the inclusion of AB 702 credits (\$2.6 million) in the 1992-93 salaries and benefits figures used for comparison. Also, streets and sidewalk projects were more actively pursued than in the previous year, increasing contract expenditures by \$1.2 million; most of these expenditures were funded from reserves.

**CITY OF PALO ALTO**  
**GENERAL FUND REVENUES BY SOURCE**  
For the year ended June 30, 1994



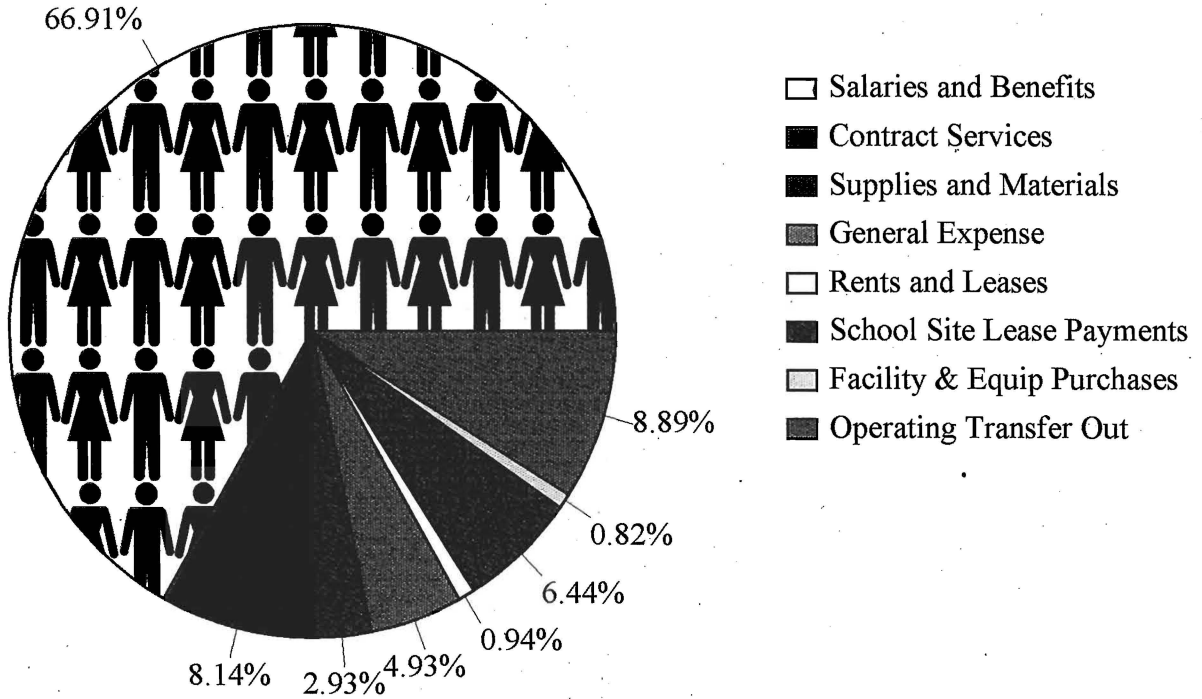
<u>Revenues (\$000)</u>	<u>1994 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1993</u>
Sales Tax	\$14,635	20.48	\$1,313
Property Tax	7,737	10.83	(630)
Utility User Tax	5,455	7.63	93
Transient Occupancy Tax	3,301	4.62	192
Other Taxes and Fines	5,277	7.38	944
Service Fees and Permits	7,915	11.07	992
Joint Service Agreements	3,884	5.43	319
Interest Earnings	2,012	2.82	(145)
Other Revenue	<u>3,755</u>	<u>5.25</u>	<u>667</u>
 Total Direct Revenues	 53,971	 75.51	 3,745
 Operating Transfers In	 <u>17,501</u>	 <u>24.49</u>	 <u>1,112</u>
 Total Revenues	 <u>\$71,472</u>	 <u>100.00</u>	 <u>\$4,857</u>

**CITY OF PALO ALTO**  
**GENERAL FUND EXPENDITURES**  
For the year ended June 30, 1994



<u>Expenditures (\$000)</u>	<u>1994 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1993</u>
Public Works	\$7,058	9.94	\$385
Police	14,150	19.92	770
Administration	9,343	13.15	534
Fire	11,718	16.50	1,678
Community Services	12,651	17.81	468
Planning/Community Environment	4,160	5.86	403
School Site Operations	<u>5,645</u>	<u>7.95</u>	<u>13</u>
 Total Direct Expenditures	 64,725	 91.11	 4,251
Operating Transfers Out	<u>6,313</u>	<u>8.89</u>	<u>2,350</u>
 Total Expenditures	 <u>\$71,038</u>	 <u>100.00</u>	 <u>\$6,601</u>

CITY OF PALO ALTO  
 GENERAL FUND EXPENDITURES BY TYPE  
 For the year ended June 30, 1994



<u>Expenditures (\$000)</u>	<u>1994 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1993</u>
Salaries and Benefits	\$47,530	66.91	\$3,482
Contract Services	5,781	8.14	824
Supplies and Materials	2,084	2.93	(37)
General Expense	3,502	4.93	(186)
Rents and Leases	666	0.94	33
School Site Lease Payments	4,575	6.44	112
Facility & Equip Purchases	<u>587</u>	<u>0.82</u>	<u>23</u>
 Total Direct Expenditures	 64,725	 91.11	 4,251
Operating Transfers Out	<u>6,313</u>	<u>8.89</u>	<u>2,351</u>
 Total Expenditures	 <u>\$71,038</u>	 <u>100.00</u>	 <u>\$6,602</u>

## **Capital Projects Fund**

The CIP Budget continued to reflect the dilemma faced by many California municipalities -- aging infrastructure in the face of limited revenues. CIP funding was augmented slightly over prior year amounts; emphasis was placed on renovation of public facilities/open space and replacement of park equipment. Utility user tax-supported streets and sidewalk improvements accounted for the actual increase in capital projects spending to \$6.1 million, an increase of \$1.5 million from the prior year.

The construction of the Cambridge Parking Garage, though financed through the assessment district's bond issuance, is also included in the fund's activities for 1993-94.

## **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 the area of federal grants, the City was awarded funding from the Home Investment Partnerships Program ("HOME") of \$1 million in December 1993. The grant proceeds, along with Community Development Block Grant housing development and Housing-in-Lieu funds, were used toward the acquisition and rehabilitation of a single-room occupancy housing project, the Barker Hotel, for low-income residents.

## **Enterprise Funds**

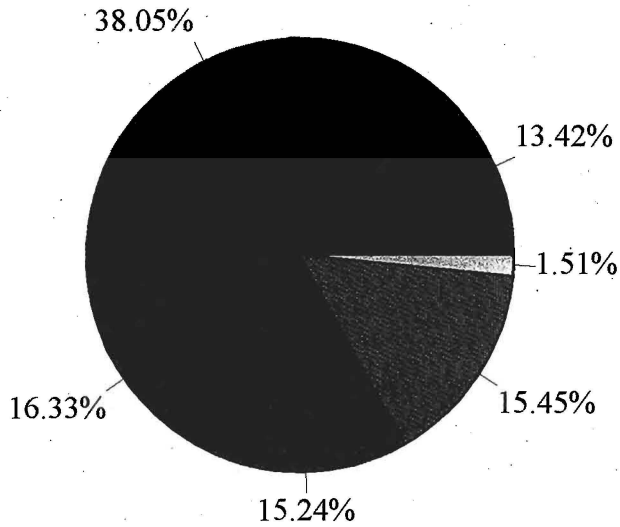
The City's Enterprise Funds include the Electric, Gas, Water, Wastewater, Refuse and Storm Drainage Funds. Total enterprise sales grew by almost 4 percent in 1993-94, although total revenues for the year were skewed by the \$36.7 million customer rebate in the Electric Fund.

The Water Fund, bolstered by a combination of strong sales, favorable expenditure savings and a reduced rate-of-return transfer to the City's General Fund, is in much better financial condition than in recent years, due to the end of the drought in 1992-93. In the Refuse Fund, a 30 percent increase in rates was imposed in order to fund the hauling of Palo Alto garbage to the now fully-functional SMaRT Station. A major reclassification of prior year capital costs in the Storm Drainage Fund served to properly report operational costs of the utility and restate fund reserve balances. With a 1994-95 rate increase and the issuance of bonds anticipated at mid-year, the fund should be well equipped to undertake an aggressive infrastructure repair and replacement program.

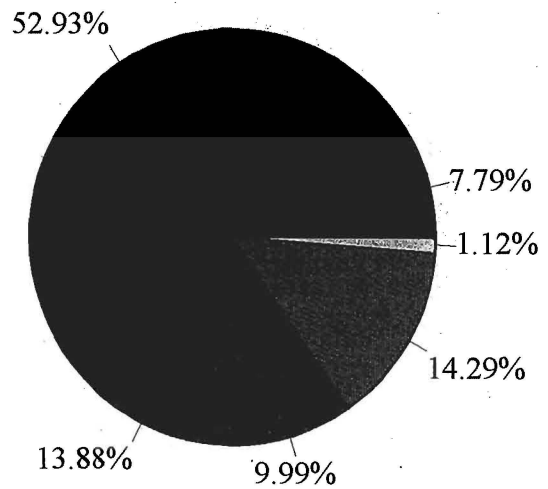
Enterprise Fund Reserve Guidelines were established in 1993 to ensure the adequacy of funds to finance one-time contingencies and to aid in the monitoring of each fund's financial health. The Rate Stabilization Reserve (RSR) established for each fund is adjusted for any fiscal year operating surplus or deficit, and is used primarily to avoid large fluctuations of rates to cover short-term events. All of the Enterprise Funds, with the exception of the Storm Drainage Fund, maintained reserves well within Council reserve guideline levels.



**CITY OF PALO ALTO  
ENTERPRISE FUNDS REVENUE  
For the year ended June 30, 1994**



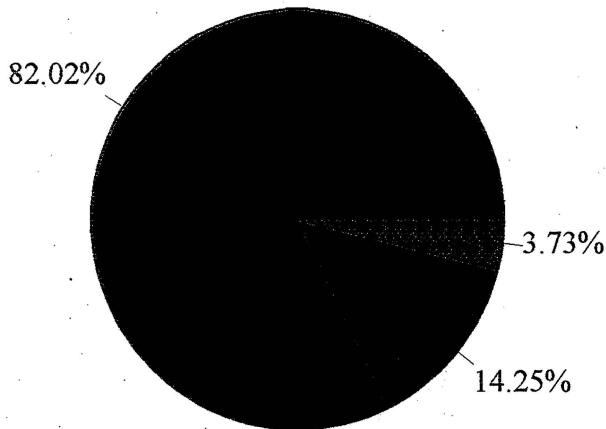
**CITY OF PALO ALTO  
ENTERPRISE FUNDS EXPENSES  
For the year ended June 30, 1994**



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

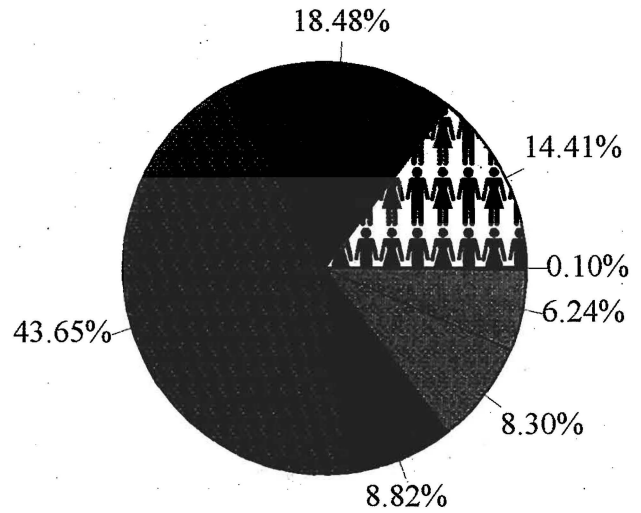
<u>Enterprise Fund</u>	<u>Revenues (\$000)</u>	<u>Expenses (\$000)</u>
Water	\$15,195	\$8,936
Electric	43,103	60,739
Gas	18,500	15,927
Wastewater	17,268	11,462
Refuse	17,498	16,398
Storm Drainage	1,709	1,290
<b>Total</b>	<b><u>\$113,273</u></b>	<b><u>\$114,752</u></b>

**CITY OF PALO ALTO  
ENTERPRISE FUNDS REVENUE  
For the year ended June 30, 1994**



■ Utility Sales      ■ Other Revenue  
■ Investment Income

**CITY OF PALO ALTO  
ENTERPRISE FUNDS EXPENSES  
For the year ended June 30, 1994**



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

	1994 Actual	Percent of Total	Increase (Decrease) from 1993
<u>Revenue (\$000)</u>			
Utility Sales	\$122,880	108.48	\$4,577
Other Revenue	21,342	18.84	12,336
Investment Income	5,593	4.94	(757)
Electric Rebate	(36,542)	-32.26	(36,542)
<b>Total Revenue</b>	<b><u>\$113,273</u></b>	<b><u>100.00</u></b>	<b><u>(20,386)</u></b>
<u>Expenses (\$000)</u>			
Salaries and Benefits	\$16,554	14.41	916
Operating Expenses	21,225	18.48	993
Purchases	50,139	43.65	2,121
Transfer to General Fund	10,126	8.82	1,125
Interest Expense	9,528	8.30	935
Rent	7,165	6.24	425
Other Expenses	120	0.10	(368)
<b>Total Expenses</b>	<b><u>\$114,857</u></b>	<b><u>100.00</u></b>	<b><u>\$6,147</u></b>

### **Debt Administration**

During the year, the City issued \$2,055,000 Limited Obligation Improvement Bonds for the California Avenue Parking District, to finance the construction of the Cambridge Avenue Parking Structure. The bond's average effective interest rate was 5.37 percent. Also, the City advance refunded the outstanding principal of \$2,175,000 on the 1983 Utility Revenue Bonds. The City paid a 2.5 percent, or \$54,300, premium for early redemption of these bonds per the bond covenant.

### **Cash Management**

Due to declining interest rates, the total rate of return on the City's portfolio decreased from 6.47 percent during the last fiscal year to 5.25 percent this year. Interest rates reached record low levels during the first half of the fiscal year after the Federal Reserve Board (FRB) lowered the Federal Fund Rate (FFR) in the previous months.

At the beginning of the fiscal year, the City's portfolio had an average life of 1.3 years, indicating more than adequate liquidity. Staff invested predominantly in U. S. Treasuries and Government Agency securities in the two-year average maturity range. Growing concerns about escalating inflation led the FRB to raise the FFR several times during the second half of the fiscal year, allowing interest rates to rise. Securities with two- to three-year maturity levels became the City's "best buy" opportunities. Staff continued to invest at these levels and increased the average life of the portfolio to 1.8 years, which prevented the total rate of return from dropping further.

All of the City's investments are classified in Category 1, as set forth in the Governmental Accounting Standards Board Statement No. 3, and were transacted in compliance with state law.

### **Risk Management**

As a member of the Authority of California Cities Excess Liabilities (ACCEL) Program, the City shares pooled risk for municipal liability exposures with eleven other cities. Participation in the ACCEL Program provides the City with an alternative to purchasing liability insurance from commercial carriers. ACCEL requires all member cities to have a full-time risk manager and a comprehensive risk management program.

For the third year in its eight-year history, ACCEL returned retrospective adjustments to its members; the adjustments are calculated beginning five years after the end of each program year. For fiscal year 1988-1989, the City received a retrospective adjustment of \$643,112. The program reserves are maintained in excess of \$34 million.

During fiscal year 1993-94, the member contribution rate was reduced by one-third. The decision to lower rates was based on actuarial studies and ACCEL's continuing positive loss history.

## 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 section 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. This year's audit was completed by Deloitte & Touche LLP.

**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.

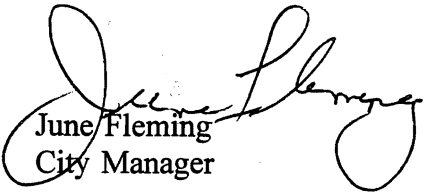
Acknowledgement

The preparation of the Comprehensive Annual Financial Report reflects the dedication and effort of the staff members of the Finance Department, and could not have been accomplished without their efficient and dedicated efforts. Staff would also like to thank the City Council, and especially the Finance Committee, for its continued support, leadership, and concern for the financial stability of the community.

Respectfully submitted,



Emily Harrison  
Director of Finance

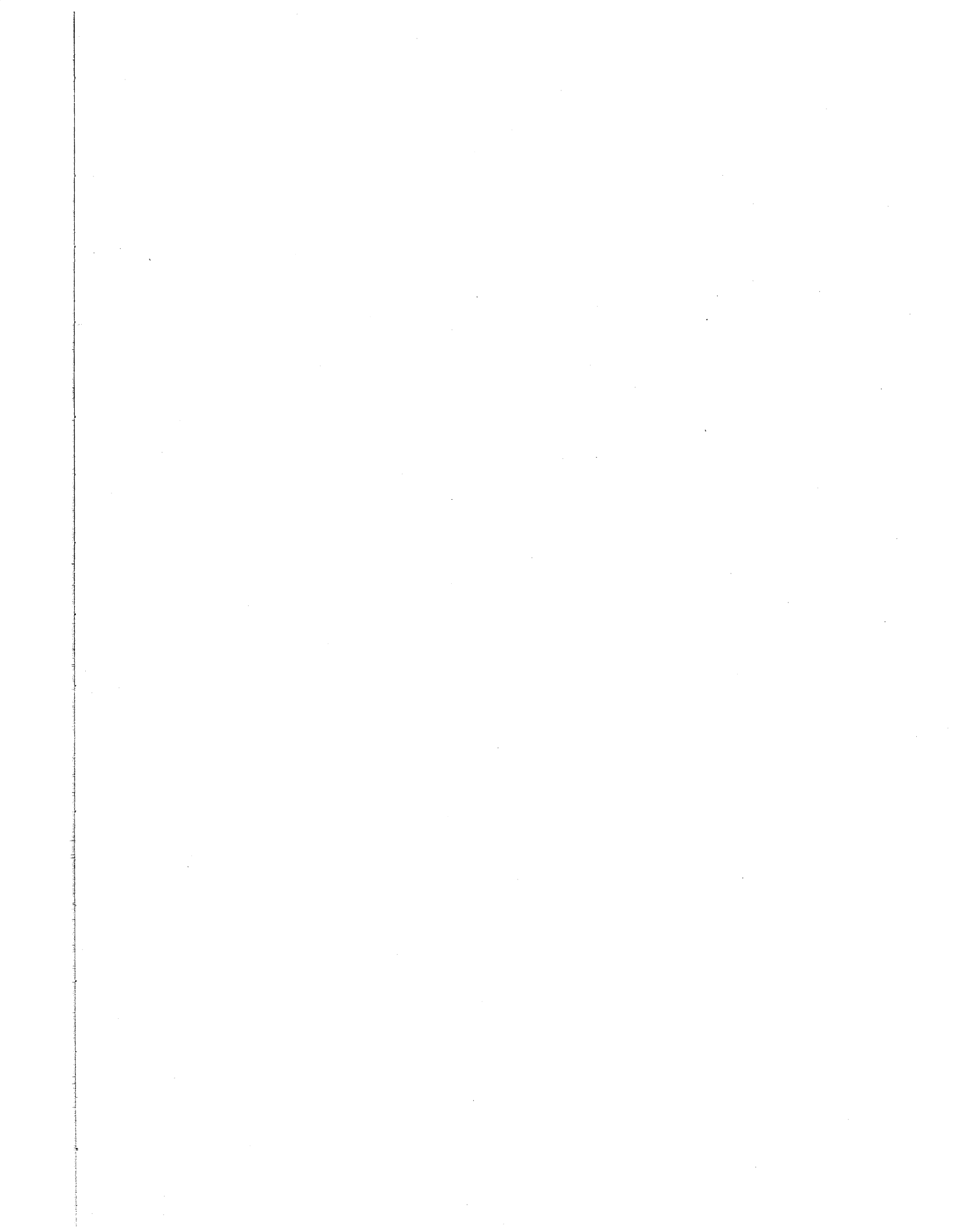


June Fleming  
City Manager





Bicycle Club – September, 1888







**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, 1994 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.

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.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the City at June 30, 1994, 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 10 to the general purpose financial statements, July 1, 1993 fund equity has 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, which are also the responsibility of the management of the City, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements 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, is fairly presented, 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 LLP*

October 21, 1994

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## **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, 1994 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Project
<b>ASSETS AND OTHER DEBITS</b>				
Cash, cash equivalents and investments	\$26,700	\$ 8,859	\$ 2,110	\$7,562
Restricted:				
Cash and cash equivalents			319	1,356
Investments			947	
Receivables, net:				
Accounts	3,744	471	9,010	3
Interest	616	115	29	
Notes	590	3,551		
Interfund receivable	413			
Inventory	1,124	17		
Prepaid items				
Property, plant and equipment, net				
Amount available in debt service funds				
Amount to be provided for retirement of general long-term debt				
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$33,187</u>	<u>\$13,013</u>	<u>\$12,415</u>	<u>\$8,921</u>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 2,539	\$ 429	\$ 11	\$ 464
Accrued salaries and benefits	1,842			
Deferred revenue		130	9,010	
Deferred compensation				
Accrued compensated absences				
Accrued self insurance				
Landfill closure and postclosure care				
Due to Palo Alto Recreation Foundation				
Interfund payable		413		
General revenue bonds				
Utility revenue bonds				
Certificates of participation				
Special assessment debt with governmental commitment				
Capital lease obligations				
<b>Total liabilities</b>	<u>4,381</u>	<u>972</u>	<u>9,021</u>	<u>464</u>
<b>FUND EQUITY AND OTHER CREDITS:</b>				
Contributed capital				
Investment in general fixed assets				
Retained earnings				
Fund balances:				
Reserved	5,802	7,562	3,394	7,961
Unreserved:				
Designated	23,004	5,368		496
Undesignated		(889)		
<b>Total fund equity and other credits</b>	<u>28,806</u>	<u>12,041</u>	<u>3,394</u>	<u>8,457</u>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<u>\$33,187</u>	<u>\$13,013</u>	<u>\$12,415</u>	<u>\$8,921</u>

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

Proprietary Funds		Fiduciary Funds Trust and Agency	Account Groups		Totals Reporting Entity (Memorandum Only) June 30,		
			Enterprise	Internal Service	General Fixed Assets	General Long-Term Debt	1994
\$ 96,644	\$26,393	\$ 131				\$168,399	\$180,784
449		28,101				30,225	28,396
						947	1,440
13,243	11					26,482	24,421
1,236	315					2,311	2,384
						4,141	2,831
						413	
	178					1,319	1,164
228	214					442	298
180,713	7,039		\$102,840			290,592	285,896
				\$ 3,394		3,394	3,336
					16,729	16,729	16,049
<u>\$292,513</u>	<u>\$34,150</u>	<u>\$28,232</u>	<u>\$102,840</u>	<u>\$20,123</u>		<u>\$545,394</u>	<u>\$546,999</u>
\$ 6,405	\$ 52	\$ 2				\$ 9,902	\$ 12,171
692	1,361					3,895	2,901
		28,101				9,140	7,651
441	7,341					28,101	25,587
1,893	7,318					7,782	7,657
4,930						9,211	8,328
						4,930	4,841
							128
						413	
				\$ 1,000		1,000	1,075
12,389						12,389	15,382
						6,925	7,305
						9,390	7,790
	836					2,808	4,554
<u>26,750</u>	<u>16,908</u>	<u>28,103</u>		<u>20,123</u>		<u>106,722</u>	<u>105,370</u>
58,003	5,338					63,341	63,051
207,760	11,904		\$102,840			102,840	110,311
						219,664	219,665
						24,719	21,198
						28,868	28,044
		129				(760)	(640)
<u>265,763</u>	<u>17,242</u>	<u>129</u>	<u>102,840</u>	<u>-</u>		<u>438,672</u>	<u>441,629</u>
<u>\$292,513</u>	<u>\$34,150</u>	<u>\$28,232</u>	<u>\$102,840</u>	<u>\$20,123</u>		<u>\$545,394</u>	<u>\$546,999</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, 1994 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
<b>REVENUES:</b>				
Property taxes	\$ 7,737			
Special assessments			\$ 863	
Sales taxes	14,635			
Utility users' tax	5,455			
Transient occupancy tax	3,301			
Other taxes and fines	5,277	\$ 1,047		
Fire protection and emergency communication services	3,884			
From other agencies	422	1,527	236	\$ 110
Service fees and permits	7,915			
Interest earnings	2,012	441	121	58
Other	3,333	1,380		3
<b>Total revenues</b>	<u>53,971</u>	<u>4,395</u>	<u>1,220</u>	<u>171</u>
<b>EXPENDITURES:</b>				
Current operations:				
Administration	9,343			
Public works	7,058			
Community environment	4,160			
Public safety - Police	14,150			
Public safety - Fire	11,718			
Community services	12,651			
School site operations	5,645			
Special revenue and capital outlay		1,383		6,067
Debt service:				
Principal retirement			1,305	
Interest and fiscal charges			1,264	
<b>Total expenditures</b>	<u>64,725</u>	<u>1,383</u>	<u>2,569</u>	<u>6,067</u>
Excess of revenues over (under) expenditures	<u>(10,754)</u>	<u>3,012</u>	<u>(1,349)</u>	<u>(5,896)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	17,501		1,172	6,604
Operating transfers out	(6,313)	(1,540)	(46)	(224)
Proceeds from bond sales			311	1,744
<b>Total other financing sources (uses)</b>	<u>11,188</u>	<u>(1,540)</u>	<u>1,437</u>	<u>8,124</u>
Excess of revenues and other financing sources over expenditures and other financing uses	434	1,472	88	2,228
<b>FUND BALANCES, BEGINNING OF YEAR, AS RESTATED (see Note 10)</b>				
Residual equity transfers in	28,421	10,569	3,336	6,150
Residual equity transfers out	30			79
	<u>(79)</u>		<u>(30)</u>	
<b>FUND BALANCES, END OF YEAR</b>	<u>\$28,806</u>	<u>\$12,041</u>	<u>\$3,394</u>	<u>\$8,457</u>

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

Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only) Year Ended June 30	
	1994	1993
		\$ 7,737
	863	959
	14,635	13,322
	5,455	5,362
	3,301	3,109
	6,324	5,301
	3,884	3,565
	2,295	1,910
	7,915	6,923
\$ 3	2,635	2,835
<u>26</u>	<u>4,742</u>	<u>2,934</u>
<u>29</u>	<u>59,786</u>	<u>54,587</u>
	9,343	8,809
	7,058	6,673
	4,160	3,757
22	14,172	13,408
	11,718	10,040
4	12,655	12,184
	5,645	5,632
	7,450	5,342
	1,305	1,274
	<u>1,264</u>	<u>1,267</u>
<u>26</u>	<u>74,770</u>	<u>68,386</u>
<u>3</u>	<u>(14,984)</u>	<u>(13,799)</u>
	25,277	21,694
	(8,123)	(5,642)
	<u>2,055</u>	
<u>-</u>	<u>19,209</u>	<u>16,052</u>
3	4,225	2,253
126	48,602	46,349
	109	3,155
	<u>(109)</u>	<u>(3,155)</u>
<u>\$129</u>	<u>\$52,827</u>	<u>\$48,602</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, 1994 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES:</b>						
Property taxes	\$ 7,897	\$ 7,737	\$ (160)			
Sales taxes	14,284	14,635	351			
Utility users' tax	5,738	5,455	(283)			
Transient occupancy tax	3,249	3,301	52			
Other taxes and fines	5,131	5,277	146	\$ 1,990	\$ 1,047	\$ (943)
Fire protection and emergency communication services	3,916	3,884	(32)			
From other agencies	390	422	32	711	1,527	816
Service fees and permits	7,604	7,915	311			
Interest earnings	1,946	2,012	66	441	441	
Other	<u>3,827</u>	<u>3,333</u>	<u>(494)</u>	<u>865</u>	<u>938</u>	<u>73</u>
Total revenues	<u>53,982</u>	<u>53,971</u>	<u>(11)</u>	<u>4,007</u>	<u>3,953</u>	<u>(54)</u>
<b>EXPENDITURES:</b>						
Current operations:						
Administration	10,577	9,343	1,234			
Public works	8,341	7,058	1,283			
Community environment	4,698	4,160	538			
Public safety - Police	14,742	14,150	592			
Public safety - Fire	11,858	11,718	140			
Community services	13,028	12,651	377			
School site operations	5,933	5,645	288			
Capital outlay				<u>2,243</u>	<u>1,158</u>	<u>1,085</u>
Total expenditures	<u>69,177</u>	<u>64,725</u>	<u>4,452</u>	<u>2,243</u>	<u>1,158</u>	<u>1,085</u>
Excess of revenues over (under) expenditures	<u>(15,195)</u>	<u>(10,754)</u>	<u>4,441</u>	<u>1,764</u>	<u>2,795</u>	<u>1,031</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in	17,606	17,501	(105)			
Operating transfers out	(5,659)	(6,313)	(654)	(3,020)	(1,540)	1,480
Proceeds from bond sales						
Total other financing sources (uses)	<u>11,947</u>	<u>11,188</u>	<u>(759)</u>	<u>(3,020)</u>	<u>(1,540)</u>	<u>1,480</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>\$ (3,248)</u>	<u>\$ 434</u>	<u>\$ 3,682</u>	<u>\$(1,256)</u>	<u>\$ 1,255</u>	<u>\$ 2,511</u>

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



Capital Project Fund			Totals Reporting Entity (Memorandum Only)		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
			\$ 7,897	\$ 7,737	\$ (160)
			14,284	14,635	351
			5,738	5,455	(283)
			3,249	3,301	52
			7,121	6,324	(797)
			3,916	3,884	(32)
\$ 55	\$ 110	\$ 55	1,156	2,059	903
	58	58	7,604	7,915	311
	3	(140)	2,387	2,511	124
<u>143</u>	<u>3</u>	<u>(140)</u>	<u>4,835</u>	<u>4,274</u>	<u>(561)</u>
<u>198</u>	<u>171</u>	<u>(27)</u>	<u>58,187</u>	<u>58,095</u>	<u>(92)</u>
			10,577	9,343	1,234
			8,341	7,058	1,283
			4,698	4,160	538
			14,742	14,150	592
			11,858	11,718	140
			13,028	12,651	377
			5,933	5,645	288
<u>7,632</u>	<u>6,067</u>	<u>1,565</u>	<u>9,875</u>	<u>7,225</u>	<u>2,650</u>
<u>7,632</u>	<u>6,067</u>	<u>1,565</u>	<u>79,052</u>	<u>71,950</u>	<u>7,102</u>
<u>(7,434)</u>	<u>(5,896)</u>	<u>1,538</u>	<u>(20,865)</u>	<u>(13,855)</u>	<u>7,010</u>
7,377	6,604	(773)	24,983	24,105	(878)
	(224)	(224)	(8,679)	(8,077)	602
	<u>1,744</u>	<u>1,744</u>		<u>1,744</u>	<u>1,744</u>
<u>7,377</u>	<u>8,124</u>	<u>747</u>	<u>16,304</u>	<u>17,772</u>	<u>1,468</u>
<u>\$ (57)</u>	<u>\$2,228</u>	<u>\$2,285</u>	<u>\$ (4,561)</u>	<u>\$ 3,917</u>	<u>\$8,478</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, 1994 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals Reporting Entity (Memorandum Only)	
			Year Ended June 30, 1994	1993
<b>OPERATING REVENUES:</b>				
Sales of utilities:				
Customers	\$119,324		\$119,324	\$114,840
City departments	3,556		3,556	3,463
Electric rebate	(36,542)		(36,542)	
Wastewater treatment	6,403		6,403	5,651
Service connection charges and miscellaneous	424		424	342
Charges for services		\$30,324	30,324	28,088
Other revenues	14,515		14,515	3,013
Total operating revenues	<u>107,680</u>	<u>30,324</u>	<u>138,004</u>	<u>155,397</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities	50,139		50,139	48,018
Administration and general	5,077	1,487	6,564	7,570
Engineering (operating)	2,673		2,673	2,354
Resource planning	2,216		2,216	1,970
Operations and maintenance	20,776	2,087	22,863	20,994
Depreciation and amortization	7,095	1,563	8,658	8,843
Self-insured losses		1,819	1,819	3,336
Compensated absences and other benefits		23,594	23,594	22,494
Total operating expenses	<u>87,976</u>	<u>30,550</u>	<u>118,526</u>	<u>115,579</u>
<b>OPERATING INCOME (LOSS)</b>	<u>19,704</u>	<u>(226)</u>	<u>19,478</u>	<u>39,818</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest revenue	5,593	1,014	6,607	7,357
Interest expense	(1,004)	(72)	(1,076)	(1,259)
Joint venture debt service	(8,524)		(8,524)	(7,435)
Gain (loss) on disposal of fixed assets	(62)	76	14	(115)
AB 702 rebate				3,325
Other		654	654	645
Total nonoperating revenues (expenses)	<u>(3,997)</u>	<u>1,672</u>	<u>(2,325)</u>	<u>2,518</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>15,707</u>	<u>1,446</u>	<u>17,153</u>	<u>42,336</u>
<b>OPERATING TRANSFERS:</b>				
Operating transfers in	105	32	137	177
Operating transfers out	(17,291)		(17,291)	(16,229)
Net operating transfers	<u>(17,186)</u>	<u>32</u>	<u>(17,154)</u>	<u>(16,052)</u>
<b>NET INCOME (LOSS)</b>	<u>(1,479)</u>	<u>1,478</u>	<u>(1)</u>	<u>26,284</u>
<b>RETAINED EARNINGS, BEGINNING OF YEAR, AS RESTATED (See Note 10)</b>				
	<u>209,239</u>	<u>10,426</u>	<u>219,665</u>	<u>193,381</u>
<b>RETAINED EARNINGS, END OF YEAR</b>	<u>\$207,760</u>	<u>\$11,904</u>	<u>\$219,664</u>	<u>\$219,665</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, 1994 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Enterprise Funds	Internal Service Fund	Totals Reporting Entity (Memorandum Only)	
			Year Ended June 30, 1994	1993
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 19,704	\$ (226)	\$ 19,478	\$ 39,818
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	7,095	1,563	8,658	8,843
AB 702 rebate				3,325
Other		730	730	279
Changes in assets and liabilities:				
Increase (decrease) in accounts receivable	(430)	3	(427)	570
Increase (decrease) in interest receivable	236	(63)	173	46
Increase in stores inventories		(29)	(29)	(27)
(Increase) decrease in prepaid items	25	(176)	(151)	(87)
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(1,172)	(237)	(1,409)	2,037
Increase in accrued compensated absences	52	359	411	347
Increase in accrued self-insurance	524	72	596	1,334
Increase in accrued landfill closure liability	89		89	65
Net cash provided by operating activities	<u>26,123</u>	<u>1,996</u>	<u>28,119</u>	<u>56,550</u>
<b>CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers out to other funds	(17,186)		(17,186)	(16,083)
Operating transfers in from other funds		32	32	31
Net cash provided by (used in) noncapital financing activities	<u>(17,186)</u>	<u>32</u>	<u>(17,154)</u>	<u>(16,052)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(19,839)	(801)	(20,640)	(16,460)
Principal paid on revenue bonds	(3,050)		(3,050)	(736)
Proceeds of refunding bonds	531		531	
Principal paid on capital leases		(521)	(521)	(492)
Interest paid on revenue bonds and capital leases	(9,528)	(72)	(9,600)	(8,694)
Contributed capital		118	118	82
Repayment of advance from General Fund				(446)
Net cash used in capital and related financing activities	<u>(31,886)</u>	<u>(1,276)</u>	<u>(33,162)</u>	<u>(26,746)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -</b>				
Interest and dividends on pooled cash and investments	<u>5,593</u>	<u>1,014</u>	<u>6,607</u>	<u>7,357</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(17,356)	1,766	(15,590)	21,109
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>114,449</u>	<u>24,627</u>	<u>139,076</u>	<u>117,967</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 97,093</u>	<u>\$26,393</u>	<u>\$123,486</u>	<u>\$139,076</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - Increase in contributed capital</b>				
	\$ 172		\$ 172	\$ 1,126

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, 1994

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### 1. SUMMARY OF 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.

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the primary government) and its component units, the Palo Alto Public Improvement Corporation (the PIC), the City of Palo Alto Golf Course Corporation (the Golf Course) and the Palo Alto Centennial 1994, Inc. (the Corporation). Though legally separate entities, the blended component units are included in the City's financial statements as the component units serve the City exclusively and have a significant financial relationship with the City.

The operations of the Palo Alto Housing Corporation, Palo Alto Senior Coordinating Council, Palo Alto Community Child Care, Palo Alto Unified School District and Palo Alto Recreation Foundation are excluded from the accompanying general purpose financial statements. The City Council does not control the governing boards of the above entities, and the entities are not fiscally dependent on the City.

#### **Blended Component Units**

The component units are blended into the City's financial statements; the data from the separate financial statements of the component units are combined with the data of the City's operations. Though the component units are legally separate, in substance they are part of the City because the component units serve the City exclusively and the City Council has the ability to impose its will on the component units. The governing bodies of these component units are approved by the City Council.

#### **City of Palo Alto Golf Course Corporation**

The Golf Course Corporation (the Golf Course) 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 Golf Course 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 PIC) 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 PIC has completed the first phase of improvement and repair of the Palo Alto Civic Center. The PIC is currently leasing the Civic Center and improvements to the City for a 22-year period through June 2006. The debt service payments for the PIC are included in the activities of the Debt Service Funds while the operating activities of the PIC are included in the activities of the Capital Project Funds.

### **Palo Alto Centennial 1994, Inc.**

Palo Alto Centennial 1994, Inc. (the Corporation) was established in 1990 to plan, organize, coordinate and implement a public and civic celebration of the centennial anniversary of the City of Palo Alto throughout 1994. The Corporation is based on a calendar fiscal year-end. Operating activities of the Corporation are included in the activities of the Special Revenue Funds and are reported as of the year ended December 31, 1993.

Complete financial statements of the individual component units can be obtained from:

The City of Palo Alto  
Finance Department  
250 Hamilton Ave.  
Palo Alto, CA 94301

### ***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 or expenses, 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 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 held by the City in a trustee capacity 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 utilize generally accepted accounting principles that are generally applicable to similar businesses in the private sector, where the measurement focus is upon determination of net income, financial position and cash flows. Revenues earned and expenses incurred are recognized and classified in a government's proprietary funds in essentially the same manner as in business-type accounting and financial reporting. Only minor adaptations are involved in applying the revenue realization and expense recognition principles in the governmental environment. The City follows the guidance of all Governmental Accounting Standards Board pronouncements in accounting and reporting for its proprietary operations.

***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 Proprietary Funds and project level in the Capital Projects Funds. A budget is not adopted for the Special Revenue Centennial 1994 Fund.

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 Program 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 Program Agency Fund investments which are stated at market value.



**Cash 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 an other financing source 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 (\$9,010,000 at June 30, 1994) 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. The City is required to cover delinquencies with other resources until foreclosure proceeds are received. 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. The possibility of the City assuming a secondary liability is considered extremely remote as the underlying property values were evaluated before the assessment districts were established.

***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 \$4,817,000 for all funds at June 30, 1994. 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 \$2,965,000 at June 30, 1994 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. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

***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:

	<b>Secured</b>	<b>Unsecured</b>
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, prior year totals by fund have not been presented because their inclusion would make the statements unduly complex and difficult to read. As discussed in Note 10, prior year totals have been restated.

## 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, 1994 follow (in thousands):

	<b>Carrying Value</b>	<b>Bank Balance</b>
Cash in banks or on hand	\$1,440	\$2,801
Cash held in trust with fiscal agent	3,072	3,072
Nonnegotiable certificates of deposit	<u>2,000</u>	<u>2,000</u>
<b>Total</b>	<b><u>\$6,512</u></b>	<b><u>\$7,873</u></b>

At June 30, 1994, the difference between the carrying amount of the City's cash in banks and on hand is due to outstanding checks of \$2,018,000, deposits in transit of \$652,000 and petty cash of \$5,000. Of the bank balance, \$300,000 was covered by depository insurance and \$7,573,000 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, 1994 are amounts held with a fiscal agent and held in trust of \$3,072,000. Included in the amounts held with a fiscal agent are bond proceeds in the amount of \$1,804,524 held in a construction fund, which earns interest. As of June 30, 1994, all cash held in trust was in compliance with the respective trust agreements.

***Investments***

The June 30, 1994 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 unrestricted mutual funds of \$15,000,000 and \$100,000, respectively, at June 30, 1994 are not subject to credit risk categorization. Deferred compensation fund investments of \$28,101,000 at June 30, 1994 are entirely invested in restricted 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, 1994 were as follows (in thousands):

	Carrying Value	Market Value
U.S. Treasury obligations	\$ 43,083	\$ 42,626
U.S. Agency obligations	<u>106,775</u>	<u>105,551</u>
Total	149,858	148,177
Investment in Local Agency Investment Fund	15,000	15,000
Mutual funds:		
Unrestricted	100	100
Restricted	<u>28,101</u>	<u>28,101</u>
Total investments	<u>\$193,059</u>	<u>\$191,378</u>

The City did not enter into any reverse repurchase agreements during the year ended June 30, 1994.

### 3. PROPERTY, PLANT AND EQUIPMENT

Prior to June 30, 1993, the General Fixed Asset Account Group's recorded costs of property, plant and equipment were not supported by detailed records and documentation of historical costs. Therefore, for the year ended June 30, 1994, the City is not able to disclose current year additions and disposals in general fixed assets. As of June 30, 1994, a study was performed to provide detail which resulted in adjustments of \$7,471,000 in fixed asset carrying values. The City's fixed assets records now enable it to accumulate additions and disposals.

A summary of General Fixed Assets Account Group fixed assets at June 30, 1994 follows (in thousands):

Land and improvements	\$ 50,800
Buildings and structures	45,675
Equipment	<u>6,365</u>
Total	<u>\$102,840</u>

Included in land and improvements and equipment at June 30, 1994 are assets under capital leases amounting to \$6,386,000.

General fixed assets construction-in-progress is not capitalized and was composed of the following at June 30, 1994 (in thousands):

	Project Authorization	Expended to June 30, 1994	Committed
Environmental compliance/safety	\$ 1,410	\$ 537	\$ 165
Information and communications systems	5,618	3,627	407
Infrastructures	20,053	15,008	1,995
Parks and open space	3,427	1,996	604
Public buildings	5,630	4,113	547
Other	<u>1,255</u>	<u>244</u>	<u>130</u>
Total	<u>\$37,393</u>	<u>\$25,525</u>	<u>\$3,848</u>

A summary of Proprietary Fund Type fixed assets at June 30, 1994 follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and improvements	\$ 1,541	
Buildings and structures	4,482	
Equipment	249,935	\$14,890
Construction in progress	<u>21,711</u>	<u>          </u>
Total	277,669	14,890
Less accumulated depreciation	<u>(96,956)</u>	<u>(7,851)</u>
Net fixed assets	<u>\$180,713</u>	<u>\$ 7,039</u>

Capitalized interest for the year ended June 30, 1994 in the Enterprise Funds' fixed assets increased the carrying value of such assets by \$175,000.

Included in equipment in the Internal Service Funds at June 30, 1994 are assets under capital leases amounting to \$2,470,000. 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, 1994 follows (in thousands):

	Project Authorization	Expended to June 30, 1994	Committed
Storm drainage structural and water quality improvements	\$ 2,718	\$ 805	\$ 481
Gas system extension replacements and improvements	3,457	3,765	158
Electric substations	1,749	693	92
Water system extension replacements and improvements	2,876	1,433	187
Street lighting	1,258	376	43
Electric system improvements	2,079	1,638	621
Installation of underground wiring	5,541	6,299	32
Other electrical improvement projects	2,774	719	54
Water quality control plant equipment replacement and lab facilities	1,609	388	305
Sewer system rehabilitation and extensions	1,924	714	237
Automated mapping	673	1,168	412
Civic center improvements	1,292	952	513
Other construction in progress	<u>2,563</u>	<u>2,761</u>	<u>660</u>
	<u>\$30,513</u>	<u>\$21,711</u>	<u>\$3,795</u>

Allocations of administration and general expenses of \$6,690,000 are included in amounts expended to June 30, 1994.

#### 4. LONG-TERM DEBT

Long-term debt at June 30, 1994 follows (in thousands):

	Maturity	Effective Interest Rates	Authorized and Issued	Outstanding at June 30, 1994
General revenue bonds (a) -				
Golf Course Corporation Lease Revenue Bonds, Series 1978	2003	5.00% - 6.00%	\$ 1,800	\$ 1,000
Utility revenue bonds (b):				
Utility Revenue Refunding Bonds 1990 Series A	2006	5.70% - 6.80%	9,650	8,035
Utility Revenue Bonds 1992 Series A	2007	6.30% - 6.375%	4,750	4,660
Less: unamortized discount				(306)
Total utility revenue bonds			14,400	12,389
1992 Certificates of Participation - Civic Center improvement certificates (c)	2012	3.60% - 6.70%	7,670	6,925
Special assessment debt with governmental commitment - utility street improvement and parking district bonds (d)	2016	3.40% - 10.95%	13,360	9,390
Capital lease obligations:				
Terman School (e)	2000	Variable	6,321	2,766
Vehicle equipment (f)	1995	5.70% - 6.10%	2,346	807
Other equipment (g)	1997	1.5% - 7.0%	189	98
Less: unamortized discount				(27)
Total capital lease obligations			8,856	3,644
Total long-term debt			\$46,086	\$33,348

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 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 of the Special Assessment Debt Fund.



- (e) The variable interest rate for the Terman School site lease is based on the lessor's investment portfolio; the rate for the 1993-94 fiscal year was 4.2%. Future interest payments are based on an estimated rate of 4.5% 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, 1994 follows (in thousands):

	Balance July 1, 1993	Additional Obligations	Current Maturities and Retirements	Balance June 30, 1994
General revenue bonds	\$ 1,075		\$ 75	\$ 1,000
Utility revenue bonds	15,382		2,993	12,389
Certificates of participation	7,305		380	6,925
Special assessment debt with governmental commitment	7,790	\$2,055	455	9,390
Capital lease obligations	<u>4,554</u>	<u>      </u>	<u>910</u>	<u>3,644</u>
Total debt	<u>\$36,106</u>	<u>\$2,055</u>	<u>\$4,813</u>	<u>\$33,348</u>

In November 1993, the City issued \$2,055,000 in Limited Obligation Bonds for the California Avenue Parking Assessment District to provide funds for the construction of the Cambridge Avenue parking structure. The net proceeds of \$1,955,000 (after payment of \$100,000 in issuance costs) provided \$1,744,000 for the construction project. A reserve of \$103,000 was established for the new debt service.

During the year ended June 30, 1994, the City legally defeased the outstanding principal of \$2,175,000 on the 1983 Utility Revenue Bonds. In addition, the City paid a 2.5 percent or \$54,300 premium for the early redemption of these Bonds per the bond covenants. As a result, the liability related to the 1983 Utility Revenue Bonds has been removed from the Enterprise Funds section of the financial statements.

The annual requirements to amortize all bonds, certificates of participation and capital leases outstanding as of June 30, 1994 are as follows (in thousands):

	Principal	Interest	Total
<b>General revenue bonds:</b>			
1995	\$ 75	\$ 57	\$ 132
1996	100	53	153
1997	100	47	147
1998	100	41	141
1999	100	36	136
Thereafter	<u>525</u>	<u>78</u>	<u>603</u>
<b>Total</b>	<b><u>\$ 1,000</u></b>	<b><u>\$ 312</u></b>	<b><u>\$ 1,312</u></b>
<b>Utility revenue bonds:</b>			
1995	\$ 555	\$ 824	\$ 1,379
1996	590	790	1,380
1997	625	753	1,378
1998	660	714	1,374
1999	705	672	1,377
Thereafter	<u>9,254</u>	<u>4,691</u>	<u>13,945</u>
<b>Total</b>	<b><u>\$12,389</u></b>	<b><u>\$8,444</u></b>	<b><u>\$20,833</u></b>
<b>Certificates of participation:</b>			
1995	\$ 395	\$ 421	\$ 816
1996	415	402	817
1997	440	380	820
1998	460	356	816
1999	485	343	828
Thereafter	<u>4,730</u>	<u>1,609</u>	<u>6,339</u>
<b>Total</b>	<b><u>\$ 6,925</u></b>	<b><u>\$3,511</u></b>	<b><u>\$10,436</u></b>
<b>Special assessment debt:</b>			
1995	\$ 380	\$ 585	\$ 965
1996	455	548	1,003
1997	475	530	1,005
1998	510	499	1,009
1999	550	466	1,016
Thereafter	<u>7,020</u>	<u>2,531</u>	<u>9,551</u>
<b>Total</b>	<b><u>\$ 9,390</u></b>	<b><u>\$5,159</u></b>	<b><u>\$14,549</u></b>
<b>Capital lease obligations:</b>			
1995	\$ 942	\$ 155	\$ 1,097
1996	710	117	827
1997	410	100	510
1998	395	79	474
1999	395	59	454
Thereafter	<u>792</u>	<u>59</u>	<u>851</u>
<b>Total</b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 569</u></b>	<b><u>\$ 4,213</u></b>

Long-term debt as of June 30, 1994 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: 08/21/91	5.70% - 6.80%	06/01/01 (4)
04/01/92	6.30% - 6.375%	06/01/01 (4)
Certificates of participation issued - 03/18/92	3.60% - 6.70%	03/01/01 (6)
Special assessment bonds issued: 09/02/69	6.90%	01/02/71 (2)
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 (5)
12/18/89	5.75% - 6.90%	09/01/00 (4)
11/22/93	3.40% - 5.40%	03/02/94 (7)

- (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 a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (5) 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.
- (6) 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.
- (7) Callable in any order prior to maturity at par plus 3% on any March 2 or September 2.

In addition to the long-term debt discussed above, the City of Palo Alto Insured Revenue Bonds (Lytton Gardens Health Care Center) Refunding Series 1986, 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, 1994 was \$13,360,000.

In December 1989, the City advance refunded the University Avenue Parking Assessment District 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, 1994, the outstanding balance on these defeased bonds totaled \$4,270,000.

5. INTERFUND RECEIVABLE AND PAYABLE

Cash overdrafts in the City's pooled cash, cash equivalents and investments are reported as interfund receivable and payable. At June 30, 1994 interfund receivable and payable is as follows (in thousands):

	Interfund Receivable	Interfund Payable
General Fund	\$ 413	
Federal Revenue Special Revenue Fund	—	\$ 413
Total	<u>\$ 413</u>	<u>\$ 413</u>

6. 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 fiscal year 1992-93, 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 \$6,451,000 (adjusted for inflation).

The \$4,930,000 reported as landfill closure and postclosure care liability at June 30, 1994 represents 76 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 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 1994 plus an allowance for inflation of \$98,000. The City expects to close the refuse area in the year 2013. 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, 1994 with the establishment of the fully-funded liability for this purpose.

7. 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 15.74% of payroll for public safety personnel and 5.97% for other covered employees. The City's covered payroll for employees participating in CalPERS for the year ended June 30, 1994 was \$46,393,000. The City's payroll for all employees was \$52,685,000 in 1994. 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.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1993, the latest available. The significant economic actuarial assumptions used in the 1993 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, 1993 follows (in thousands):

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 79,130
Current employees:	
Accumulated employee contributions and allocated investment earnings	42,378
Employer-financed, vested	49,852
Employer-financed, nonvested	<u>1,888</u>
Total pension benefit obligation	173,248
Net assets available for benefits, at cost (market value, \$206,925)	<u>174,030</u>
Unfunded pension benefit obligation	<u>\$ (782)</u>

The pension benefit obligation increased by \$7,384,000 during 1993 due to normal changes in the age, length of service and salary of covered employees.

During 1994 the Board of Administration of CalPERS approved system-wide changes to the mortality, retirement, withdrawal, and disability rates used in calculating the pension benefit obligation to better estimate the future experience of the Plan. For the City, these changes in actuarial assumptions decreased the pension benefit obligation by \$2,971,000 at June 30, 1993.

***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, 1994 of \$7,339,000 was made in accordance with the actuarially determined requirements computed as of June 30, 1992. The contribution consisted of \$7,009,000 for normal cost (15.11% of current covered payroll), and \$330,000 (0.7% of covered payroll) for the amortization of the unfunded actuarial liability. The City contributed \$3,922,000 as its share (8.45% of current covered payroll), and contributed \$3,417,000 (7.36% of current covered payroll) on behalf of employees due to a collective bargaining agreement; employees contributed \$119,000 (.26% 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 1992 valuation to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit 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 1993 follows (in millions):

	1993	1992	1991	1990	1989	1988	1987
Net assets available for benefits, at cost	\$ 174.0	\$158.1	\$144.8	\$134.7	\$119.6	\$104.6	\$ 91.4
Pension benefit obligation	173.2	165.8	152.6	143.8	127.8	116.2	105.1
Net assets available for benefits as a percentage of pension benefit obligation	100.5%	95.4%	94.9%	93.7%	93.6%	90.0%	87.0%
Unfunded (assets in excess of) pension benefit obligation	\$ (0.8)	\$ 7.7	\$ 7.8	\$ 9.0	\$ 8.1	\$ 11.5	\$ 13.6
Annual covered payroll	49.5	47.5	44.3	41.4	38.7	37.6	34.9
Unfunded (assets in excess of) pension benefit obligation as a percentage of annual covered payroll	(1.6)%	16.2%	17.6%	21.7%	20.9%	30.6%	39.0%
City contributions, made in accordance with actuarially determined requirements, as a percentage of covered payroll	9.6%	11.3%	9.5%	9.8%	10.6%	N/A	N/A

Employer's contributions, made in accordance with actuarially determined requirements, as a percentage of annual covered payroll were 8.5% in 1994. Other trend information for 1994 is not yet available.

**Other Post-Retirement Benefits** - In addition to providing pension benefits, the City participates in the California Public Employees Medical and Health Care Act (PEMHCA) program to provide 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 premiums are paid. For fiscal 1994, expenditures for retiree health care for approximately 363 eligible retired employees totaled \$743,000.

## 8. 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, 1994, net assets available for benefits totaled \$28,101,000, which are included as cash and investments of the Agency Funds and are offset by a corresponding liability.

## 9. 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 \$9,211,000 at June 30, 1994 using a discount rate of 5.23% 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 \$1,343,000.

Changes in the self insurance liabilities during the fiscal years ended June 30, 1993 and 1994 were as follows (in thousands):

	1992-1993	1993-1994
Balance at July 1, 1993	\$6,995	\$8,328
Current claims and changes in estimates	3,336	1,819
Claim payments	(2,003)	(936)
Balance at June 30, 1994	8,328	9,211

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, 1994 was \$301,184.



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, 1994 (in thousands):

Total assets	\$34,702
Total liabilities	34,667
Members' equity	35
Total revenues	4,704
Total expenses	4,728
Deficiency of revenues over expenses	(24)

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

The funds invested by the City (\$2,583,000) in this pool are not included as assets of the City as of June 30, 1994. 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, 1994.

#### 10. RESTATEMENT OF FUND EQUITY

Fund balances/retained earnings at June 30, 1993 have been restated as follows (in thousands):

	Special Revenue Funds	Enterprise Funds
Fund balance/retained earnings at June 30, 1993 as previously reported	\$10,579	\$211,972
Restatements:		
Reverse capitalized fixed assets (a)		(2,733)
Palo Alto Centennial 1994, Inc. (b)	<u>(10)</u>	<u>          </u>
Fund balance/retained earnings at June 30, 1993 as restated	<u>\$10,569</u>	<u>\$209,239</u>

- (a) During the year ended June 30, 1994, the City determined that certain costs that were previously capitalized in the Storm Drainage Enterprise Fund should have been expensed because the costs were not directly attributable to the construction of assets. Accordingly, the beginning balances of the Enterprise Funds retained earnings have been restated by \$2,733,000, of which \$507,000 is related to fiscal year 1993.

The Storm Drainage Enterprise Fund's June 30, 1993 retained earnings was likewise reduced from \$3,935,000 to \$1,202,000. The 1993 total memorandum only columns have been restated to reverse the effect of the fixed assets that should not have been capitalized.

- (b) Effective July 1, 1993, the City implemented GASB Statement 14, "The Financial Reporting Entity". GASB No. 14 requires the inclusion of the Palo Alto Centennial 1994, Inc. in the City's Special Revenue Funds. Accordingly, the June 30, 1993 Special Revenue Fund balance has been restated. The 1993 total memorandum only columns have also been restated to reflect the financial activity of the Palo Alto Centennial 1994, Inc.

## 11. FUND BALANCES AND RETAINED EARNINGS

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

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, 1994, fund balances for Governmental Fund Types consist of the following reserves and designations (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Reserved for:				
Encumbrances and reappropriations	\$ 4,088	\$4,011		\$7,961
Notes	590	3,551		
Debt service			\$3,394	
Stores inventory	<u>1,124</u>			
Total reserved fund balances	<u>\$ 5,802</u>	<u>\$7,562</u>	<u>\$3,394</u>	<u>\$7,961</u>
Unreserved; designated for:				
Streets and sidewalks/school site projects	\$ 876			
Capital and special revenue projects		\$5,368		\$ 496
Unfunded employee benefit obligations	4,772			
Budget stabilization	12,356			
Emergencies	<u>5,000</u>			
Total unreserved; designated fund balances	<u>\$23,004</u>	<u>\$5,368</u>		<u>\$ 496</u>

At June 30, 1994, fund balance for the Expendable Trust Funds was unreserved; undesignated in the amount of \$129,000.

The Internal Service Fund's retained earnings consist of the following as of June 30, 1994 (in thousands):

Reserved retained earnings -	
Commitments and reappropriations	\$ 1,229
Unreserved retained earnings	<u>10,675</u>
Total	<u>\$11,904</u>

At June 30, 1994, the Enterprise Funds' retained earnings consists of the following (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Reserved retained earnings:								
Emergency plant replacement	\$ 587	\$ 1,998	\$ 564	\$ 329	\$ 879			\$ 4,357
Rate stabilization	6,648	28,668	7,639	6,425	2,569	\$3,190	\$ 63	55,202
Calaveras		18,694						18,694
Gas supplemental supply			3,092					3,092
Commitments and reappropriations	3,069	5,986	1,899	478	1,908	310	1,661	15,311
Underground loan		544						544
Conservation loan			614					614
Refuse water resources						118		118
<b>Total</b>	<b>10,304</b>	<b>55,890</b>	<b>13,808</b>	<b>7,232</b>	<b>5,356</b>	<b>3,618</b>	<b>1,724</b>	<b>97,932</b>
Unreserved retained earnings	<u>13,633</u>	<u>62,468</u>	<u>17,663</u>	<u>7,648</u>	<u>2,925</u>	<u>5,594</u>	<u>(103)</u>	<u>109,828</u>
<b>Total retained earnings</b>	<b><u>\$23,937</u></b>	<b><u>\$118,358</u></b>	<b><u>\$31,471</u></b>	<b><u>\$14,880</u></b>	<b><u>\$8,281</u></b>	<b><u>\$9,212</u></b>	<b><u>\$1,621</u></b>	<b><u>\$207,760</u></b>

## 12. CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 1994 follows (in thousands):

	Enterprise	Internal Service
Balance at July 1, 1993	\$57,831	\$5,220
Additions	<u>172</u>	<u>118</u>
<b>Balance at June 30, 1994</b>	<b><u>\$58,003</u></b>	<b><u>\$5,338</u></b>

## 13. 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, 1994 is as follows (in thousands):

	Water	Electric	Gas	Wastewater	Refuse	Storm Drainage	Total
Operating revenues	\$14,698	\$39,826	\$17,791	\$16,651	\$17,102	\$1,612	\$ 107,680
Depreciation and amortization	534	3,466	511	2,186	356	42	7,095
Operating income	8,175	(3,268)	3,885	6,006	4,236	670	19,704
Net operating transfers to Governmental Fund Types	2,413	9,514	1,968	148	3,096	47	17,186
Net income (loss)	6,259	(17,636)	2,573	5,806	1,100	419	(1,479)
Current capital contributions		172					172
Property, plant and equipment: Additions	2,224	9,663	4,023	2,777	15	1,137	19,839
Retirements (net book value)		22	36	1			59
Net working capital	10,445	56,330	13,967	12,972	3,751	1,753	99,218
Total assets	32,578	138,889	37,007	62,435	15,206	6,398	292,513
Bonds and contracts, net of bond discount, payable from operating revenues				7,879		4,510	12,389
Total equity	31,621	135,496	34,763	53,050	9,212	1,621	265,763

During the year ended June 30, 1994, the City refunded \$36,542,000 to customers of the electric utility. Refunds were based on prior usage and credits were applied to customer accounts beginning in November 1993.

## 14. 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, 1994. 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, 1994 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	\$ 1,015	22.92%	\$ 233
1991 Series E, F, G	313,315	22.92%	71,812
1986 Refunding Series A	3,360	22.92%	770
1992 Refunding Series A	195,070	22.92%	44,710
1993 Refunding Series A	63,600	22.92%	14,577
Transmission Project #1:			
1989 Series A	15,935	11.07%	1,764

During the year ended June 30, 1994, the City paid \$8,089,000 as its portion of current debt service.

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, 1994 is \$935,565,000. The City's participation in this project was 6.15%, or \$57,537,000.

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, 1994 and a statement of operations for NCPA for the year ended June 30, 1994 (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 737,445
Restricted assets	649,049
Other assets and deferred charges	424,982
Current assets	<u>43,609</u>
 Total assets	 <u><u>\$1,855,085</u></u>
Liabilities and retained earnings:	
Long-term debt	\$1,657,977
Current liabilities	99,863
Other liabilities	81,980
Retained earnings	<u>15,265</u>
 Total liabilities and retained earnings	 <u><u>\$1,855,085</u></u>
Statement of operations:	
Sales to participants	\$ 185,824
Operating expenses	(101,772)
Nonoperating expenses, net	(83,823)
Future recoverable costs	8,490
Additions to operating reserve and refunds to participants	<u>(9,635)</u>
 Net loss	 <u><u>\$ (916)</u></u>

Complete financial statements for NCPA can be obtained from:

Northern California Power Agency  
180 Cirby Way  
Roseville, CA 95678

*TANC California-Oregon Transmission Project* - The City, together with thirteen other Northern California cities and districts and one rural electric cooperative, is a member of the Transmission Agency of Northern California (TANC), a California joint power agency. TANC is a participant in the California-Oregon Transmission Project (COTP), a 339-mile long, 1600 MW, 500 kV transmission power project between southern Oregon and central California. Each member has one representative on the TANC commission and one vote for matters of budgeting and finance.

Each member has agreed to a certain share of TANC's entitlement to project transfer capability of COTP under the joint powers agreement, and are obligated to make payments for their proportionate share of operating and maintenance expenses and debt service on the outstanding long-term debt. 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, 1994, the City has a 4 percent share of TANC's entitlement to the COTP project, and is likewise responsible for a corresponding percentage of TANC's COTP financing obligations. Amounts outstanding under these obligations as of June 30, 1994 are \$419,726,000 of which the City's share is \$16,990,000.

Following is a condensed balance sheet as of June 30, 1994 and a statement of operations of TANC for the year then ended (in thousands):

	(Unaudited)
Assets:	
Project development costs	\$425,660
Restricted assets	75,909
Current assets	6,862
Noncurrent assets and deferred charges	<u>31,714</u>
Total assets	<u>\$540,145</u>
Liabilities and equity:	
Notes payable	\$419,726
Current liabilities	115,688
Members' equity	252
Deferred revenues	<u>4,479</u>
Total liabilities and equity	<u>\$540,145</u>
Statement of operations:	
Revenues	\$ 31,822
Expenses	<u>36,361</u>
Operating loss	(4,539)
Interest income	<u>4,559</u>
Net income	<u>\$ 20</u>

Complete financial statements for TANC can be obtained from:

Transmission Agency of Northern California  
6501 S Street  
Sacramento, CA 95852

## 15. COMMITMENTS AND CONTINGENCIES

***Palo Alto Unified School District*** - The City is 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) appropriations limitation in any fiscal year. Lease expenditures for the year

ended June 30, 1994 amounted to \$4,576,000. Future minimum annual lease and covenant payments are as follows (in thousands):

Year ending June 30:	
1995	\$ 4,598
1996	4,598
1997	4,598
1998	4,598
1999	4,598
Thereafter	<u>29,884</u>
Total	<u>\$52,874</u>

Included in this lease agreement is an additional commitment to reimburse PAUSD for athletic field improvements at an estimated cost of \$200,000.

**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 31.02%. During fiscal 1994, the City made payments of \$5,530,000 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 1994, such amount was forgiven. The outstanding principal balance of the note at June 30, 1994 is \$1,858,000, 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, 1994. 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, 1994 is \$5,051,000.

#### 16. RELATED PARTY TRANSACTION

The City Council may authorize the extension of a mortgage loan as part of a relocation assistance package to new Council-appointed officers, the Assistant City Manager or department heads. Such loans may be secured by a first or second deed of trust and may be fully amortized or for interest only. A direct City loan cannot exceed four times the annual salary of the employee. The term of the loan may be set for a period not to exceed 15 years, but is due and payable within six months of termination of employment for any reason. The notes bear interest at a rate equal to the City's rate of return on the cash and investment pool during the year plus 1/4 percent. At June 30, 1994, the outstanding balance of such loans totalled \$540,000, and is reported as a reservation of the City's General Fund balance.

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Corporation Yard – City Fleet



# 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, 1994 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)

	1994	1993
<b>ASSETS</b>		
Cash, cash equivalents and investments	\$26,700	\$27,582
Receivables, net:		
Accounts	3,744	3,866
Interest	616	524
Notes	590	
Interfund receivable	413	
Inventory	1,124	1,014
Prepaid items		7
<b>TOTAL ASSETS</b>	<u>\$33,187</u>	<u>\$32,993</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 2,539	\$ 2,829
Accrued salaries and benefits	1,842	1,518
Deferred revenue		225
<b>Total liabilities</b>	<u>4,381</u>	<u>4,572</u>
<b>FUND BALANCES:</b>		
Reserved for:		
Encumbrances and reappropriations	4,088	5,179
Notes	590	
Inventory	1,124	1,014
Unreserved - designated for:		
Streets and sidewalks/school site projects	876	895
Unfunded employee benefit obligations	4,772	4,772
Budget stabilization	12,356	11,561
Emergencies	5,000	5,000
<b>Total fund balances</b>	<u>28,806</u>	<u>28,421</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$33,187</u>	<u>\$32,993</u>

# 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, 1994 WITH COMPARATIVE TOTALS FOR THE

#### YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1993 Actual
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 7,897	\$ 7,737	\$ (160)	\$ 8,367
Sales taxes	14,284	14,635	351	13,322
Utility users' tax	5,738	5,455	(283)	5,362
Transient occupancy tax	3,249	3,301	52	3,109
Other taxes and fines	<u>5,131</u>	<u>5,277</u>	<u>146</u>	<u>4,333</u>
Total taxes	36,299	36,405	106	34,493
Fire protection and emergency				
communication services	3,916	3,884	(32)	3,565
From other agencies	390	422	32	720
Service fees and permits	7,604	7,915	311	6,923
Interest earnings	1,946	2,012	66	2,157
Other	<u>3,827</u>	<u>3,333</u>	<u>(494)</u>	<u>2,368</u>
Total revenues	<u>53,982</u>	<u>53,971</u>	<u>(11)</u>	<u>50,226</u>
<b>EXPENDITURES - Current operations:</b>				
Administration	10,577	9,343	1,234	8,809
Public works	8,341	7,058	1,283	6,673
Community environment	4,698	4,160	538	3,757
Public safety - Police	14,742	14,150	592	13,380
Public safety - Fire	11,858	11,718	140	10,040
Community services	13,028	12,651	377	12,183
School site operations	<u>5,933</u>	<u>5,645</u>	<u>288</u>	<u>5,632</u>
Total expenditures	<u>69,177</u>	<u>64,725</u>	<u>4,452</u>	<u>60,474</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(15,195)</u>	<u>(10,754)</u>	<u>4,441</u>	<u>(10,248)</u>

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1993 Actual
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>\$(15,195)</u>	<u>\$(10,754)</u>	<u>\$4,441</u>	<u>\$(10,248)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in:				
Street Improvement Special Revenue Fund	133	114	(19)	157
Federal Revenue Special Revenue Fund	178	178		204
Special District Special Revenue Fund	279	269	(10)	160
Housing Improvement Special Revenue Fund	48	26	(22)	
Capital Improvement Project Fund	58	4	(54)	
Enterprise Funds	<u>16,910</u>	<u>16,910</u>		<u>15,868</u>
Total operating transfers in	<u>17,606</u>	<u>17,501</u>	<u>(105)</u>	<u>16,389</u>
Operating transfers out:				
Capital Projects Fund	4,735	5,365	(630)	2,942
Debt Service	<u>924</u>	<u>948</u>	<u>(24)</u>	<u>1,021</u>
Total operating transfers out	<u>5,659</u>	<u>6,313</u>	<u>(654)</u>	<u>3,963</u>
Total other financing sources	<u>11,947</u>	<u>11,188</u>	<u>(759)</u>	<u>12,426</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (3,248)</u>	<u>\$ 434</u>	<u>\$3,682</u>	<u>\$ 2,178</u>

(Concluded)

# CITY OF PALO ALTO, CALIFORNIA

## GENERAL FUND

### SCHEDULE OF EXPENDITURES COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1993 Actual
<b>ADMINISTRATION:</b>				
Salaries and benefits	\$ 7,421	\$ 6,991	\$ 430	\$ 6,475
Contract services	1,874	1,238	636	1,200
Supplies and materials	214	182	32	186
General expense	833	743	90	776
Rents and leases	34	27	7	26
Facilities and equipment purchases	201	162	39	146
<b>Total</b>	<u>10,577</u>	<u>9,343</u>	<u>1,234</u>	<u>8,809</u>
<b>PUBLIC WORKS:</b>				
Salaries and benefits	4,904	4,862	42	4,744
Contract services	2,602	1,581	1,021	1,216
Supplies and materials	582	450	132	483
General expense	110	94	16	149
Rents and leases	32	11	21	9
Facilities and equipment purchases	111	60	51	72
<b>Total</b>	<u>8,341</u>	<u>7,058</u>	<u>1,283</u>	<u>6,673</u>
<b>COMMUNITY ENVIRONMENT:</b>				
Salaries and benefits	3,193	3,193		2,975
Contract services	1,045	567	478	353
Supplies and materials	125	89	36	70
General expense	265	265		268
Rents and leases	12	12		10
Facilities and equipment purchases	58	34	24	81
<b>Total</b>	<u>4,698</u>	<u>4,160</u>	<u>538</u>	<u>3,757</u>

(Continued)



	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1993 Actual
<b>PUBLIC SAFETY - POLICE:</b>				
Salaries and benefits	\$12,866	\$12,707	\$ 159	\$11,893
Contract services	714	517	197	506
Supplies and materials	343	279	64	227
General expense	697	530	167	679
Rents and leases	21	18	3	15
Facilities and equipment purchases	101	99	2	60
Total	<u>14,742</u>	<u>14,150</u>	<u>592</u>	<u>13,380</u>
<b>PUBLIC SAFETY - FIRE:</b>				
Salaries and benefits	10,892	10,867	25	9,315
Contract services	289	205	84	183
Supplies and materials	153	150	3	92
General expense	386	386		345
Rents and leases	9	9		7
Facilities and equipment purchases	129	101	28	98
Total	<u>11,858</u>	<u>11,718</u>	<u>140</u>	<u>10,040</u>
<b>COMMUNITY SERVICES:</b>				
Salaries and benefits	8,301	8,320	(19)	7,992
Contract services	1,741	1,501	240	1,354
Supplies and materials	891	853	38	940
General expense	1,305	1,264	41	1,225
Rents and leases	625	589	36	565
Facilities and equipment purchases	165	124	41	107
Total	<u>13,028</u>	<u>12,651</u>	<u>377</u>	<u>12,183</u>
<b>NON-DEPARTMENTAL EXPENSE -</b>				
School site operations	<u>5,933</u>	<u>5,645</u>	<u>288</u>	<u>5,632</u>
<b>TOTAL EXPENDITURES,</b>				
<b>GENERAL FUND</b>	<u>\$69,177</u>	<u>\$64,725</u>	<u>\$4,452</u>	<u>\$60,474</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 and HOME Investment Grant programs.
- ***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.
- ***Centennial 1994 Fund*** - established to account for monies derived from contributions and other forms of support for the 1994 centennial anniversary of the City.

# CITY OF PALO ALTO, CALIFORNIA

**SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 1994 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$2,468	\$ 63	\$4,126	\$1,119
Receivables, net of allowance	33	306		
Interest receivable	32		54	16
Notes		1,673	1,878	
Inventory	_____	_____	_____	_____
<b>TOTAL ASSETS</b>	<u><u>\$2,533</u></u>	<u><u>\$2,042</u></u>	<u><u>\$6,058</u></u>	<u><u>\$1,135</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities		\$ 107	\$ 289	\$ 30
Deferred revenue				
Intefund payable		<u>413</u>	_____	_____
<b>Total liabilities</b>		<u>520</u>	<u>289</u>	<u>30</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and reappropriations	\$1,661	738	1,612	
Notes	_____	<u>1,673</u>	<u>1,878</u>	
<b>Total</b>	<u>1,661</u>	<u>2,411</u>	<u>3,490</u>	
Unreserved - Designated for special revenue projects	872		2,279	1,105
Unreserved, undesignated	_____	<u>(889)</u>	_____	_____
<b>Total fund balances</b>	<u>2,533</u>	<u>1,522</u>	<u>5,769</u>	<u>1,105</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$2,533</u></u>	<u><u>\$2,042</u></u>	<u><u>\$6,058</u></u>	<u><u>\$1,135</u></u>

\*\* The Special Revenue Fund amounts reflected in June 30, 1993 and June 30, 1994 financial statements are as of the Palo Alto Centennial 1994, Inc. fiscal years ended December 31, 1993 and December 31, 1992, respectively.

Transportation Mitigation	Centennial 1994**	Totals June 30,	
		1994	1993
\$ 892	\$ 191	\$ 8,859	\$ 7,794
	132	471	302
13		115	102
		3,551	2,831
	<u>17</u>	<u>17</u>	
<u>\$ 905</u>	<u>\$ 340</u>	<u>\$13,013</u>	<u>\$11,029</u>
	\$ 3	\$ 429	\$ 460
	130	130	
		413	
	<u>133</u>	<u>972</u>	<u>460</u>
		4,011	3,543
		<u>3,551</u>	<u>2,831</u>
		<u>7,562</u>	<u>6,374</u>
\$ 905	207	5,368	4,961
		(889)	(766)
<u>905</u>	<u>207</u>	<u>12,041</u>	<u>10,569</u>
<u>\$ 905</u>	<u>\$ 340</u>	<u>\$13,013</u>	<u>\$11,029</u>

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	<u>\$1,047</u>			
From other agencies:				
Community Development Block Grant		\$ 574		
Federal Urban Aid	33			
State of California				
HOME Grant		<u>920</u>		
Total from other agencies	<u>33</u>	<u>1,494</u>		
Interest earnings	<u>107</u>	<u>35</u>	<u>\$ 190</u>	<u>\$ 62</u>
Other:				
Great Western Bank - Loan payoff		8		
Housing-in-lieu - Residential			423	
Housing-in-lieu - Industrial			38	
Traffic Mitigation - Transportation				278
University Avenue Parking				90
California Avenue Parking				
Centennial support				
Other fees			100	
Total other		<u>8</u>	<u>561</u>	<u>368</u>
Total revenues	<u>1,187</u>	<u>1,537</u>	<u>751</u>	<u>430</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS		<u>562</u>	<u>596</u>	
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,187</u>	<u>975</u>	<u>155</u>	<u>430</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer in - Transportation Mitigation Fund	200			
Operating transfers out:				
General Fund	(114)	(204)		(269)
Capital Project Fund	(695)			(200)
Street Improvement Fund				
Total transfers out	<u>(809)</u>	<u>(204)</u>		<u>(469)</u>
Total other financing uses	<u>(609)</u>	<u>(204)</u>	<u>-</u>	<u>(469)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	578	771	155	(39)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR, AS RESTATED (See Note 10)	<u>1,955</u>	<u>751</u>	<u>5,614</u>	<u>1,144</u>
FUND BALANCES, END OF YEAR	<u>\$2,533</u>	<u>\$1,522</u>	<u>\$5,769</u>	<u>\$1,105</u>

\*\* The Special Revenue Fund amounts reflected in June 30, 1993 and June 30, 1994 financial statements are as of the Palo Alto Centennial 1994, Inc. fiscal years ended December 31, 1993 and December 31, 1992, respectively.

Transportation Mitigation	Centennial 1994**	Totals June 30,	
		1994	1993
		\$ 1,047	\$ 968
		574	610
		33	147
		920	86
		<u>1,527</u>	<u>843</u>
\$ 47		<u>441</u>	<u>483</u>
		8	21
		423	10
		38	117
1		1	20
		278	248
		90	72
	\$ 442	442	7
		100	
<u>1</u>	<u>442</u>	<u>1,380</u>	<u>495</u>
<u>48</u>	<u>442</u>	<u>4,395</u>	<u>2,789</u>
	<u>225</u>	<u>1,383</u>	<u>867</u>
<u>48</u>	<u>217</u>	<u>3,012</u>	<u>1,922</u>
		200	10
		(587)	(521)
(58)		(953)	(1,148)
<u>(200)</u>		<u>(200)</u>	<u>(10)</u>
<u>(258)</u>		<u>(1,740)</u>	<u>(1,679)</u>
<u>(258)</u>	-	<u>(1,540)</u>	<u>(1,669)</u>
(210)	217	1,472	253
<u>1,115</u>	<u>(10)</u>	<u>10,569</u>	<u>10,316</u>
<u>\$ 905</u>	<u>\$ 207</u>	<u>\$12,041</u>	<u>\$10,569</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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Street Improvement		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Other taxes and fines	\$ 1,990	\$ 1,047	\$ (943)
From other agencies:			
Community Development Block Grant			
Federal Urban Aid	11	33	22
State of California			
HOME Grant			
Total from other agencies	<u>11</u>	<u>33</u>	<u>22</u>
Interest earnings	<u>112</u>	<u>107</u>	<u>(5)</u>
Other:			
Great Western Bank - Loan payoff			
Housing-in-lieu - Residential			
Housing-in-lieu - Industrial			
Traffic Mitigation - Transportation			
University Avenue Parking			
California Avenue Parking			
Other fees			
Total other	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	<u>2,113</u>	<u>1,187</u>	<u>(926)</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	<u>1,061</u>	<u>          </u>	<u>1,061</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,052</u>	<u>1,187</u>	<u>135</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in - Transportation Mitigation Fund		200	200
Operating transfers out:			
General Fund	(133)	(114)	19
Capital Project Fund	(1,920)	(695)	1,225
Street Improvement Fund			
Total transfers out	<u>(2,053)</u>	<u>(809)</u>	<u>1,244</u>
Total other financing uses	<u>(2,053)</u>	<u>(609)</u>	<u>1,444</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u><u>\$(1,001)</u></u>	<u><u>\$ 578</u></u>	<u><u>\$1,579</u></u>



Federal Revenue		Variance Favorable (Unfavorable)	Housing-In-Lieu		Variance Favorable (Unfavorable)
Budget	Actual		Budget	Actual	
\$ 700	\$ 574	\$(126)			
	<u>920</u>	<u>920</u>			
<u>700</u>	<u>1,494</u>	<u>794</u>			
	<u>35</u>	<u>35</u>	<u>\$215</u>	<u>\$190</u>	<u>\$(25)</u>
	8	8			
			85	423	338
			400	38	(362)
				<u>100</u>	<u>100</u>
	<u>8</u>	<u>8</u>	<u>485</u>	<u>561</u>	<u>76</u>
<u>700</u>	<u>1,537</u>	<u>837</u>	<u>700</u>	<u>751</u>	<u>51</u>
<u>627</u>	<u>562</u>	<u>65</u>	<u>555</u>	<u>596</u>	<u>(41)</u>
<u>73</u>	<u>975</u>	<u>902</u>	<u>145</u>	<u>155</u>	<u>10</u>
(226)	(204)	22			
<u>(226)</u>	<u>(204)</u>	<u>22</u>			
<u>(226)</u>	<u>(204)</u>	<u>22</u>	-	-	-
<u>\$(153)</u>	<u>\$ 771</u>	<u>\$ 924</u>	<u>\$145</u>	<u>\$155</u>	<u>\$ 10</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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	<u>Special Districts</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
REVENUES:			
Other taxes and fines			
From other agencies:			
Community Development Block Grant			
Federal Urban Aid			
State of California			
HOME Grant			
Total from other agencies			
Interest earnings	\$ 62	\$ 62	\$ —
Other:			
Great Western Bank - Loan payoff			
Housing-in-lieu - Residential			
Housing-in-lieu - Industrial			
Traffic Mitigation - Transportation			
University Avenue Parking	296	278	(18)
California Avenue Parking	84	90	6
Other fees	—	—	—
Total other	<u>380</u>	<u>368</u>	<u>(12)</u>
Total revenues	<u>442</u>	<u>430</u>	<u>(12)</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	—	—	—
EXCESS OF REVENUES OVER EXPENDITURES	<u>442</u>	<u>430</u>	<u>(12)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in - Transportation Mitigation Fund			
Operating transfers out:			
General Fund	(279)	(269)	10
Capital Project Fund	(200)	(200)	—
Street Improvement Fund	—	—	—
Total transfers out	<u>(479)</u>	<u>(469)</u>	<u>10</u>
Total other financing uses	<u>(479)</u>	<u>(469)</u>	<u>10</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (37)</u>	<u>\$ (39)</u>	<u>\$ (2)</u>

Transportation Mitigation		Variance Favorable (Unfavorable)	Total Special Revenue Funds			
Budget	Actual		Budget 1994	Actual 1994	Variance Favorable (Unfavorable)	Actual 1993
			\$ 1,990	\$ 1,047	\$ (943)	\$ 968
			700	574	(126)	610
			11	33	22	147
				920	920	86
			<u>711</u>	<u>1,527</u>	<u>816</u>	<u>843</u>
<u>\$ 52</u>	<u>\$ 47</u>	<u>\$ (5)</u>	<u>441</u>	<u>441</u>	<u>-</u>	<u>483</u>
				8	8	21
			85	423	338	10
			400	38	(362)	117
	1	1		1	1	20
			296	278	(18)	248
			84	90	6	72
				100	100	
			<u>865</u>	<u>938</u>	<u>73</u>	<u>488</u>
<u>-</u>	<u>1</u>	<u>1</u>	<u>4,007</u>	<u>3,953</u>	<u>(54)</u>	<u>2,782</u>
<u>52</u>	<u>48</u>	<u>(4)</u>	<u>2,243</u>	<u>1,158</u>	<u>1,085</u>	<u>850</u>
<u>52</u>	<u>48</u>	<u>(4)</u>	<u>1,764</u>	<u>2,795</u>	<u>1,031</u>	<u>1,932</u>
				200	200	10
			(638)	(587)	51	(521)
(262)	(58)	204	(2,382)	(953)	1,429	(1,148)
	(200)	(200)		(200)	(200)	(10)
<u>(262)</u>	<u>(258)</u>	<u>4</u>	<u>(3,020)</u>	<u>(1,740)</u>	<u>1,280</u>	<u>(1,679)</u>
<u>(262)</u>	<u>(258)</u>	<u>4</u>	<u>(3,020)</u>	<u>(1,540)</u>	<u>1,480</u>	<u>(1,669)</u>
<u>\$ (210)</u>	<u>\$ (210)</u>	<u>\$ -</u>	<u>\$ (1,256)</u>	<u>\$ 1,255</u>	<u>\$2,511</u>	<u>\$ 263</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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1994	1993
<b>ASSETS</b>						
Cash, cash equivalents and investments	\$1,324			\$ 786	\$ 2,110	\$ 2,069
Restricted:						
Cash and cash equivalents		\$ 1		318	319	254
Investments		157	\$790		947	909
Interest receivable	18	2	9		29	31
Accounts receivable:						
Special assessments				9,010	9,010	7,335
Other						73
Total accounts receivable				9,010	9,010	7,408
<b>TOTAL ASSETS</b>	<u>\$1,342</u>	<u>\$160</u>	<u>\$799</u>	<u>\$10,114</u>	<u>\$12,415</u>	<u>\$10,671</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities				\$ 11	\$ 11	
Deferred revenue				9,010	9,010	\$ 7,335
Total liabilities				9,021	9,021	7,335
FUND BALANCES - Reserved for debt service	<u>\$1,342</u>	<u>\$160</u>	<u>\$799</u>	<u>1,093</u>	<u>3,394</u>	<u>3,336</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$1,342</u>	<u>\$160</u>	<u>\$799</u>	<u>\$10,114</u>	<u>\$12,415</u>	<u>\$10,671</u>

# CITY OF PALO ALTO, CALIFORNIA

## DEBT SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1994	1993
REVENUES:						
Special assessments				\$ 863	\$ 863	\$ 959
From other agencies	\$ 236				236	230
Interest earnings	70	\$ 5	\$ 46		121	151
Total revenues	<u>306</u>	<u>5</u>	<u>46</u>	<u>863</u>	<u>1,220</u>	<u>1,340</u>
EXPENDITURES - Debt service:						
Principal retirement	395	75	380	455	1,305	1,274
Interest and fiscal charges	<u>133</u>	<u>61</u>	<u>438</u>	<u>632</u>	<u>1,264</u>	<u>1,267</u>
Total expenditures	<u>528</u>	<u>136</u>	<u>818</u>	<u>1,087</u>	<u>2,569</u>	<u>2,541</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(222)</u>	<u>(131)</u>	<u>(772)</u>	<u>(224)</u>	<u>(1,349)</u>	<u>(1,201)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in		131	817	224	1,172	1,021
Operating transfers out			(46)		(46)	
Bond proceeds				<u>311</u>	<u>311</u>	
Total other financing sources		<u>131</u>	<u>771</u>	<u>535</u>	<u>1,437</u>	<u>1,021</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(222)		(1)	311	88	(180)
FUND BALANCES, BEGINNING OF YEAR	1,564	160	800	812	3,336	5,041
RESIDUAL EQUITY TRANSFER OUT				<u>(30)</u>	<u>(30)</u>	<u>(1,525)</u>
FUND BALANCES, END OF YEAR	<u>\$1,342</u>	<u>\$160</u>	<u>\$ 799</u>	<u>\$1,093</u>	<u>\$3,394</u>	<u>\$3,336</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, 1994 WITH COMPARATIVE TOTALS FOR THE

YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	June 30	
	1994	1993
<b>ASSETS</b>		
Cash, cash equivalents and investments	\$7,562	\$5,698
Restricted - cash and cash equivalents	1,356	855
Accounts receivable	<u>3</u>	<u>19</u>
<b>TOTAL ASSETS</b>	<b><u>\$8,921</u></b>	<b><u>\$6,572</u></b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 464	\$ 331
Deferred revenue	<u>          </u>	<u>91</u>
Total liabilities	<u>464</u>	<u>422</u>
<b>FUND BALANCES:</b>		
Reserved for -		
Reappropriations and encumbrances	7,961	5,295
Unreserved -		
Designated for capital projects	<u>496</u>	<u>855</u>
Total fund balances	<u>8,457</u>	<u>6,150</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$8,921</u></b>	<b><u>\$6,572</u></b>



# 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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1993 Actual
REVENUES:				
From other agencies:				
State of California	\$ 55		\$ (55)	\$ 74
Stanford University		\$ 19	19	43
U.S. Department of Justice		91	91	
Total from other agencies	<u>55</u>	<u>110</u>	<u>55</u>	<u>117</u>
Interest earnings		58	58	41
Other	143	3	(140)	40
Total revenues	<u>198</u>	<u>171</u>	<u>(27)</u>	<u>198</u>
EXPENDITURES FOR CAPITAL PROJECTS	<u>7,632</u>	<u>6,067</u>	<u>1,565</u>	<u>4,475</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,434)</u>	<u>(5,896)</u>	<u>1,538</u>	<u>(4,277)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund	4,735	5,361	626	2,942
Utilities - General Fund projects	244	244		184
Debt Service Fund	74	46	(28)	
Special Revenue Funds:				
Street Improvement	1,920	695	(1,225)	1,148
Traffic mitigation	204	58	(146)	
Community Development Block Grant	200	200		
Total operating transfers in	<u>7,377</u>	<u>6,604</u>	<u>(773)</u>	<u>4,274</u>
Operating transfers out - Debt Service Fund		(224)	(224)	
Proceeds of refunding bonds		1,744	1,744	
Total other financing sources	<u>7,377</u>	<u>8,124</u>	<u>747</u>	<u>4,274</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (57)</u>	<u>\$2,228</u>	<u>\$ 2,285</u>	<u>\$ (3)</u>

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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, 1994 WITH COMPARATIVE TOTALS FOR THE  
YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	Water	Electric	Gas
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash, cash equivalents and investments	\$ 9,395	\$ 51,322	\$14,238
Restricted:			
Cash and cash equivalents			
Investments			
Accounts receivable, net	1,660	6,835	1,193
Interest receivable	120	661	182
Prepaid items			228
	<u>11,175</u>	<u>58,818</u>	<u>15,841</u>
Total current assets			
Property, plant and equipment, net	<u>21,403</u>	<u>80,071</u>	<u>21,166</u>
<b>TOTAL ASSETS</b>	<u><u>\$32,578</u></u>	<u><u>\$138,889</u></u>	<u><u>\$37,007</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	\$ 659	\$ 2,244	\$ 1,738
Accrued salaries and benefits	71	244	136
Current portion of revenue bonds, net			
Accrued landfill closure liability			
	<u>730</u>	<u>2,488</u>	<u>1,874</u>
Total current liabilities			
Accrued compensated absences	49	195	80
Accrued self insurance	178	710	290
Revenue bonds, net of current portion			
	<u>957</u>	<u>3,393</u>	<u>2,244</u>
Total liabilities			
<b>FUND EQUITY:</b>			
Contributed capital	7,684	17,138	3,292
Retained earnings	<u>23,937</u>	<u>118,358</u>	<u>31,471</u>
Total fund equity	<u>31,621</u>	<u>135,496</u>	<u>34,763</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$32,578</u></u>	<u><u>\$138,889</u></u>	<u><u>\$37,007</u></u>

Wastewater	Refuse	Storm Drainage	Totals June 30,	
			1994	1993
\$12,311	\$ 7,944	\$1,434	\$ 96,644	\$112,749
		449	449	1,700
1,883	1,518	154	13,243	12,813
153	102	18	1,236	1,472
			228	253
<u>14,347</u>	<u>9,564</u>	<u>2,055</u>	<u>111,800</u>	<u>129,518</u>
<u>48,088</u>	<u>5,642</u>	<u>4,343</u>	<u>180,713</u>	<u>167,802</u>
<u>\$62,435</u>	<u>\$15,206</u>	<u>\$6,398</u>	<u>\$292,513</u>	<u>\$297,320</u>
\$ 737	\$ 832	\$ 195	\$ 6,405	\$ 7,636
173	51	17	692	633
465		90	555	875
	<u>4,930</u>		<u>4,930</u>	<u>4,841</u>
<u>1,375</u>	<u>5,813</u>	<u>302</u>	<u>12,582</u>	<u>13,985</u>
98	1	18	441	389
498	180	37	1,893	1,369
<u>7,414</u>		<u>4,420</u>	<u>11,834</u>	<u>14,507</u>
<u>9,385</u>	<u>5,994</u>	<u>4,777</u>	<u>26,750</u>	<u>30,250</u>
29,889			58,003	57,831
<u>23,161</u>	<u>9,212</u>	<u>1,621</u>	<u>207,760</u>	<u>209,239</u>
<u>53,050</u>	<u>9,212</u>	<u>1,621</u>	<u>265,763</u>	<u>267,070</u>
<u>\$62,435</u>	<u>\$15,206</u>	<u>\$6,398</u>	<u>\$292,513</u>	<u>\$297,320</u>

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Water	Electric	Gas
OPERATING REVENUES:			
Sales of utilities:			
Customers	\$ 13,664	\$ 62,239	\$ 17,240
City departments	905	1,649	375
Wastewater treatment			
Service connection charges and miscellaneous	77	147	160
Other revenues	52	12,333	16
Electric rebate		(36,542)	
Total operating revenues	<u>14,698</u>	<u>39,826</u>	<u>17,791</u>
OPERATING EXPENSES:			
Purchase of utilities	3,561	30,520	10,528
Administration and general	649	1,553	554
Engineering (operating)	120	465	188
Resource planning	239	1,419	558
Operations and maintenance	1,420	5,671	1,567
Depreciation and amortization	<u>534</u>	<u>3,466</u>	<u>511</u>
Total operating expenses	<u>6,523</u>	<u>43,094</u>	<u>13,906</u>
OPERATING INCOME (LOSS)	<u>8,175</u>	<u>(3,268)</u>	<u>3,885</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	497	3,277	709
Interest expense		(16)	(18)
Joint venture debt service		(8,089)	
Loss on disposal of fixed assets		(26)	(35)
Total nonoperating revenues (expenses)	<u>497</u>	<u>(4,854)</u>	<u>656</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>8,672</u>	<u>(8,122)</u>	<u>4,541</u>
OPERATING TRANSFERS:			
Operating transfers in		105	
Operating transfers out	<u>(2,413)</u>	<u>(9,619)</u>	<u>(1,968)</u>
Net operating transfers	<u>(2,413)</u>	<u>(9,514)</u>	<u>(1,968)</u>
NET INCOME (LOSS)	6,259	(17,636)	2,573
RETAINED EARNINGS, BEGINNING OF YEAR, AS RESTATED (See Note 10)	<u>17,678</u>	<u>135,994</u>	<u>28,898</u>
RETAINED EARNINGS, END OF YEAR	<u>\$23,937</u>	<u>\$118,358</u>	<u>\$31,471</u>

Wastewater	Refuse	Storm Drainage	Totals June 30,	
			1994	1993
\$ 9,389	\$15,265	\$1,527	\$119,324	\$114,840
204	340	83	3,556	3,463
6,403			6,403	5,651
40			424	342
615	1,497	2	14,515	3,013
			(36,542)	
<u>16,651</u>	<u>17,102</u>	<u>1,612</u>	<u>107,680</u>	<u>127,309</u>
	5,530		50,139	48,018
870	1,219	232	5,077	5,874
839	727	334	2,673	2,354
			2,216	1,970
6,750	5,034	334	20,776	18,887
<u>2,186</u>	<u>356</u>	<u>42</u>	<u>7,095</u>	<u>7,292</u>
<u>10,645</u>	<u>12,866</u>	<u>942</u>	<u>87,976</u>	<u>84,395</u>
<u>6,006</u>	<u>4,236</u>	<u>670</u>	<u>19,704</u>	<u>42,914</u>
617	396	97	5,593	6,350
(669)		(301)	(1,004)	(1,158)
	(435)		(8,524)	(7,435)
	(1)		(62)	(146)
<u>(52)</u>	<u>(40)</u>	<u>(204)</u>	<u>(3,997)</u>	<u>(2,389)</u>
<u>5,954</u>	<u>4,196</u>	<u>466</u>	<u>15,707</u>	<u>40,525</u>
			105	146
<u>(148)</u>	<u>(3,096)</u>	<u>(47)</u>	<u>(17,291)</u>	<u>(16,229)</u>
<u>(148)</u>	<u>(3,096)</u>	<u>(47)</u>	<u>(17,186)</u>	<u>(16,083)</u>
5,806	1,100	419	(1,479)	24,442
<u>17,355</u>	<u>8,112</u>	<u>1,202</u>	<u>209,239</u>	<u>184,797</u>
<u>\$23,161</u>	<u>\$ 9,212</u>	<u>\$1,621</u>	<u>\$207,760</u>	<u>\$209,239</u>

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS

### COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE

YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	Water	Electric	Gas
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$8,175	\$ (3,268)	\$ 3,885
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	534	3,466	511
Other nonoperating loss			
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	209	77	(84)
(Increase) decrease in interest receivable	(56)	321	9
(Increase) decrease in prepaid items			25
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(200)	(993)	552
Increase (decrease) in accrued compensated absences	(67)	74	32
Increase in accrued self insurance	43	199	111
Increase in accrued landfill closure liability			
Net cash provided (used) by operating activities	<u>8,638</u>	<u>(124)</u>	<u>5,041</u>
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES -</b>			
Operating transfers out to other funds	<u>(2,413)</u>	<u>(9,514)</u>	<u>(1,968)</u>
Net cash used in noncapital financing activities	<u>(2,413)</u>	<u>(9,514)</u>	<u>(1,968)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,224)	(9,663)	(4,023)
Principal paid on revenue bonds		(273)	(307)
Proceeds from bond reserves		58	65
Interest paid on revenue bonds		(8,105)	(18)
Repayment of advance from General Fund			
Net cash used in capital related activities	<u>(2,224)</u>	<u>(17,983)</u>	<u>(4,283)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>			
Interest and dividends on pooled investments	<u>497</u>	<u>3,277</u>	<u>709</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,498	(24,344)	(501)
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,897</u>	<u>75,666</u>	<u>14,739</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u>\$9,395</u>	<u>\$51,322</u>	<u>\$14,238</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES -</b>			
Increase in contributed capital		\$ 172	



Wastewater	Refuse	Storm Drainage	Totals June 30,	
			1994	1993
\$ 6,006	\$4,236	\$ 670	\$ 19,704	\$ 43,421
2,186	356	42	7,095	7,292 (904)
(351)	(275)	(6)	(430)	457
(23)	(13)	(2)	236	14
			25	(62)
(457)	(214)	140	(1,172)	1,435
13	(3)	3	52	58
90	52	29	524	358
	89		89	65
<u>7,464</u>	<u>4,228</u>	<u>876</u>	<u>26,123</u>	<u>52,134</u>
<u>(148)</u>	<u>(3,096)</u>	<u>(47)</u>	<u>(17,186)</u>	<u>(16,083)</u>
<u>(148)</u>	<u>(3,096)</u>	<u>(47)</u>	<u>(17,186)</u>	<u>(16,083)</u>
(2,777)	(15)	(1,137)	(19,839)	(15,242)
(2,380)		(90)	(3,050)	(736)
408			531	
(669)	(435)	(301)	(9,528)	(8,593)
				(446)
<u>(5,418)</u>	<u>(450)</u>	<u>(1,528)</u>	<u>(31,886)</u>	<u>(25,017)</u>
<u>617</u>	<u>396</u>	<u>97</u>	<u>5,593</u>	<u>6,350</u>
2,515	1,078	(602)	(17,356)	17,384
<u>9,796</u>	<u>6,866</u>	<u>2,485</u>	<u>114,449</u>	<u>97,065</u>
<u>\$12,311</u>	<u>\$7,944</u>	<u>\$1,883</u>	<u>\$ 97,093</u>	<u>\$114,449</u>
			\$ 172	\$ 1,126

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS COMBINING BALANCE SHEET - WASTEWATER FUNDS JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Collection	Treatment	Eliminations	Totals June 30,	
				1994	1993
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash, cash equivalents, and investments	\$ 6,206	\$ 6,105		\$12,311	\$ 9,453
Restricted:					
Cash and cash equivalents					343
Investments					408
Accounts receivable, net	1,389	494		1,883	1,532
Interest receivable	<u>76</u>	<u>77</u>		<u>153</u>	<u>130</u>
Total current assets	7,671	6,676		14,347	11,866
Property, plant and equipment, net	18,596	29,492		48,088	47,454
Investments	<u>438</u>	<u>      </u>	<u>\$(438)</u>	<u>      </u>	<u>      </u>
<b>TOTAL ASSETS</b>	<u><b>\$26,705</b></u>	<u><b>\$36,168</b></u>	<u><b>\$(438)</b></u>	<u><b>\$62,435</b></u>	<u><b>\$59,320</b></u>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued liabilities	\$ 178	\$ 559		\$ 737	\$ 1,201
Accrued salaries and benefits	45	128		173	166
Current portion of revenue bonds, net	<u>146</u>	<u>319</u>		<u>465</u>	<u>706</u>
Total current liabilities	<u>369</u>	<u>1,006</u>		<u>1,375</u>	<u>2,073</u>
Compensated absences	38	60		98	85
Self insurance	138	360		498	408
Revenue bonds, net	<u>2,335</u>	<u>5,079</u>		<u>7,414</u>	<u>9,510</u>
Total liabilities	<u>2,880</u>	<u>6,505</u>		<u>9,385</u>	<u>12,076</u>
<b>FUND EQUITY:</b>					
Contributed capital	8,945	21,382	\$(438)	29,889	29,889
Retained earnings	<u>14,880</u>	<u>8,281</u>	<u>      </u>	<u>23,161</u>	<u>17,355</u>
Total fund equity	<u>23,825</u>	<u>29,663</u>	<u>(438)</u>	<u>53,050</u>	<u>47,244</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><b>\$26,705</b></u>	<u><b>\$36,168</b></u>	<u><b>\$(438)</b></u>	<u><b>\$62,435</b></u>	<u><b>\$59,320</b></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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Collection	Treatment	Eliminations	Totals June 30,	
				1994	1993
OPERATING REVENUES:					
Sales of utilities:					
Customers	\$ 9,389			\$ 9,389	\$ 8,165
City departments	158	\$ 3,826	\$(3,780)	204	158
Wastewater treatment		6,403		6,403	5,651
Service connection charges and miscellaneous	40			40	18
Other revenues	578	37		615	415
Total operating revenues	<u>10,165</u>	<u>10,266</u>	<u>(3,780)</u>	<u>16,651</u>	<u>14,407</u>
OPERATING EXPENSES:					
Purchase of utilities	3,780		(3,780)		
Administration and general	134	736		870	855
Engineering (operating)	89	750		839	895
Operations and maintenance	923	5,827		6,750	6,937
Depreciation and amortization	678	1,508		2,186	2,090
Total operating expenses	<u>5,604</u>	<u>8,821</u>	<u>(3,780)</u>	<u>10,645</u>	<u>10,777</u>
OPERATING INCOME	<u>4,561</u>	<u>1,445</u>		<u>6,006</u>	<u>3,630</u>
NONOPERATING REVENUES (EXPENSES):					
Interest income	292	325		617	524
Interest expense	(175)	(494)		(669)	(734)
Total nonoperating revenues (expenses)	<u>117</u>	<u>(169)</u>		<u>(52)</u>	<u>(210)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>4,678</u>	<u>1,276</u>		<u>5,954</u>	<u>3,420</u>
OPERATING TRANSFERS OUT	<u>(125)</u>	<u>(23)</u>		<u>(148)</u>	<u>(165)</u>
NET INCOME	4,553	1,253		5,806	3,255
RETAINED EARNINGS, BEGINNING OF YEAR	<u>10,327</u>	<u>7,028</u>		<u>17,355</u>	<u>14,100</u>
RETAINED EARNINGS, END OF YEAR	<u>\$14,880</u>	<u>\$ 8,281</u>	<u>\$ -</u>	<u>\$23,161</u>	<u>\$17,355</u>

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS

### COMBINING STATEMENT OF CASH FLOWS - WASTEWATER FUNDS FOR THE YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	Collection	Treatment	Totals June 30,	
			1994	1993
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income	\$4,561	\$1,445	\$ 6,006	\$3,630
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	678	1,508	2,186	2,090
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(230)	(121)	(351)	167
(Increase) decrease in interest receivable	(38)	15	(23)	(17)
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	89	(546)	(457)	204
Increase (decrease) in accrued compensated absences	3	10	13	15
Increase in accrued self insurance	28	62	90	98
Net cash provided by operating activities	<u>5,091</u>	<u>2,373</u>	<u>7,464</u>	<u>6,187</u>
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES -</b>				
Operating transfers out to other funds	<u>(125)</u>	<u>(23)</u>	<u>(148)</u>	<u>(165)</u>
Net cash used in noncapital financing activities	<u>(125)</u>	<u>(23)</u>	<u>(148)</u>	<u>(165)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(2,047)	(730)	(2,777)	(2,723)
Principal paid on revenue bonds	(139)	(2,241)	(2,380)	(662)
Proceeds from bond reserves		408	408	
Interest paid on revenue bonds	<u>(175)</u>	<u>(494)</u>	<u>(669)</u>	<u>(734)</u>
Net cash used in capital related activities	<u>(2,361)</u>	<u>(3,057)</u>	<u>(5,418)</u>	<u>(4,119)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>				
Interest and dividends on pooled investments	<u>292</u>	<u>325</u>	<u>617</u>	<u>524</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	2,897	(382)	2,515	2,427
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>3,309</u>	<u>6,487</u>	<u>9,796</u>	<u>7,369</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$6,206</u>	<u>\$6,105</u>	<u>\$12,311</u>	<u>\$9,796</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, 1994 WITH COMPARATIVE TOTALS FOR THE  
YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	Equipment Replacement	Vehicle Maintenance	Printing Services
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash, cash equivalents and investments	\$ 6,603	\$527	\$179
Accounts receivable, net		9	2
Interest receivable	86	7	2
Stores inventory		178	
Prepaid items			
	<u>        </u>	<u>        </u>	<u>        </u>
Total current assets	6,689	721	183
Property, plant and equipment, net	<u>6,913</u>	<u>        </u>	<u>126</u>
<b>TOTAL ASSETS</b>	<u><u>\$13,602</u></u>	<u><u>\$721</u></u>	<u><u>\$309</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities		\$ 36	\$ 8
Accrued salaries and benefits		28	6
Accrued compensated absences			
Accrued self insurance			
Capital lease obligations - current portion	<u>\$ 512</u>	<u>        </u>	<u>22</u>
Total current liabilities	512	64	36
Accrued compensated absences			
Accrued self insurance			
Capital lease obligations	<u>268</u>	<u>        </u>	<u>34</u>
Total liabilities	<u>780</u>	<u>64</u>	<u>70</u>
<b>EQUITY:</b>			
Contributed capital	5,039	103	196
Retained earnings	<u>7,783</u>	<u>554</u>	<u>43</u>
Total equity	<u>12,822</u>	<u>657</u>	<u>239</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><u>\$13,602</u></u>	<u><u>\$721</u></u>	<u><u>\$309</u></u>

Mailing Services	General Benefits and Insurance	Totals June 30	
		1994	1993
\$85	\$18,999	\$26,393	\$24,627
		11	13
1	219	315	252
		178	150
	<u>214</u>	<u>214</u>	<u>38</u>
86	19,432	27,111	25,080
		<u>7,039</u>	<u>7,783</u>
<u>\$86</u>	<u>\$19,432</u>	<u>\$34,150</u>	<u>\$32,863</u>
	\$ 8	\$ 52	\$ 901
	1,327	1,361	750
	5,141	5,141	4,859
	3,278	3,278	3,115
		<u>534</u>	<u>522</u>
	9,754	10,366	10,147
	2,200	2,200	2,409
	4,040	4,040	3,844
		<u>302</u>	<u>817</u>
	<u>15,994</u>	<u>16,908</u>	<u>17,217</u>
		5,338	5,220
<u>\$86</u>	<u>3,438</u>	<u>11,904</u>	<u>10,426</u>
86	3,438	17,242	15,646
<u>\$86</u>	<u>\$19,432</u>	<u>\$34,150</u>	<u>\$32,863</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, 1994 WITH COMPARATIVE TOTALS FOR THE  
YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	Equipment Replacement	Vehicle Maintenance	Printing Services
OPERATING REVENUES -			
Charges for services	<u>\$2,091</u>	<u>\$2,136</u>	<u>\$361</u>
OPERATING EXPENSES:			
Administration and general	12		306
Operations and maintenance		2,087	
Depreciation and amortization	1,535		28
Self insured losses			
Compensated absences and other benefits			
Total operating expenses	<u>1,547</u>	<u>2,087</u>	<u>334</u>
OPERATING INCOME (LOSS)	<u>544</u>	<u>49</u>	<u>27</u>
NONOPERATING REVENUES (EXPENSES):			
Interest revenue	312	25	7
Interest expense	(71)		(1)
Gain on disposal of fixed assets	76		
AB 702 rebate			
Other	<u>37</u>	<u>4</u>	
Total nonoperating revenues	<u>354</u>	<u>29</u>	<u>6</u>
INCOME BEFORE OPERATING TRANSFERS	898	78	33
OPERATING TRANSFERS IN	<u>32</u>		
NET INCOME	930	78	33
RETAINED EARNINGS, BEGINNING OF YEAR	<u>6,853</u>	<u>476</u>	<u>10</u>
RETAINED EARNINGS, END OF YEAR	<u>\$7,783</u>	<u>\$ 554</u>	<u>\$ 43</u>



Mailing Services	General Benefits and Insurance	Totals June 30	
		1994	1993
<u>\$365</u>	<u>\$25,371</u>	<u>\$30,324</u>	<u>\$28,088</u>
363	806	1,487	1,696
		2,087	2,107
		1,563	1,551
	1,819	1,819	3,336
	<u>23,594</u>	<u>23,594</u>	<u>22,494</u>
<u>363</u>	<u>26,219</u>	<u>30,550</u>	<u>31,184</u>
<u>2</u>	<u>(848)</u>	<u>(226)</u>	<u>(3,096)</u>
4	666	1,014	1,007
		(72)	(101)
		76	31
			3,325
	<u>613</u>	<u>654</u>	<u>645</u>
<u>4</u>	<u>1,279</u>	<u>1,672</u>	<u>4,907</u>
6	431	1,446	1,811
		32	31
6	431	1,478	1,842
<u>80</u>	<u>3,007</u>	<u>10,426</u>	<u>8,584</u>
<u>\$ 86</u>	<u>\$ 3,438</u>	<u>\$11,904</u>	<u>\$10,426</u>

# CITY OF PALO ALTO, CALIFORNIA

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Equipment Replacement	Vehicle Maintenance	Printing Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 544	\$ 49	\$ 27
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,535		28
AB 702 rebate			
Other	113	4	
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable		(1)	
Increase in interest receivable	(15)		(1)
Increase in stores inventories		(29)	
Decrease in prepaid items			
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(162)	(48)	7
Increase in accrued compensated absences			
Increase in accrued self insurance			
Net cash provided by (used in) operating activities	<u>2,015</u>	<u>(25)</u>	<u>61</u>
<b>CASH FLOWS FROM NONCAPITAL ACTIVITIES -</b>			
Operating transfers in	<u>32</u>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(801)		
Principal paid on capital leases	(500)		(21)
Interest paid on capital leases	(71)		(1)
Contributed capital	118		
Net cash used in capital related activities	<u>(1,254)</u>	<u>-</u>	<u>(22)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>			
Interest and dividends on pooled investments	<u>312</u>	<u>25</u>	<u>7</u>
<b>NET INCREASE IN CASH AND INVESTMENTS</b>	<b>1,105</b>		<b>46</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>5,498</u></b>	<b><u>527</u></b>	<b><u>133</u></b>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b><u><u>\$6,603</u></u></b>	<b><u><u>\$527</u></u></b>	<b><u><u>\$179</u></u></b>

Mailing Services	General Benefits and Insurance	Totals June 30	
		1994	1993
\$ 2	\$ (848)	(226)	\$ (3,096)
		1,563	1,551
	613	730	3,325
	4	3	676
	(47)	(63)	113
	(176)	(29)	32
	(32)	(176)	(27)
(2)	(32)	(237)	(25)
	359	359	602
	72	72	289
			976
-	(55)	1,996	4,416
		32	31
		(801)	(1,218)
		(521)	(492)
		(72)	(101)
		118	82
-	-	(1,276)	(1,729)
4	666	1,014	1,007
4	611	1,766	3,725
81	18,388	24,627	20,902
<u>\$ 85</u>	<u>\$18,999</u>	<u>\$26,393</u>	<u>\$24,627</u>

## 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 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.

# CITY OF PALO ALTO, CALIFORNIA

**TRUST AND AGENCY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE  
YEAR ENDED JUNE 30, 1993  
(In thousands of dollars)**

	<u>Expendable Trust Funds</u>			<u>Agency Funds</u>	<u>Totals</u>	
	<u>Animal Services Donations</u>	<u>Assets Seizure</u>	<u>Child Care</u>	<u>Deferred Compensation Program</u>	<u>June 30 1994</u>	<u>1993</u>
<b>ASSETS</b>						
Cash, cash equivalents and investments	\$72	\$32	\$27		\$ 131	\$ 265
Restricted - Investments				\$28,101	28,101	25,587
Interest receivable	—	—	—	—	—	3
<b>TOTAL ASSETS</b>	<u>\$72</u>	<u>\$32</u>	<u>\$27</u>	<u>\$28,101</u>	<u>\$28,232</u>	<u>\$25,855</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities		\$ 1	\$ 1		\$ 2	\$ 14
Deferred compensation Due to Palo Alto Recreation Foundation				\$28,101	28,101	25,587
		—	—	—	—	128
Total liabilities		1	1	28,101	28,103	25,729
<b>FUND BALANCES -</b>						
Fund balances, unreserved and undesignated	<u>\$72</u>	<u>31</u>	<u>26</u>	—	<u>129</u>	<u>126</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$72</u>	<u>\$32</u>	<u>\$27</u>	<u>\$28,101</u>	<u>\$28,232</u>	<u>\$25,855</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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	<u>Expendable Trust Funds</u>			<u>Totals</u>	
	<u>Animal Services Donations</u>	<u>Assets Seizure</u>	<u>Child Care</u>	<u>June 30 1994</u>	<u>1993</u>
REVENUES:					
Interest earnings		\$ 2	\$ 1	\$ 3	\$ 3
Other	\$ 8	9	9	26	31
Total revenues	8	11	10	29	34
EXPENDITURES:					
Public safety - police	13	9		22	28
Community services	—	—	4	4	1
Total expenditures	13	9	4	26	29
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5)	2	6	3	5
FUND BALANCES, BEGINNING OF YEAR	77	29	20	126	137
RESIDUAL EQUITY TRANSFER OUT - General Fund	—	—	—	—	(16)
FUND BALANCES, END OF YEAR	<u>\$72</u>	<u>\$31</u>	<u>\$26</u>	<u>\$129</u>	<u>\$126</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, 1994 (In thousands of dollars)

	Balances July 1, 1993	Additions	Deductions	Balances June 30, 1994
<b>ASSETS</b>				
<b>CASH AND CASH EQUIVALENTS WITH FISCAL AGENTS:</b>				
The Hartford	\$18,179	\$2,325	\$ 802	\$19,702
ICMA	6,337	1,417	260	7,494
Great Western Savings	<u>1,071</u>	<u>38</u>	<u>204</u>	<u>905</u>
Total cash and cash equivalents with fiscal agents	<u>25,587</u>	<u>3,780</u>	<u>1,266</u>	<u>28,101</u>
<b>TOTAL ASSETS</b>	<u>\$25,587</u>	<u>\$3,780</u>	<u>\$1,266</u>	<u>\$28,101</u>
<b>LIABILITIES</b>				
DEFERRED COMPENSATION	<u>\$25,587</u>	<u>\$3,780</u>	<u>\$1,266</u>	<u>\$28,101</u>
<b>TOTAL LIABILITIES</b>	<u>\$25,587</u>	<u>\$3,780</u>	<u>\$1,266</u>	<u>\$28,101</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, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	June 30	
	1994	1993
GENERAL FIXED ASSETS:		
Land and improvements	\$ 50,800	\$ 62,205
Buildings and structures	45,675	36,466
Equipment	<u>6,365</u>	<u>11,640</u>
TOTAL GENERAL FIXED ASSETS	<u>\$102,840</u>	<u>\$110,311</u>
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
Investment in assets, beginning of year	\$110,311	\$106,215
Adjustment to the carrying value of fixed assets as discussed in the general purpose financial statements	<u>(7,471)</u>	<u>4,096</u>
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	<u>\$102,840</u>	<u>\$110,311</u>

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1993 (In thousands of dollars)

	Land and Improvements	Buildings and Structures	Equipment	June 30	
				1994	1993
ADMINISTRATION:					
City clerk and council			\$ 73	\$ 73	\$ 162
City manager			35	35	144
City attorney			66	66	156
City auditor			19	19	37
Finance			127	127	768
Personnel			37	37	149
Information resources			1,053	1,053	1,893
General government	\$ 1,782	\$11,372	1,083	14,237	17,511
Total administration	1,782	11,372	2,493	15,647	20,820
PUBLIC SAFETY:					
Police			645	645	605
Fire	392	4,979	666	6,037	3,554
Communications			1,332	1,332	860
Animal services	37	330	59	426	469
Total public safety	429	5,309	2,702	8,440	5,488
LIBRARIES	245	2,765	140	3,150	4,012
PARKS, RECREATION AND CULTURE	25,228	18,041	1,030	44,299	34,032
PARKING FACILITIES	3,012	8,188		11,200	23,017
OPEN SPACE	17,540			17,540	13,130
HOUSING	2,564			2,564	9,812
<b>TOTAL GENERAL FIXED ASSETS</b>	<b>\$50,800</b>	<b>\$45,675</b>	<b>\$ 6,365</b>	<b>\$102,840</b>	<b>\$110,311</b>

## 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.

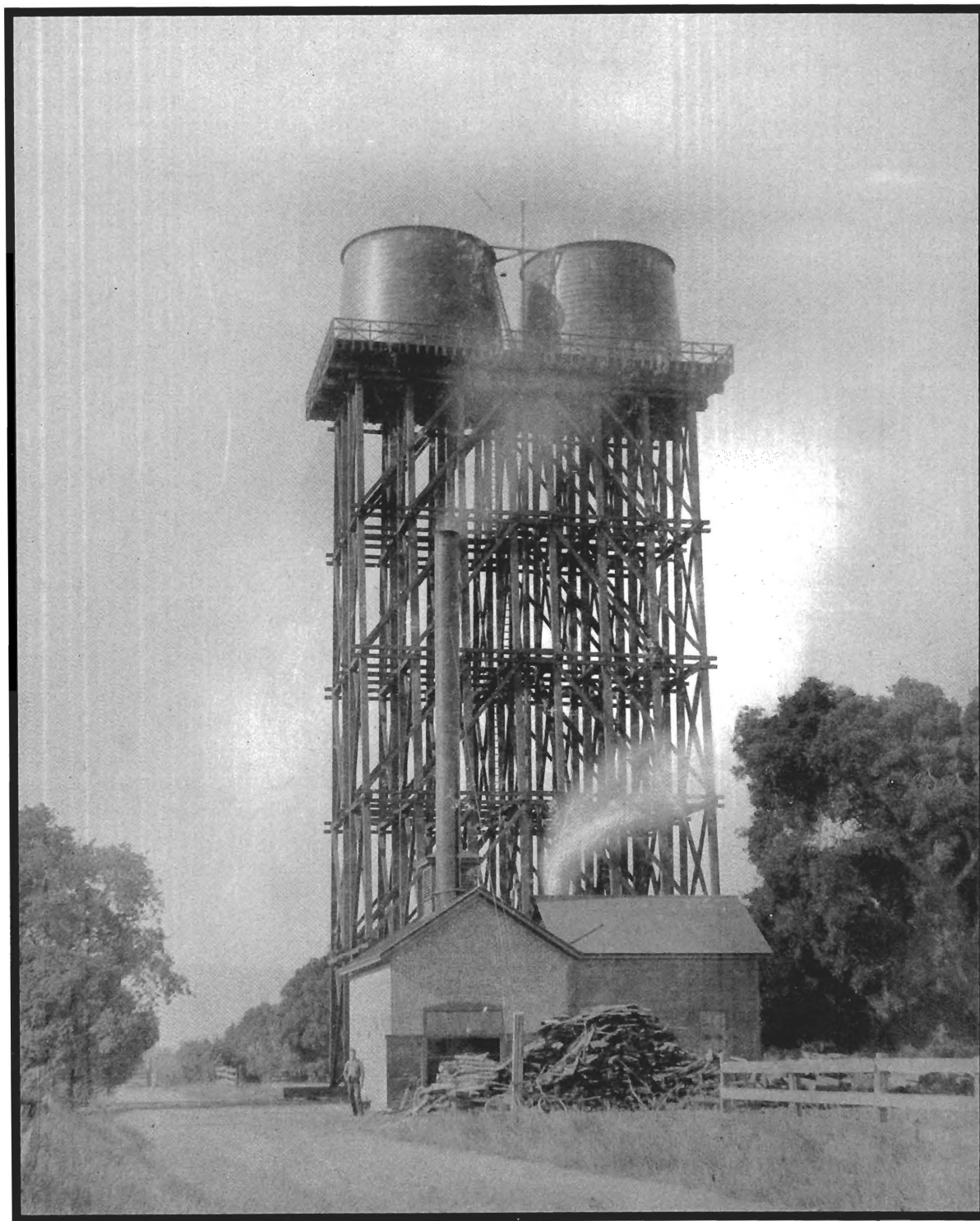
# CITY OF PALO ALTO, CALIFORNIA

## GENERAL LONG-TERM DEBT ACCOUNT GROUP BALANCE SHEET

JUNE 30, 1994 WITH COMPARATIVE TOTALS FOR THE  
YEAR ENDED JUNE 30, 1993

(In thousands of dollars)

	June 30	
	1994	1993
AMOUNTS AVAILABLE AND TO BE PROVIDED FOR RETIREMENT OF GENERAL LONG-TERM DEBT:		
Amount available in debt service funds	\$ 3,394	\$ 3,336
Amount to be provided for retirement of general long-term debt	<u>16,729</u>	<u>16,049</u>
TOTAL	<u>\$20,123</u>	<u>\$19,385</u>
GENERAL LONG-TERM DEBT PAYABLE:		
General revenue bonds	\$ 1,000	\$ 1,075
Certificates of participation	6,925	7,305
Special assessment debt with governmental commitment	9,390	7,790
Capital lease obligation	<u>2,808</u>	<u>3,215</u>
TOTAL	<u>\$20,123</u>	<u>\$19,385</u>



City Water Tower at Rinconada, 1896

## 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
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 (B)	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
1993-94 (A)	14,635	7,737	14,763	7,915	1,180

Note: Includes general, special revenue, debt service and capital projects funds.

- (A) During fiscal year 1993-94 the City implemented GASB Statement No. 14, *The Reporting Entity*, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.
- (B) During fiscal year 1987-88 the City implemented GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*. Data prior to 1987-88 has not been restated.

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<b>Interest and Rentals</b>	<b>Fire Protection and Emergency Communication Services</b>	<b>From Other Agencies</b>	<b>Other</b>	<b>Total</b>
\$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	750	54,553
<b>4,976</b>	<b>3,884</b>	<b>2,295</b>	<b>2,372</b>	<b>59,757</b>

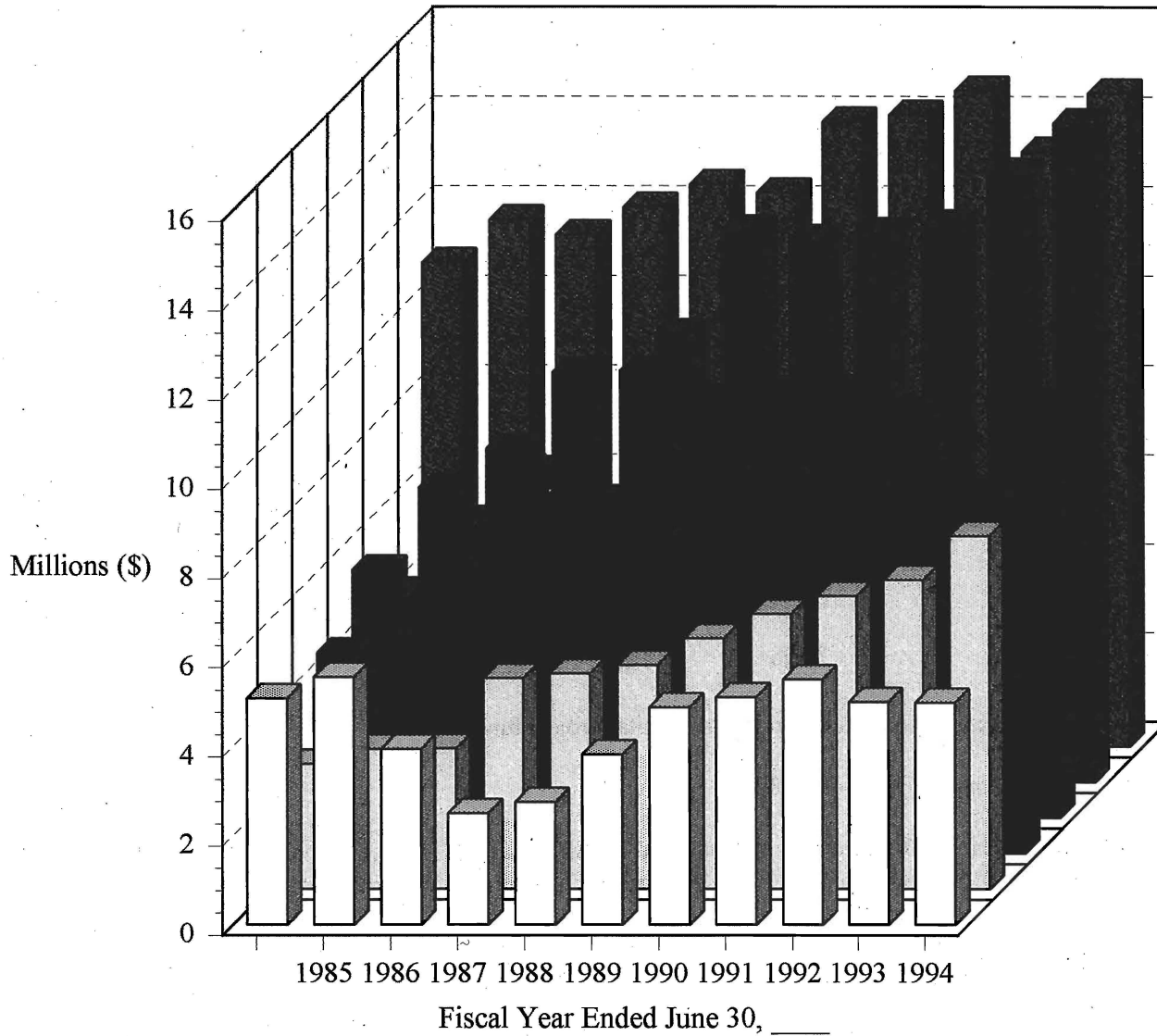
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# CITY OF PALO ALTO

## 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
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 (B)	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
1993-94 (C)	9,343	7,058	4,160	14,150	11,718

Note: Includes general, special revenue, debt service and capital project funds.

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

(B) During fiscal year 1987-88 the City implemented GASB Statement No. 6, *Accounting and Reporting for Special Assessments*. Data prior to 1987-88 has not been restated.

(C) During fiscal year 1993-94 the City implemented GASB Statement No. 14, *The Reporting Entity*, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.

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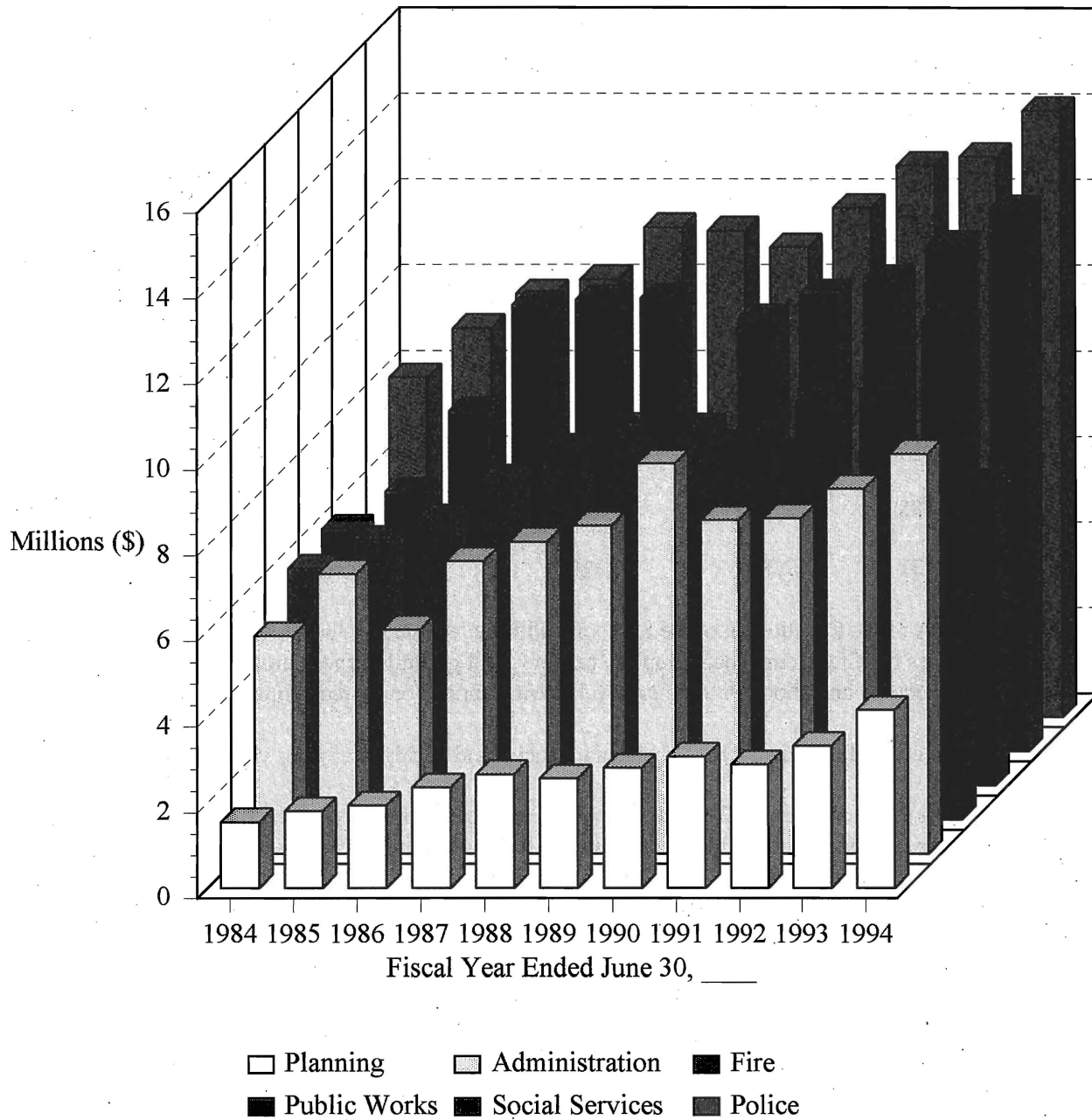
<b>Community Services</b>	<b>School Site Operations</b>	<b>Special Revenue and Capital Projects</b>	<b>Debt Service</b>	<b>Total</b>
\$ 5,271		\$9,170	\$1,970	\$49,219
6,162		6,363	1,845	52,927
7,559		6,679	2,728	58,343
7,547	\$ 850	4,171	2,916	56,990
10,098	2,378	6,470	2,789	60,905
10,674	3,434	5,641	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	5,342	2,541	68,357
<b>12,651</b>	<b>5,645</b>	<b>7,450</b>	<b>2,569</b>	<b>74,744</b>

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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)
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
1993-94(3)	7,592,131	7,310	7,310	427	7,737

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.

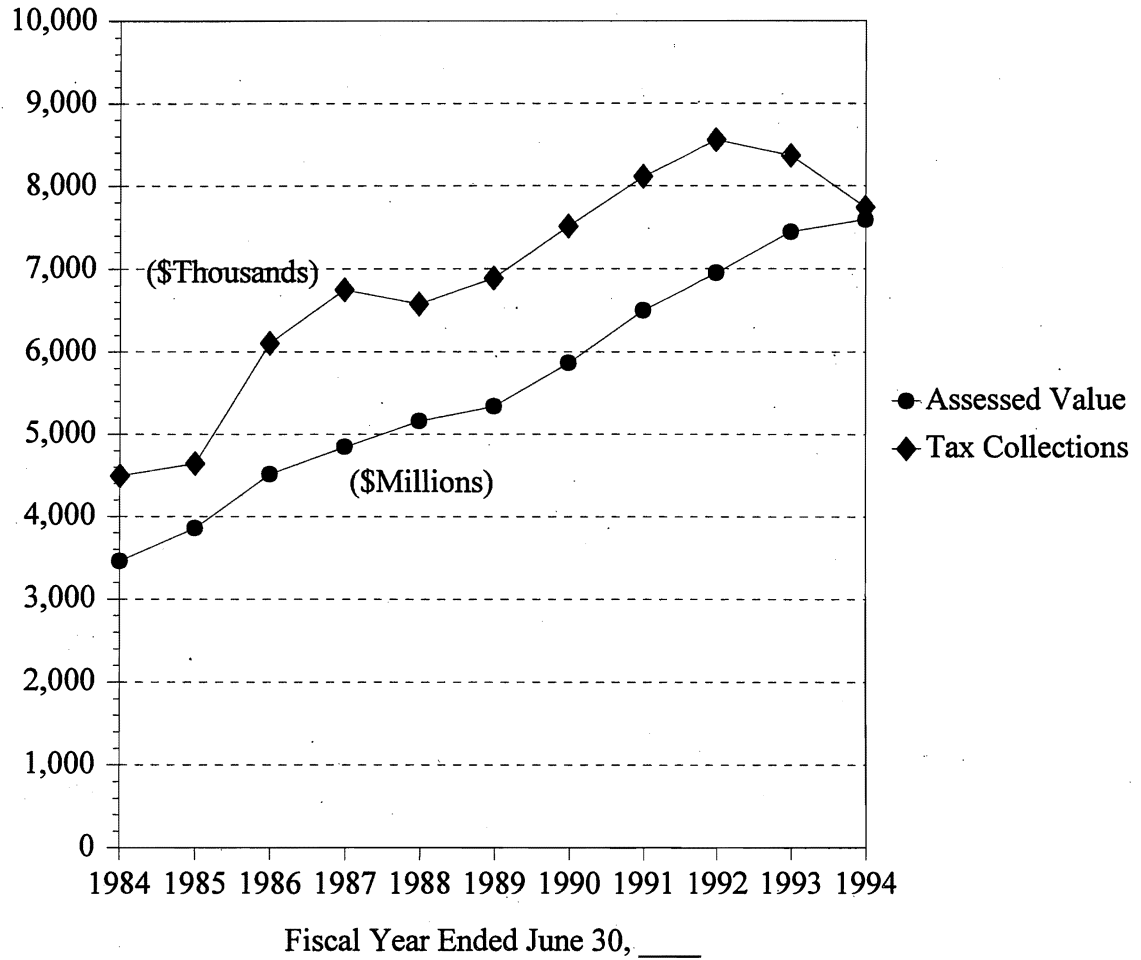
(2) Includes collection of the current levy plus delinquencies and penalties of prior years.

(3) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full tax levy due. All prior delinquent taxes were also received in this fiscal year.

# 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	
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
1993-94	2,687,134	3,876,127	353,803	1,425

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

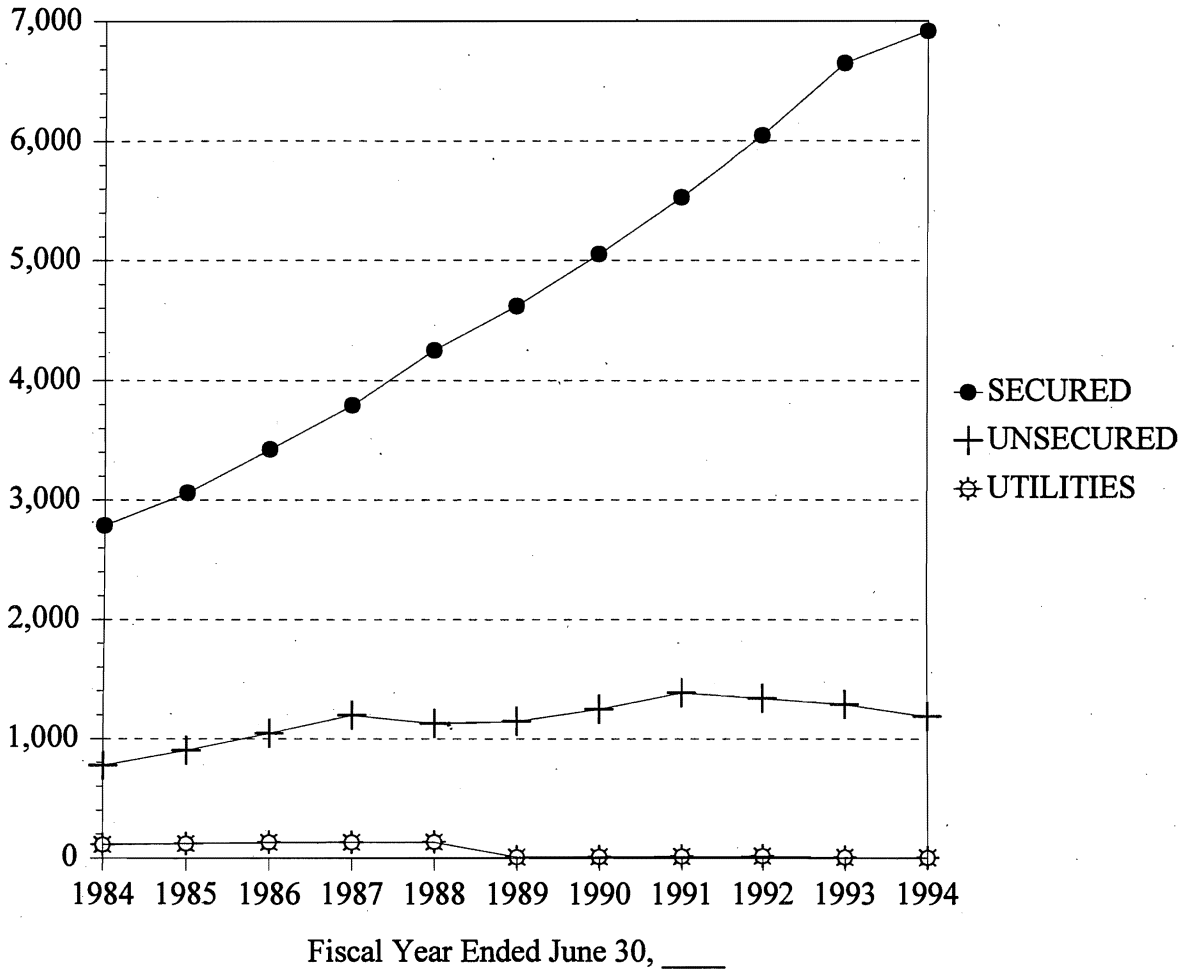


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<b>Unsecured Roll</b>	<b>Less Exemptions Net of State-Aid</b>	<b>Total Assessed Value</b>
\$ 902,624	\$227,122	\$3,855,877
1,044,827	443,047	4,155,649
1,198,144	279,945	4,844,145
1,128,227	348,559	5,162,625
1,145,899	436,296	5,339,581
1,248,028	443,968	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
<b>1,188,354</b>	<b>514,712</b>	<b>7,592,131</b>

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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
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	-
<b>1993-94</b>	<b>1.031</b>	<b>.000</b>	<b>.000</b>	<b>1.031</b>	-

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)

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<b>Fiscal Year</b>	<b>County Assessment Due</b>	<b>Current Assessment Collected</b>	<b>Delinquent and Penalties Collected</b>	<b>Total (1) Collections</b>
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
<b>1993-94</b>	<b>850</b>	<b>850</b>	<b>14</b>	<b>864</b>

Note: (1) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full assessment due. Payment for all prior delinquencies was also received in this fiscal 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
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	.452	.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	.260	.34
1993-94	58,100	7,592,131	20,888	.275	.36

- (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 \$95,000.

# CITY OF PALO ALTO, CALIFORNIA

## COMPUTATION OF LEGAL DEBT MARGIN

JUNE 30, 1994

(In thousands of dollars) (Unaudited)

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1993-94 Assessed value		<u>\$7,592,131</u>
Debt limit - 15% of assessed value		\$1,138,820
Amount of debt applicable to debt limit:		
General revenue bonds	\$ 1,000	
Certificates of participation	6,925	
Capital lease obligations	3,573	
Special assessment debt with governmental commitment	<u>9,390</u>	
Total	20,888	
Less amount available in debt service funds	<u>3,394</u>	
Total amount of debt applicable to debt limit		<u>17,494</u>
Legal debt margin		<u>\$1,121,326</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, 1994

(In thousands of dollars) (Unaudited)

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1993-94 Assessed Valuation \$7,592,131

Direct and Overlapping Bonded Debt	% Applicable	June 30, 1994 Bonded Debt
Santa Clara County Building Authorities	7.535	\$22,913
Santa Clara County FC & WCD, Zone W-1	0.502	103
Foothill-DeAnza Community College District	21.777	6,937
Other School Districts and School Authorities	Various	245
City of Palo Alto General Fund Obligations	100.000	11,498 (1)
City of Palo Alto Special Assessment Bonds	100.000	9,390
Midpeninsula Regional Park District	13.307	6,736
Santa Clara Valley Water District Certificates of Participation	7.535	2,740
Other Special Districts	Various	<u>4</u>
Total Gross Direct and Overlapping Bonded Debt		60,566
Less: El Camino Hospital Authority (100% Self-Supporting)		<u>4</u>
Total Net Direct and Overlapping Bonded Debt		<u>\$60,562</u>
Ratios to Assessed Valuation:		
Gross Direct Debt (\$11,498)	0.15%	
Total Gross Debt	0.80%	
Total Net Debt	0.80%	

Note: (1) Includes \$2,827 Terman School Capital Lease Obligation and \$807 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
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	5.46
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	63,882	3.98
1993-94	1,305	1,264	2,569	68,677	3.74

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

(2) Data presented for fiscal years 1984 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
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
1993-94	132,317	68,371	63,946	875	945	1,820	35.14

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.

(3) 1993-94 excludes electric rebate.

# CITY OF PALO ALTO, CALIFORNIA

## DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS (Unaudited)

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<b>Fiscal Year</b>	<b>City Size Square Miles</b>	<b>Street Miles</b>	<b>City Population (1)</b>	<b>County Population (1)</b>
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
1993-94	25.98	193.12	58,100	1,587,800

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

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<b>City Population as a % of County</b>	<b>School Population (2)</b>	<b>Unemployment Rate (3)</b>
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%
<b>3.66</b>	<b>8,334</b>	<b>3.3%</b>

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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
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
1993-94	23	2,509	377	61,492	1,081	37,284	96	3,823

# CITY OF PALO ALTO, CALIFORNIA

## INSURANCE COVERAGE

JUNE 30, 1994

(Unaudited)

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Type	Coverage (or comment)
<b>Property Loss</b> Blanket	All real & personal property - (\$10,000 deductible)
Boiler & Machinery	All real & personal property: (\$25,000 deductible - each transformer) (\$10,000 deductible - all other objects)
<b>Financial Loss</b> Employee Blanket	Position bond - faithful performance per loss - (\$5,000 deductible)
<b>Comprehensive Public Liability</b>	City is self-insured for first \$1,000,000 of liability
<b>Umbrella Excess</b>	City is a member of an insurance pool participating with a number of other California cities.
<b>Special Liability</b> Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)
Special Events	Bodily Injury (\$250 deductible)
<b>Employee Benefit</b> Travel Accident	Indemnity, based on salary
<b>Employee Health Plan</b>	The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees.
<b>Workers' Compensation</b>	City is self-insured for first \$500,000 of liability
<b>Excess Workers' Compensation</b>	Excess Workers' Compensation Employers Liability



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<b>Limits</b>	<b>Company</b>	<b>Expiration Date</b>
\$179,959,223	Chubb/Federal	07/01/94
\$10,000,000 per accident	Chubb/Pacific Indemnity	07/01/94
\$1,000,000	Hartford Accident & Indemnity	07/01/95
\$9,000,000	ACCEL Group	07/01/94
\$5,000 \$5,000	National American Life Insurance Co.	01/01/95
\$1,000,000 per occurrence	Scottsdale Insurance	03/24/95
\$1,500,000 per accident	Life Insurance Co. of No. America	06/01/95
\$10,000,000 \$2,000,000	National Union Fire Insurance	07/01/94

# CITY OF PALO ALTO, CALIFORNIA

## PRINCIPAL PROPERTY TAXPAYERS

JUNE 30, 1994

(In thousands of dollars) (Unaudited)

	Type of Business	Assessed Valuation	% of Total Assessed Valuation
Leland Stanford Jr. University	University and Ancillary	\$1,376,877	18.14
Space Systems/Loral, Inc.	Research and Development	158,004	2.08
S I Palo Alto, Inc.	Offices, Banks and Clinics	45,159	0.59
Harbor Investment Partners	General Industrial	39,000	0.51
Cowper-Hamilton Associates	Offices, Banks and Clinics	31,850	0.42
Sun Microsystems, Inc.	Computers and Electronics	28,987	0.38
Stanford Square Limited Partners	Offices, Banks and Clinics	20,447	0.27
Digital Equipment Corporation	Computers and Electronics	18,019	0.24
Hewlett-Packard Company	Computers and Electronics	17,411	0.23
Maytai Investments, Inc.	Offices, Banks and Clinics	<u>15,322</u>	<u>0.20</u>
Totals		<u>\$1,751,076</u>	<u>23.06</u>

Source: Center for Urban Analysis, County of Santa Clara

# CITY OF PALO ALTO, CALIFORNIA

## MISCELLANEOUS STATISTICAL INFORMATION

JUNE 30, 1994

(Unaudited)

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Discovered	1769
Incorporated	April 16, 1894
Incorporated as charter city	July 1, 1909
Government	Council - City Manager Form
Population	58,100
Land Area	25.98 Square Miles
City Maintained Trees	41,000
Police Protection	1 Station 167 Regular Employees 27 Police Patrol Vehicles
Fire Protection	7 Stations 114 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	25,448 Units
Commercial and Industrial Space	26.7 Million Square Feet
Municipal Utility Plants:	
Water	5.6 Million CCF Sold, 19,100 Accounts 221 Miles of Mains
Wastewater	8,195 Million Gallons Processed 21,797 Accounts 218 Miles of Sanitary Sewer Lines
Electric	1,049 Million KWH Sold, 27,376 Accounts 225 Pole Miles, 209 Trench Miles
Gas	36 Million Therms Sold, 23,230 Accounts 180 Miles of Gas Mains

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**CITY OF PALO ALTO, CALIFORNIA**

**SINGLE AUDIT REPORTS**

**for the year ended June 30, 1994**

**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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994.

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, 1994, 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.

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 LLP*

October 21, 1994



**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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994.

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 21, 1994 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 LLP*

October 21, 1994

**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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994. 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.

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, 1994, 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 LLP*

October 21, 1994

# CITY OF PALO ALTO, CALIFORNIA

## SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 1994

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Federal Grantor/ Program Title	CFDA Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT - Direct Programs:		
Home Improvement Program	14.239*	\$ 920,000
Community Development Block Grant - entitlement	14.218*	<u>764,785</u>
Total U.S. Department of Housing and Urban Development		1,684,785
U.S. DEPARTMENT OF TRANSPORTATION - Pass-Through Federal Highway Administration - Highway Planning and Construction	20.205	<u>33,067</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$1,717,852</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

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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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994. 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 21, 1994.

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, 1994, 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 21, 1994.

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:
  - 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
  - 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
  - Claims for advances and reimbursements
  - Amounts claimed or used for matching

The requirements of matching, level of effort, and/or earmarking are not applicable to the federal financial assistance programs which are identified in the accompanying Supplementary Schedule of Federal Financial Assistance.

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, 1994, the City expended 98% of its total federal financial assistance under its major federal financial assistance programs.

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 programs, which are 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.

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 LLP*

October 21, 1994



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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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994. 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 21, 1994.

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, 1994:

- 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 21, 1994.

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 LLP*

October 21, 1994

**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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994.

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
  - Cost allocation
  - Monitoring sub-recipients
  - Special tests and provisions related to the Community Development Block Grant Program and Home Investment Program
- Claims for advances and reimbursements
- Amounts claimed or used for matching

that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Supplementary Schedule of Federal Financial Assistance, for the year ended June 30, 1994. 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.

The requirements of matching, level of effort, and/or earmarking are not applicable to the federal financial assistance programs which are identified in the accompanying Supplementary Schedule of Federal Financial Assistance.

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 each of its major federal financial assistance programs for the year ended June 30, 1994.

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 LLP*

October 21, 1994



**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, 1994, and for the year then ended, and have issued our report thereon dated October 21, 1994. 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 21, 1994.

In connection with our audit of the 1994 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, 1994.

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
- Eligibility
- 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, 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 LLP*

October 21, 1994

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 1994

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### CURRENT YEAR FINDING

#### Quarterly Performance Report - HOME Investment Grant

##### Questioned Cost: 0

The State Department of Housing and Community Development states in the agreement with the City of Palo Alto (the City) section 19.A that the City must submit a performance report to the State, on forms provided by the State, no later than 30 days after the end of each calendar quarter. The City has submitted these reports every quarter; however, it submitted the first calendar quarter report 20 days after the 30-day deadline.

In future reporting periods, the City should submit the performance report in a timely manner.

#### City's Response

The City will take steps to ensure that future quarterly performance reports to the State Department of Housing and Community Development for the HOME Investment Grant Program are submitted in a timely manner in accordance with our grant agreement. Staff will schedule time in our work program well in advance of the deadline to complete the report.

### STATUS OF PRIOR YEAR FINDING

#### Drug-Free Workplace - All Grants

Office of Management 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 should adopt the specific wording of the Federal Drug-Free Workplace Policy.

#### Current Year Update

Noted corrective action was implemented.





**AMERICANS WITH DISABILITIES ACT (ADA)  
STATEMENT**

In compliance with the Americans with Disabilities Act (ADA) of 1990, this document may be provided in other accessible formats. For information contact:

**Dianah Neff, ADA Director  
City of Palo Alto  
250 Hamilton Avenue  
Palo Alto, CA 94301  
415/329-2313 (voice)  
415/328-1199 (TDD)**

