



COMPREHENSIVE
ANNUAL
FINANCIAL REPORT
FOR THE
FISCAL YEAR ENDED

June 30, 1996



COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF PALO ALTO

for the
Fiscal Year Ended June 30, 1996



prepared by
ADMINISTRATIVE SERVICES DEPARTMENT

AMERICANS WITH DISABILITIES ACT STATEMENT

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CITY OF PALO ALTO, CALIFORNIA

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CITY OF PALO ALTO

CITY OFFICIALS

June 30, 1996

City Council

Lanie Wheeler
Mayor

Joseph H. Huber
Vice Mayor

Liz Kniss
Chairperson,
Finance Committee

Dick Rosenbaum
Chairperson,
Policy and Services Committee

Ron Andersen

Gary Fazzino

Joseph Huber

Jean McCown

Micki Schneider

Joe Simitian

Council-Appointed Officers

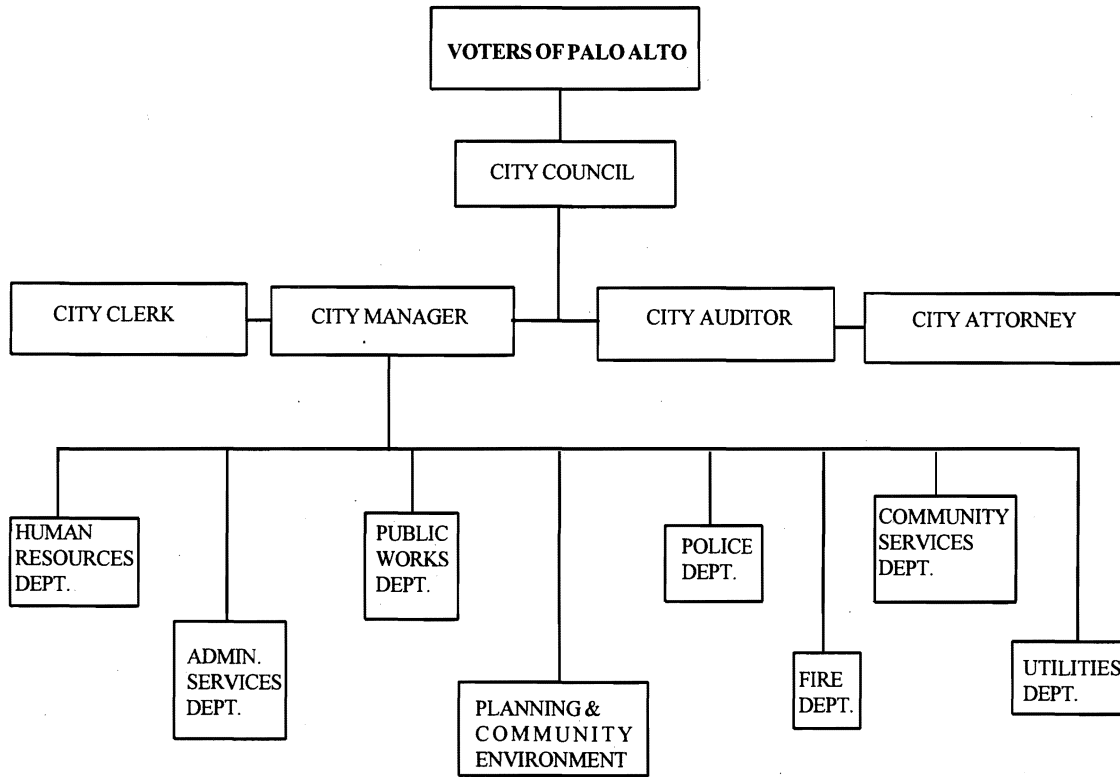
June Fleming
City Manager

Gloria Young
City Clerk

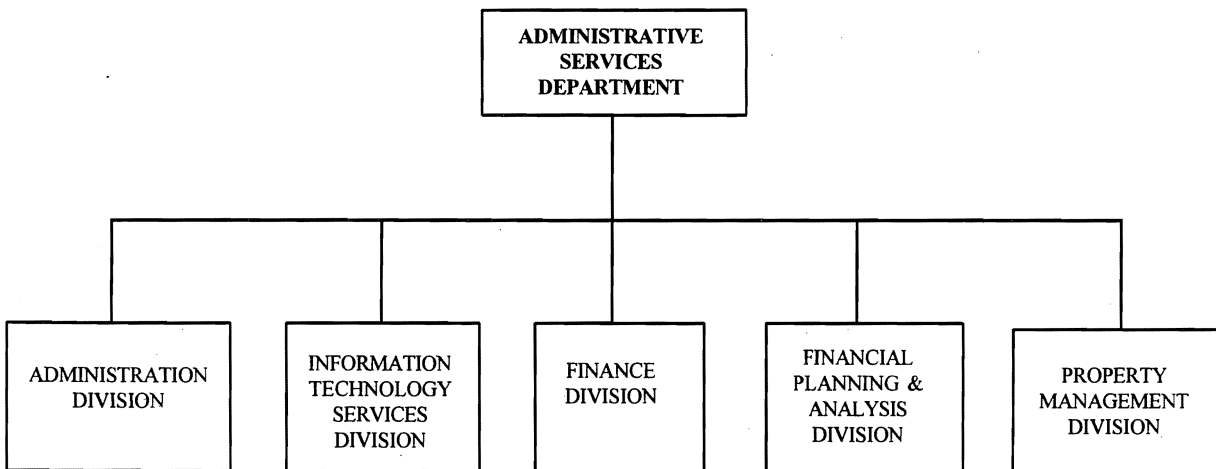
Ariel Calonne
City Attorney

William Vinson
City Auditor

CITY OF PALO ALTO ORGANIZATIONAL CHART



**CITY OF PALO ALTO
ADMINISTRATIVE SERVICES DEPARTMENT
ORGANIZATIONAL CHART**



Mission Driven Budgeting Statement:

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

December 5, 1996

THE HONORABLE CITY COUNCIL
Palo Alto, California

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT, YEAR ENDING JUNE 30, 1996

Members of the Council:

The Comprehensive Annual Financial Report, including the opinion of Deloitte & Touche, LLP for the fiscal year ended June 30, 1996, is submitted for Council review, in accordance with Article IV, Section 13 of the City Charter. Although Deloitte & Touche, LLP has expressed an opinion on this report based upon its recent audit, responsibility for both the accuracy of the data and the fairness of the presentation, including all disclosures, rests with the City's management.

GENERAL INFORMATION

Located in northern Santa Clara County approximately 35 miles south of the City of San Francisco, Palo Alto was named by an early Spanish exploration party for the tall, twin-trunked redwood tree they camped beneath in 1769. The City has a population of 58,501. It is part of the San Francisco Bay metropolitan area. Partly due to 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, Watkins-Johnson and Alza. Palo Alto is a major employment center, including Stanford University, Stanford University Medical Center, Lockheed Martin Missiles and Space, Palo Alto Medical Center, and Xerox. The number of jobs in Palo Alto in 1995-1996

was approximately 90,010. Palo Alto is also one of the area's unique and most desirable residential communities, with about 25,541 housing units. Palo Alto is noted for its excellent public and private schools and its comprehensive municipal services.

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. Although the Corporations are not agencies of the City, the City maintains ultimate control over the policies and actions of the Corporations through its ability to appoint directors.

GOVERNMENT ORGANIZATION

The City of Palo Alto was incorporated in 1894, and recently celebrated its centennial in fiscal year 1994. 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 collection, wastewater treatment, storm drainage, and refuse utilities for the

benefit of Palo Alto residents and businesses. The City's 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. The City offers a broad array of social, recreational and cultural events, including human services for seniors and youth, subsidized child care, classes, concerts, exhibits, team sports and special events. The City and the Palo Alto Unified School District (PAUSD) recently entered into an agreement to jointly fund the costs of maintaining and rehabilitating school playing fields, recognizing the significant recreational use of these facilities by the community. The City's Animal Services function includes a low-cost Spay and Neuter Clinic, which draws patients from all over the South Bay area, and provides reasonably priced animal health care and adoption services.

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 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). The 1995-96 budget was adopted using the new, mission driven budgeting approach, and due to the change was presented as a one-year budget document. The 1996-98 budget was adopted as a two-year, mission driven budget document.

The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is by department in the General Fund and by fund for the Special Revenue, Enterprise, and Internal Service Funds. The legal level of budgetary control is at the project

level for the Capital Projects Fund. The City utilizes an encumbrance system to track purchase orders as they are issued, and corresponding appropriation amounts are reserved for later payment, to avoid overcommitment of funds. Budgets are adopted by the City Council for all funds except for the Debt Service and Trust and Agency Funds.

Single Audit

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

As a part of the 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 it 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, 1996 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS

Council Priorities

The City Council selected three priorities on which to focus in 1995-96: Palo Alto's Infrastructure, Families, Youth and Community, and the Comprehensive Plan.

Infrastructure: Over the past several years, Council has expressed considerable concern about the condition of the City's General Fund infrastructure, the identification of a potential "backlog" of capital improvements, and the need for a long-term plan to both rehabilitate and maintain the aging infrastructure. To develop a comprehensive plan, an Infrastructure Task Force consisting of staff from the Administrative Services, Public Works, Community Services, and Planning Departments was formed. This group is in the process of identifying infrastructure needs, prioritizing those needs, determining the capital and maintenance costs associated with infrastructure improvements, and proposing financing options. Staff presented information on the buildings and facilities infrastructure category to the Council's Finance Committee in November 1996. This information has been developed with the assistance of a consultant over the last year. The introduction of this information began a

process of giving Council the information it needs to prioritize needed infrastructure improvements over a number of years.

Families, Youth and Community: This Council priority was addressed in a variety of ways by several City departments. The Positive Alternatives for Youth Committee continued to work towards the goal of preventing youth violence in the community. The Committee, including City and PAUSD staff, as well as staff from community agencies, met monthly during the year to develop recommendations for a comprehensive approach to preventing violence.

In an expansion of the community policing concept, a Police Substation was opened at the former Ventura School site in Spring 1996. This effort brings the police closer to the Ventura neighborhood, which had been an area of concern for many in the community. The substation increases the police visibility in the neighborhood, and has facilitated police interaction with community members.

A Teen Center was opened in downtown Palo Alto in November 1995. A very successful 15-member Teen Advisory Council has been formed to advise staff and help plan and coordinate activities. Activities in the past year included two street parties, tournaments, and music nights.

A "Safer Summer" program was initiated, which includes alternatives for late night activities for teens during the Summer. It has included an expanded "Open Gym" program, cafe nights, and special interest classes. In recognition of its multi-faceted approaches, the City's "Safer Summer" program was awarded a statewide Special Award of Excellence from the California Parks and Recreation Society.

Comprehensive Plan: In 1995-96, the City continued work on preparing a new Comprehensive Plan. The City Council concluded review of proposed Comprehensive Plan goals, policies, and programs, which were built on the work of the 37-member citizens advisory committee. The Council directed staff to prepare a Draft Comprehensive Plan for review in 1996-97, containing six subject areas: Business and Economics, Housing, Transportation, Natural Environment, Land Use and Community Design, and Governance and Community Services. A Draft Environmental Impact Report (EIR) will be published along with the Draft Plan.

City/School Cooperative Efforts

In recent years, PAUSD and the City have increasingly sought ways to cooperate in providing services to the community. Together, the City and PAUSD have been able to provide after-school child care at each of the elementary schools, provide after-school sports and recreation programs at the middle schools, jointly fund community counselors at the high schools, and co-sponsor the Youth Community Service program. The City has provided crossing guard service to enhance the safety of PAUSD students for a number of years. City library catalogs are electronically accessible from all school libraries, and the City and PAUSD have begun to look at ways to further coordinate the delivery of library services. A broad range of City-sponsored programs for youth is provided in PAUSD schools: Junior Museum science activities; Children's Theater outreach; environmental and resource conservation programs presented by the City's Utilities and Public Works Departments; and health and safety prevention programs taught by the City's Police and Fire Departments.

In an effort to further combine resources and realize efficiencies, the City assumed responsibility for the maintenance of various PAUSD athletic fields in 1995-96, and committed to fund half of the cost related to those efforts. Accomplishments in this area in 1995-96 include turf renovations and irrigation repairs at the Jane Lathrop Stanford (JLS) and Jordan Middle Schools, and at Walter Hays Elementary School.

In June 1995, voters approved the issuance of \$143 million in PAUSD general obligation bonds for the renovation and expansion of PAUSD schools. Since the passage of Measure B, PAUSD has hired a project manager, assembled a design consultant team, and begun work on the project. Through the ongoing efforts of the City/School Liaison Committee, the District and the City are able to work through issues and opportunities as the project is implemented. Similarly, a City staff member and a City Council Member serve on the District's planning review and project oversight committees to further assure communication.

Traffic and Parking

A trial installation of various traffic control devices (designed to reduce volume and speed of traffic) was implemented in the Lytton neighborhood area in May 1996. These devices include temporary traffic circles, medians, and speed bumps. The trial program will be evaluated after six months, with consideration at that time of permanent solutions.

In order to provide more flexibility in patrolling congested streets, a motorcycle traffic enforcement patrol was added to the Police Department. The increased mobility will allow

the motorcycle officers to be more effective in areas such as downtown and during commute hours.

Downtown Parking: A downtown parking structure feasibility study to investigate the possibility of building a new parking structure or structures was begun during the year. A recommendation should be brought to the Council in late 1996 or early 1997.

In March 1996, Council renewed a trial downtown parking program for another year. Begun in March 1995, the downtown area was divided into four color zones. The intent of the color zones is to discourage "sleeper parking", and thereby increase the number of available parking spaces for visitors. "Sleepers" are those downtown employees and/or visitors who had sought to get around the one-hour parking limits by moving their vehicles when the time period of their current space had expired. Within each zone, cars without parking permits are allowed to park for a maximum of two hours per day in that entire zone. After the first year trial period, there was evidence of a reduction in sleeper parking.

In addition to the color zones, a paid attendant lot was opened downtown. The intent of this lot is to provide more convenient, readily available parking for up to a full day to those who are willing to pay for parking. The lot has not been used as optimally as it could be during its first year, but additional promotional activities may increase its usage in 1996-97.

The Urban Forest

Over the last year, several significant accomplishments have been made to preserve and protect the City's urban forest. The City has added resources to increase the frequency of trimming the City's street trees by 50 percent. A nonprofit tree group has been established with the goal of increasing the number of trees planted annually, and of working with neighborhoods to care for the new trees. A tree protection ordinance has been passed, and a Planning Arborist will be hired in 1996-97 to administer that ordinance.

Development Projects

Sand Hill Road: A major development project has been proposed by Stanford University. The project includes a number of roadway upgrades and the extension of Sand Hill Road to El Camino Real, the addition of 630 apartment units and over 400 senior citizen housing units, and the expansion of the Stanford Shopping Center by 160,000 square feet. The draft EIR was released for public review on June 17, 1996. Public reviews by the Planning Commission, Architectural Review Board and the City Council will occur in 1996-97.

Palo Alto Medical Foundation's Urban Land Relocation Plan: The Palo Alto Medical Foundation includes the Medical Clinic and Medical Research Facilities. The Clinic provides specialty medical care to many Palo Altans. In January 1996, the Foundation received City Council approval to relocate its facilities to a new campus. The campus, which will have approximately 355,000 square feet of buildings, will be located on a 9.2-acre site southwest of Palo Alto's downtown. City Council actions involved approval of numerous planning entitlements, including certification of an extensive environmental impact report, amendments to the Comprehensive Plan and zoning regulations, and approval of a variance and conditional use permit.

Technology

Internet: The City continued to explore ways of using technology to improve customer service and make city government more accessible to citizens. To that end, the following were made available on the City's home page: City job postings, flood zone maps, commercial building vacancy data, building permit status, earthquake preparedness guidance, and various major studies, such as the telecommunications strategy. In addition, utilities customers can report their meter readings into City Hall on the Internet, and Internet users can communicate directly with Council Members. The City's home page now receives an average of 5,000 "hits" daily.

Telecommunications Program: In February 1996, the U.S. Congress passed a Telecommunications Act. This enabled a number of new players to enter into the telecommunications market, enhancing competitiveness. On June 25, 1996, the Utilities Advisory Commission endorsed staff's recommendation to develop a dark fiber optic infrastructure around Palo Alto for the purpose of leasing individual fiber strands to telecommunications service providers. That ring will allow for the transmission of voice, video, and/or data, facilitate higher quality and lower cost telecommunications, and could eventually result in access to residents.

Permit Streamlining

A City-initiated permit streamlining effort, including work with a Customer Working Panel, has identified improvements needed to streamline the building permit process. Improvements made to date include:

- o Reducing the permit cycle time, through such improvements as allowing subcontractors to permit by fax, and eliminating the sign and fence permits;
- o Improving customer service by allowing for credit card payment of building permits, increasing the availability of Architecture Review Board staff, and preparing a draft customer directory for the public, identifying who to call, when, and why;
- o Increasing the standardization of code interpretations and development of detailed requirements for plan submittal; and
- o Using technology more effectively, including having online permit status on the Internet available in the near future, and design of an automated permit tracking system.

Additional improvements will be made in the coming year.

Volunteers

While volunteers have always been a key resource for the delivery of City services, several steps have been taken to expand the effectiveness of volunteer efforts in the City. Key to this expanded effort is a goal to rebuild the social and physical community through volunteer activity. This vision was articulated by Mayor Lanie Wheeler, and is called Palo Alto Together. It will leverage limited government resources with a volunteer network that identifies, sets priorities, and mobilizes neighborhoods and community groups for a variety of parks, recreation, and beautification projects. Residents, community groups, and local businesses would drive the program, with a focus upon developing unity through volunteer action and personal contributions to the greater whole.

In addition, through a grant-funded citywide volunteer coordinator, several objectives have been met for expanding the use of volunteers. A Volunteer Services Program Handbook has been drafted, citywide training for both introductory and advanced volunteer supervisors has been developed, and a Volunteer Services Program Newsletter will soon be published.

FINANCIAL HIGHLIGHTS

The economy in Palo Alto grew appreciably stronger during the fiscal year. Sales tax revenue continued to increase from the previous fiscal year, as did property tax and transient occupancy tax revenues. The General Fund's current financial position is solid, yet significant fiscal challenges lie ahead which may erode currently available resources. Infrastructure rehabilitation requirements for City-owned buildings, facilities, parks, streets and sidewalks are substantial. The City's technological infrastructure requires upgrade, redesign and maintenance, resulting in continued funding challenges. Further pressures on General Fund resources include the unknown impact of utility deregulation and competition, and the pending landfill closure planned for the year 2003-04. Another unknown will be the impact upon City revenues and expenditures due to the passage of recent federal welfare and tax legislation, which may transfer certain State and Federal program costs to California cities. Consequently, a strategy of prudent financial planning and expenditure containment will continue to be an important fiscal priority.

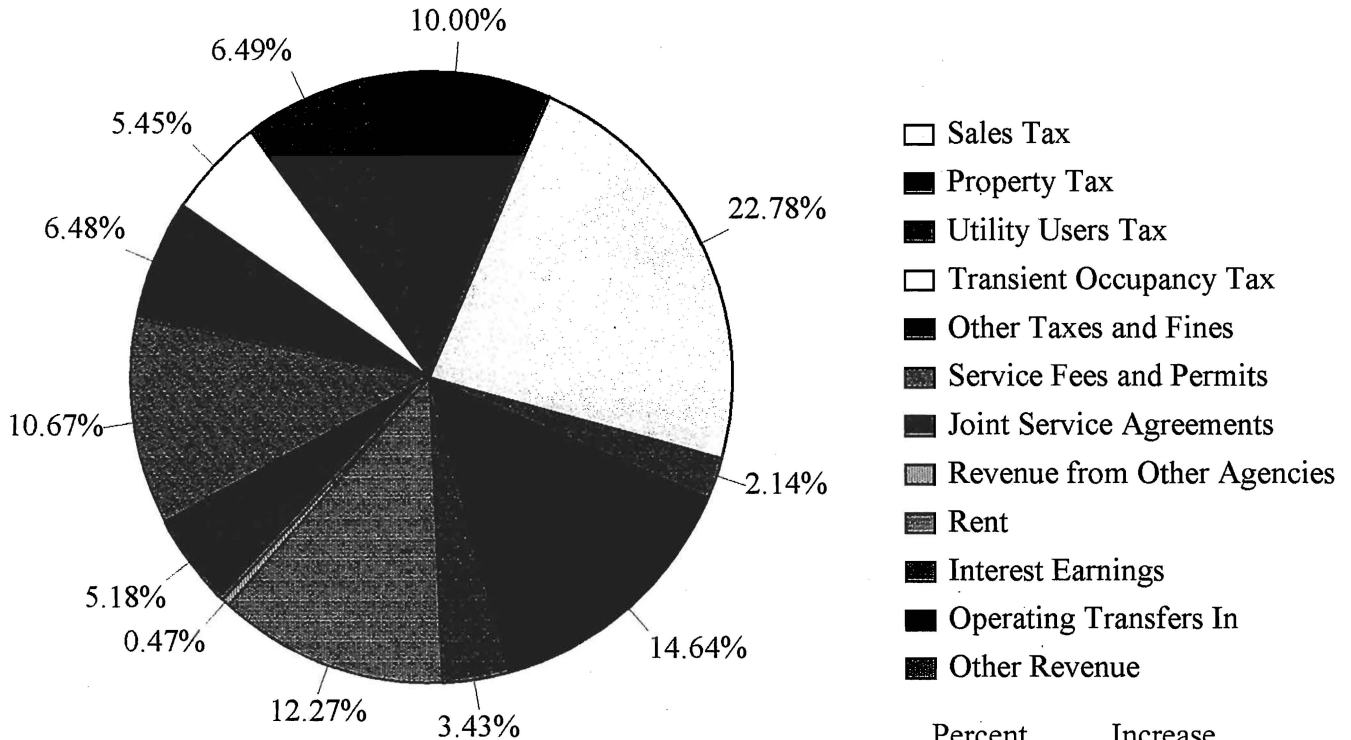
General Fund

In 1995-96, the City's General Fund ended the year with an operating surplus of \$6.5 million, resulting from a combination of increased revenues due to a strong local economy, and lower-than-anticipated expenditures. Department operating expenditures were \$5 million less than budgeted.

Revenues:

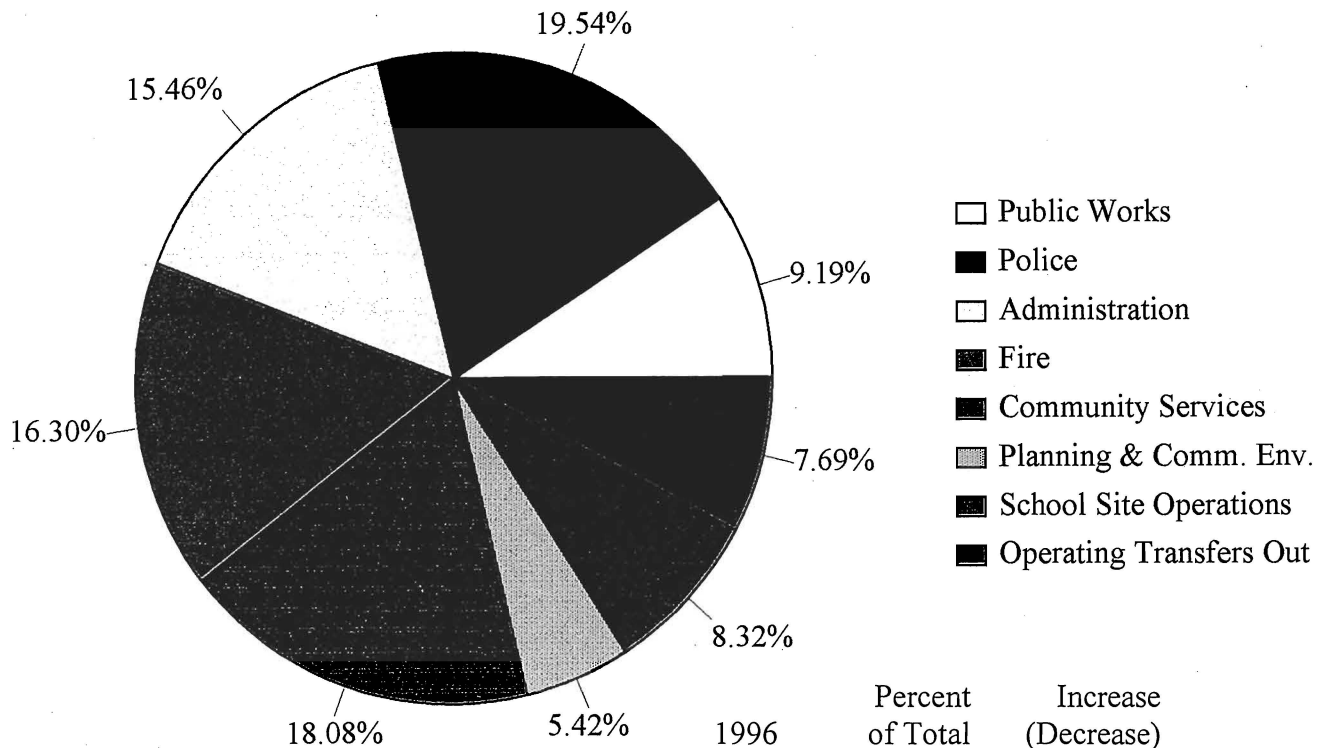
General Fund direct revenues were \$4.8 million, or 8 percent, higher than the previous fiscal year and were 5 percent higher than the 1995-96 adjusted budget. Most tax revenues exceeded 1995-96 budgeted amounts. Sales tax revenues were 21 percent greater than previous year revenues, and 7 percent greater than the adjusted budget, due primarily to new auto sales, department stores, restaurants and business services. Property taxes were 5 percent in excess of the previous year revenues, and 3 percent in excess of the adjusted budget. Transient occupancy tax revenues increased by 17 percent over the previous fiscal year. The increase in transient occupancy tax revenues reflects higher occupancy rates, and increases in hotel rates. This is a good indicator of the vibrant local economy, and the increased level of business activity. Utility users tax revenues were 3 percent lower than expected, due to decreased water sales to City utility customers. Other tax revenues were 10 percent higher than the previous year, and 11 percent higher than the adjusted budget.

CITY OF PALO ALTO
GENERAL FUND REVENUES BY SOURCE
For the year ended June 30, 1996



<u>Revenues (\$000)</u>	<u>1996</u> <u>Actual</u>	<u>Percent</u> <u>of Total</u> <u>Revenue</u>	<u>Increase</u> <u>(Decrease)</u> <u>from 1995</u>
Sales Tax	\$17,895	22.78	\$3,130
Property Tax	7,854	10.00	369
Utility Users Tax	5,098	6.49	(384)
Transient Occupancy Tax	4,279	5.45	636
Other Taxes and Fines	5,092	6.48	459
Service Fees and Permits	8,380	10.67	425
Joint Service Agreements	4,073	5.18	(24)
Revenue from Other Agencies	369	0.47	20
Rent	9,644	12.27	(110)
Interest Earnings	2,699	3.43	563
Other Revenue	1,683	2.14	(239)
 Total Direct Revenues	 67,066	 85.36	 4,845
Operating Transfers In	11,504	14.64	945
 Total Revenues	 <u>\$78,570</u>	 <u>100.00</u>	 <u>\$5,790</u>

CITY OF PALO ALTO
GENERAL FUND EXPENDITURES
For the year ended June 30, 1996

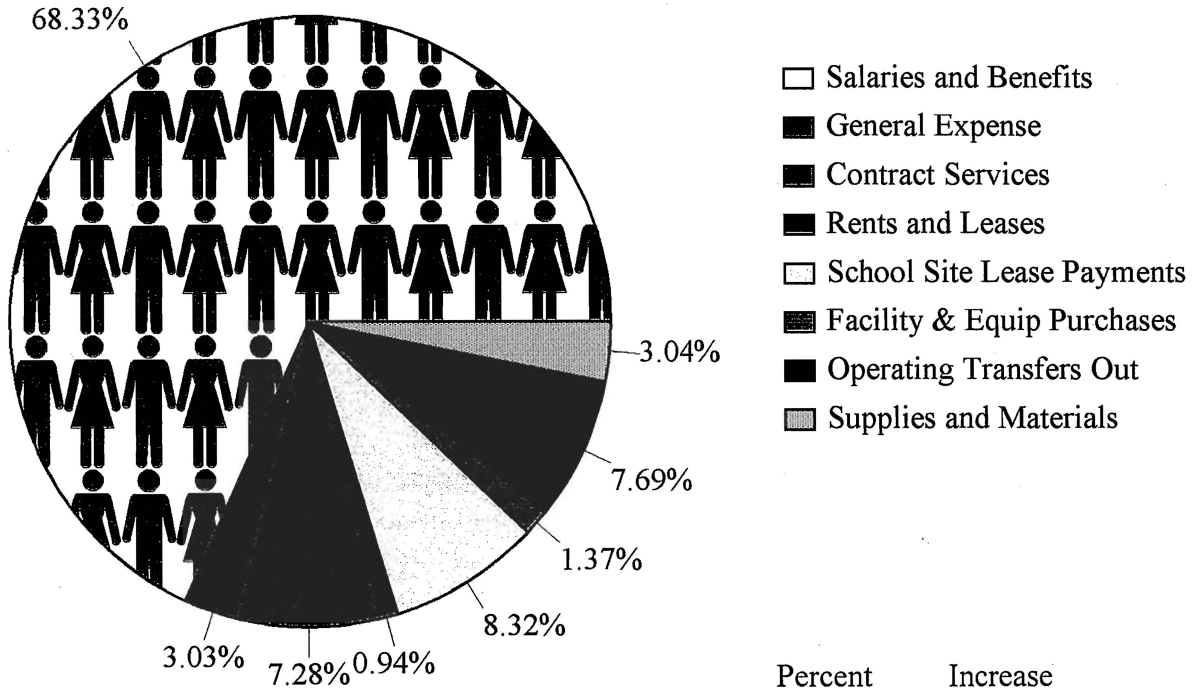


Expenditures (\$000)	1996 Actual	Percent of Total Expenditure	Increase (Decrease) from 1995
Administration (A)	\$11,133	15.46	\$793
Public Works	6,614	9.19	(903)
Police	14,066	19.54	8
Fire	11,739	16.30	302
Community Services	13,019	18.08	584
Planning & Community Environment	3,901	5.42	59
School Site Operations	<u>5,992</u>	<u>8.32</u>	<u>108</u>
Total Direct Expenditures	66,464	92.31	951
Operating Transfers Out	<u>5,534</u>	<u>7.69</u>	<u>(152)</u>
Total Expenditures	<u>\$71,998</u>	<u>100.00</u>	<u>\$799</u>

(A) Comprised of the following departments:

City Council	\$97	City Auditor	\$421
City Manager	1,038	Administrative Services	6,370
City Attorney	1,170	Human Resources	1,355
City Clerk	682		

CITY OF PALO ALTO
 GENERAL FUND EXPENDITURES BY TYPE
 For the year ended June 30, 1996



Expenditures (\$000)	1996 Actual	Percent of Total Expenditure	Increase (Decrease) from 1995
Salaries and Benefits	\$49,197	68.33	\$1,314
Contract Services	5,242	7.28	(379)
Supplies and Materials	2,188	3.04	39
General Expense	2,181	3.03	(490)
Rents and Leases	675	0.94	3
School Site Operations	5,992	8.32	108
Facility and Equipment Purchases	989	1.37	356
 Total Direct Expenditures	 66,464	 92.31	 951
 Operating Transfers Out	 5,534	 7.69	 (152)
 Total Expenditures	 \$71,998	 100.00	 \$799

Total non-tax revenues were 2 percent higher than the prior year and 3 percent higher than the adjusted budget. Revenues from service fees and permits were 1 percent higher than projected, with much of the variance resulting from an increase in Golf Course green fees. All other non-tax revenues were 4 percent higher than the adjusted budget, due to an increase in interest income from the growth of the City's investment portfolio and higher-than-expected grant revenues received from other agencies.

Expenditures:

General Fund expenditures were \$1 million, or about 2 percent higher than the previous fiscal year. However, actual expenditures were \$5 million, or 7 percent, lower than the adjusted budget for 1995-96. Driving the lower-than-anticipated expenditures were staff vacancies, lower-than-anticipated operating department expenditures, and lower water usage fees.

Capital Projects Fund

Capital projects in 1995-96 focused mainly on upgrading the City's aging infrastructure. Structural improvements at the Senior Center comprised \$1.2 million, or 21 percent, of the fund's expenditures. The majority of the remaining expenditures (\$1.7 million) were expended for sidewalk repair and street maintenance projects. The remaining expenditures were for maintenance and improvement of the City's parks and buildings, such as Americans with Disabilities Act compliance upgrades, Civic Center garage improvements, park irrigation improvements, facilities roof replacements, and PAUSD athletic field turf and irrigation renovations.

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. The City contributed \$0.8 million to the Palo Alto Housing Corporation to sponsor a downtown housing project (Alma Street Single Room Occupancy Project), with 107 single-room occupancy units constructed for low-income workers and residents. The project is expected to be completed in fiscal year 1997-98.

Enterprise Funds

The City's seven enterprise funds include the Electric, Water, Gas, Wastewater Collection, Wastewater Treatment, Refuse and Storm Drainage Funds. Total Enterprise Fund revenues

decreased by \$3.5 million, or 2 percent, from the previous fiscal year; this was offset by a decrease in Enterprise Fund expenses of \$6.5 million, or 5 percent.

The City is proactively addressing a number of challenges posed by the pending deregulation of the electric utilities in California. In 1995-96, a consultant study was conducted to assess the competitiveness of the electric utility, resulting in a very favorable evaluation. An organizational review was initiated to enable the Electric Utility to assess areas of organizational strengths and weaknesses, and to develop an organizational plan which promotes stable growth and operational flexibility. In order to mitigate future rate increases, the City reserved \$9 million in fiscal year 1995-96 for the Calaveras Hydroelectric Project debt service costs, and, in addition, committed to transfer \$15.9 million in fiscal years 1996-98 to further increase the Calaveras Reserve. Electric rates decreased by 7 percent in 1995-96, to reflect lower power purchase costs and healthy reserves, making Palo Alto's electric utility rates among the lowest in California.

Electric Fund revenues were \$1.5 million, or 2 percent, less than the prior fiscal year. Expenses were \$6.3 million, or 10 percent, less than the prior fiscal year. The City's participation in a cooperative power pooling agency, which allows the utility to purchase commodities at a favorable rate, contributed to the lower-than-projected expenditures in 1995-96. The Electric Fund Rate Stabilization Reserve (RSR) at year end was \$7.3 million higher than the maximum target; however, the budgeted transfer of \$15.9 million from the RSR to the Calaveras Reserve in 1996-98 will reduce the RSR balance to within the Council-approved guidelines.

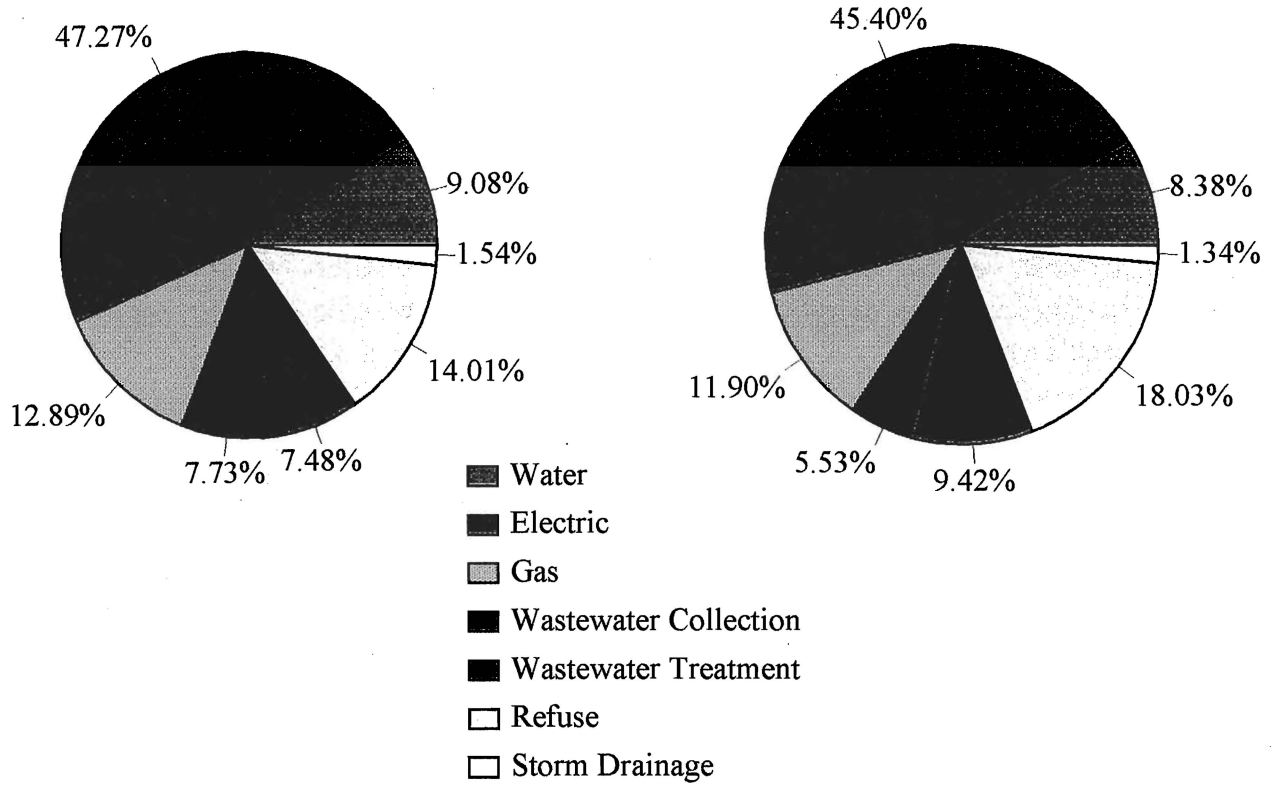
Water Fund revenues fell by \$0.2 million, or 2 percent, from the previous fiscal year, due to heavy winter rains which led to lower water consumption. The reduced water consumption was somewhat offset by reduced water purchase costs, resulting in a RSR balance for the Water Fund of \$6.8 million at year end, which falls within the target guidelines adopted by Council.

The Wastewater Treatment Fund's revenue was \$0.6 million, or 6 percent, higher than the previous year. The increase was due to higher reimbursements for operation, maintenance, and capital costs from the partners of the Regional Water Quality Treatment Plant. Operating expenses were \$0.1 million, or 1 percent, below the previous year. The Wastewater Treatment's RSR of \$2.9 million is within the Council-approved guidelines.

The Gas Fund remained fiscally healthy despite a rate decrease for major customers in 1995-96. Commodity costs in the Gas Fund were \$6.9 million, or 27 percent, lower than the previous year, reflecting prices that fell to record lows in a soft market. The combination

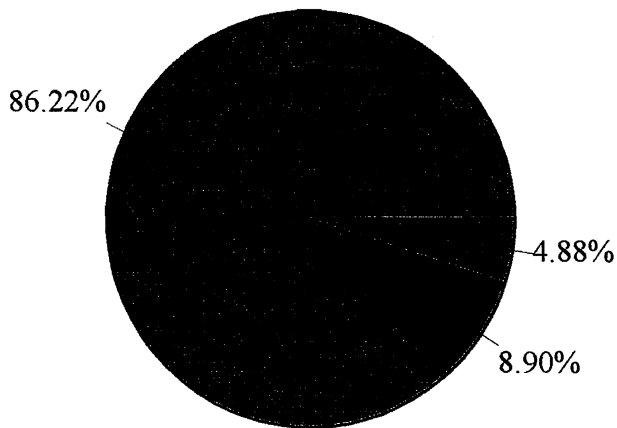
**CITY OF PALO ALTO
ENTERPRISE FUNDS REVENUES
For the year ended June 30, 1996**

**CITY OF PALO ALTO
ENTERPRISE FUNDS EXPENSES
For the year ended June 30, 1996**



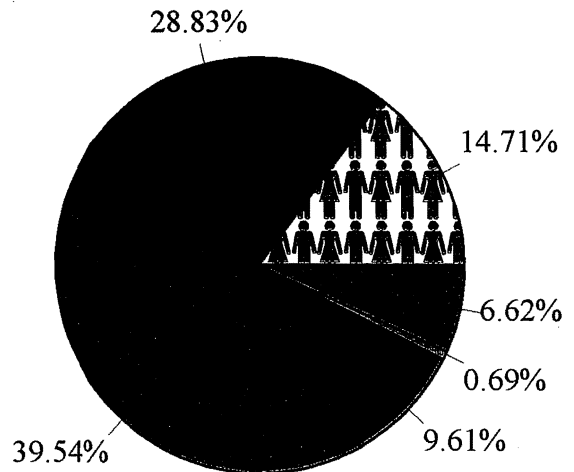
<u>Enterprise Funds</u>	<u>Revenues (\$000)</u>	<u>Expenses (\$000)</u>
Water	\$12,775	\$10,519
Electric	66,416	55,143
Gas	18,106	13,253
Wastewater Collection	10,858	5,849
Wastewater Treatment	10,504	9,906
Refuse	19,678	19,115
Storm Drainage	2,169	1,488
Total	<u>\$140,506</u>	<u>\$115,273</u>

**CITY OF PALO ALTO
ENTERPRISE FUNDS REVENUES
For the year ended June 30, 1996**



Utility Sales
 Other Revenue
 Investment Income

**CITY OF PALO ALTO
ENTERPRISE FUNDS EXPENSES
For the year ended June 30, 1996**



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

	1996 Actual	Percent of Total	Increase (Decrease) from 1995
<u>Revenues (\$000)</u>			
Utility Sales	\$121,137	86.22	(\$6,403)
Other Revenue	12,510	8.90	1,682
Investment Income	6,859	4.88	1,190
Total Revenues	\$140,506	100.00	(\$3,531)
<u>Expenses (\$000)</u>			
Salaries and Benefits	\$16,951	14.71	\$478
Operating Expenses	33,234	28.83	(1,757)
Purchases	45,580	39.54	(6,904)
Transfer to General Fund	11,077	9.61	1,345
Interest Expense	796	0.69	(27)
Rent	7,635	6.62	263
Total Expenses	\$115,273	100.00	(\$6,602)

of strong gas sales and low costs for commodity purchases contributed to increases in the Gas Fund RSR, which ended the year at \$13.8 million (\$5.4 million over the maximum target). In order to bring the reserves within the desired target, a 12 percent gas rate decrease was approved in the 1996-98 Budget. This action will enable the City to continue to provide residential gas rates which are among the lowest in the State.

The Wastewater Collection Fund revenues and expenses also remained flat in comparison to the previous fiscal year, resulting in a RSR balance of \$8.9 million at year end. In order to bring the reserves within the targeted levels, a 9 percent sewer rate decrease was approved in the 1996-98 Budget.

Refuse Fund revenues and expenses remained flat in comparison with the previous fiscal year, reflecting a continuing pattern among Palo Alto residents and businesses to recycle more garbage and reduce garbage service to a single or mini container. The Refuse Fund reserve remains strong with a year-end RSR balance of \$4.5 million, which is within targeted levels. In accordance with the State and Federal regulations, the City has also fully funded the liability related to the closure and post-closure care costs for its landfill site.

Storm Drainage Fund revenues and expenses also remained flat in comparison to the previous fiscal year, resulting in a RSR balance of \$3 million at fiscal year end. A majority of these funds have been reserved for continued rehabilitation of the storm drainage system. Significant progress was made on storm drainage system rehabilitation projects funded by the 1995 Utility Revenue Bonds. As directed by the City Council, staff undertook a public outreach study to assess the public's interest in funding the future storm drainage system improvements. The results of this study will be used to design future CIP's.

Cash Management

The City's portfolio balance at year end had a carrying value of \$245 million and a market value of \$243.5 million, or 99.4 percent, of carrying value. Excluding employees' deferred compensation accounts held in trust, and bond proceeds and debt reserves held with fiscal agents, the City's investment portfolio had a market value of \$203.4 million, representing a growth of \$13.4 million during 1995-96. This increase is consistent with recent years' experience, reflecting savings in operating budgets, budgeted increases in reserves, incomplete capital projects, and strong revenues.

The City invests funds prudently, and ensures that there is sufficient liquidity to meet unexpected needs. Forty-seven percent of the portfolio securities, at June 30, 1996, mature in less than two years; \$12.4 million was immediately available in overnight funds on June

30, representing over a half month's operating and capital expenditures. The City's ongoing cash needs are adequately met through the receipt of daily cash, in part due to a consistent flow of utility revenues. Although the City has a "buy and hold" philosophy, that is, it holds its securities to maturity, the City's investments are very liquid on the secondary market.

The City's portfolio yield increased slightly over the year, reflecting careful planning which took into account liquidity needs. The average life of the securities in the portfolio increased from 1.4 to 2.01 years. This was the result of several factors. First, at the beginning of the fiscal year, yields in the State's overnight investment pool (Local Agency Investment Fund, or LAIF) were more attractive than investments with longer maturities. As yields rose during the year, funds were drawn down from LAIF, and reinvested in U.S. Treasury and Agency notes with longer maturities. As a result of these actions, the average yield increased from 5.87 percent on July 1, 1995 to 5.93 percent on June 30, 1996. This compares to LAIF's current yield (as of June 30, 1996) of 5.53 percent, and is slightly less than the two-year Treasury note (6.0 percent).

During 1995-96, staff complied with all aspects of the City's investment policy.

Risk Management

The City is obligated to maintain adequate reserves for its self-insured worker's compensation and general liability programs. Calculation of necessary reserve levels is determined on an annual basis and recorded at the end of the fiscal year. Reserves include an estimate of incurred but not reported (IBNR) losses. Operating departments are charged for their share of operating expenses for the program, which include maintenance of adequate reserves.

In fiscal year 1995-96, an actuarial study was conducted. Estimates for the required self-insurance reserves were considerably lower than the 1994-95 actuarial study. The City's actuarial consultant, the Actuarial Group, Deloitte & Touche, determined that the total balance for both the worker's compensation and general liability self-insurance reserves should be \$5.8 million, \$.8 million less than the previously recommended reserve levels of \$6.6 million. Staff will make a proposal to the Council in December 1996, with the 1995-96 year-end closing ordinance, as to how to allocate funds above those required actuarially to be in the self-insurance reserves.

Municipal liability claims are handled through the Authority of California Cities Excess Liabilities (ACCEL) Program. As a member of ACCEL, the City shares pooled risk for civil liability exposures with eleven other cities. Participation in ACCEL provides the City with

an alternative to purchasing liability insurance from commercial carriers. One of the member cities in ACCEL suffered losses due to extensive flooding and landslide damage in a previous fiscal year. As a member of the self-insurance pool, the City will share in that loss. It is expected that Palo Alto's share of the damage will not exceed \$0.9 million, anticipated to be payable during fiscal year 1996-97.

For the fourth year in its eight-year history, ACCEL returned retroactive adjustments to its members; the adjustments are calculated beginning five years after the end of each program year. The City received a retroactive adjustment of \$0.9 million during 1995-96, relating to the liability year 1990-91. The program reserves are maintained in excess of \$29 million.

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, and reproduced copies of previous year's certificates and awards.

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 communicates 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.

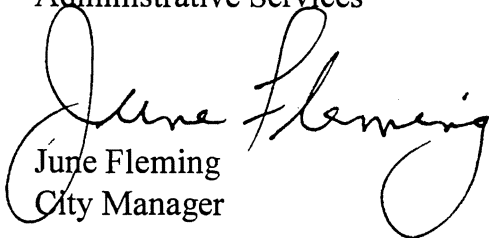
Acknowledgment

The preparation of the CAFR reflects the dedication and effort of the staff members of the Administrative Services Department, and could not have been accomplished without its efficient and dedicated efforts. Staff would also like to thank the City Council, and especially the Finance Committee, for their continued leadership, especially as we embark on another year of fiscal opportunities and challenges.

Respectfully submitted,



Emily Harrison
Deputy City Manager,
Administrative Services



June Fleming
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palo Alto,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Arthur R. Lynch
President

Jeffrey L. Essler
Executive Director

California Society of Municipal Finance Officers

Certificate of Award

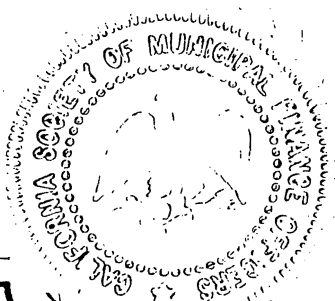
Outstanding Financial Reporting 1994-95

Presented to

City of Palo Alto

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 26, 1996



Robert C. Keland
Chair, Professional & Technical Standards Committee
Robert C. Keland
President

⌘ *Dedicated to Excellence in Municipal Financial Management* ⌘



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, 1996, 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 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.

In our opinion, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City at June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 1996 on our consideration of the City's internal control structure and a report dated October 17, 1996 on its compliance with laws and regulations.

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 statistical data listed in 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 17, 1996

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, 1996 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Project
ASSETS AND OTHER DEBITS				
Cash, cash equivalents and investments	\$28,247	\$ 7,766	\$ 1,949	\$8,502
Restricted:				
Cash and cash equivalents			92	12
Investments			942	
Receivables, net:				
Accounts	4,290	142	8,096	52
Interest	926	119	21	
Notes	751	4,961		
Interfund receivable	106			
Inventory	1,648			
Prepaid items				
Property, plant and equipment, net				
Amount available in debt service funds				
Amount to be provided for retirement of general long-term debt				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS AND OTHER DEBITS	<u>\$35,968</u>	<u>\$12,988</u>	<u>\$11,100</u>	<u>\$8,566</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 1,636	\$ 449		\$ 382
Accrued salaries and benefits	672			
Deferred revenue			\$ 8,080	
Deferred compensation				
Accrued compensated absences				
Accrued self insurance				
Landfill closure and postclosure care				
Interfund payable		106		
General revenue bonds				
Utility revenue bonds				
Certificates of participation				
Special assessment debt with governmental commitment				
Capital lease obligations				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>2,308</u>	<u>555</u>	<u>8,080</u>	<u>382</u>
FUND EQUITY AND OTHER CREDITS:				
Contributed capital				
Investment in general fixed assets				
Retained earnings				
Fund balances:				
Reserved	7,540	11,989	3,020	8,172
Unreserved:				
Designated	26,120	2,378		12
Undesignated		(1,934)		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund equity and other credits	<u>33,660</u>	<u>12,433</u>	<u>3,020</u>	<u>8,184</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$35,968</u>	<u>\$12,988</u>	<u>\$11,100</u>	<u>\$8,566</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	1996
\$121,227	\$31,865	\$ 7,123				\$206,679	\$190,154
6,989		1 40,105				7,094 41,047	8,974 34,886
13,339	11					25,930	25,526
1,906	297	111				3,380	3,132
						5,712	4,879
	187					106	218
164						1,835	1,364
200,583	6,290		\$102,938			164	80
				\$ 3,020		309,811	300,414
						3,020	3,532
					14,465	14,465	15,331
<u>\$344,208</u>	<u>\$38,650</u>	<u>\$47,340</u>	<u>\$102,938</u>	<u>\$17,485</u>		<u>\$619,243</u>	<u>\$588,490</u>
\$ 5,296	\$ 904	\$ 10				\$ 8,677	\$ 13,262
269	1,253					2,194	2,084
						8,080	8,555
	8,931	40,105				40,105	33,687
	7,833					8,931	8,459
6,685						7,833	7,377
						6,685	6,438
						106	218
						825	925
19,496				\$ 825		19,496	20,218
						6,115	6,530
						8,555	9,010
						1,990	2,701
<u>31,746</u>	<u>18,921</u>	<u>40,115</u>				<u>119,592</u>	<u>119,464</u>
58,593	5,546					64,139	63,931
253,869	14,183		\$102,938			102,938	105,028
						268,052	243,086
		6,347				37,068	26,969
						28,510	23,827
		878				(1,056)	6,185
<u>312,462</u>	<u>19,729</u>	<u>7,225</u>	<u>102,938</u>	<u>-</u>		<u>499,651</u>	<u>469,026</u>
<u>\$344,208</u>	<u>\$38,650</u>	<u>\$47,340</u>	<u>\$102,938</u>	<u>\$17,485</u>		<u>\$619,243</u>	<u>\$588,490</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, 1996
 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1995
 (In thousands of dollars)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
REVENUES:				
Property taxes	\$ 7,854			
Special assessments			\$ 952	
Sales taxes	17,895			
Utility users' tax	5,098			
Transient occupancy tax	4,279			
Other taxes and fines	5,092	\$ 1,080		
Fire protection and emergency communication services	4,073			
From other agencies	369	383	243	\$ 149
Service fees and permits	8,380			
Interest earnings	2,699	488	120	2
Rental income	9,644			
Other	1,683	696		66
Total revenues	<u>67,066</u>	<u>2,647</u>	<u>1,315</u>	<u>217</u>
EXPENDITURES:				
Current operations:				
City Council	97			
City Manager	1,038			
City Attorney	1,170			
City Clerk	682			
City Auditor	421			
Administrative Services	6,370			
Human Resources	1,355			
Public works	6,614			
Planning and community environment	3,901			
Public safety - Police	14,066			
Public safety - Fire	11,739			
Community services	13,019			
School site operations	5,992			
Capital outlay		420		5,876
Debt service:				
Principal retirement			1,365	
Interest and fiscal charges			1,125	
Total expenditures	<u>66,464</u>	<u>420</u>	<u>2,490</u>	<u>5,876</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>602</u>	<u>2,227</u>	<u>(1,175)</u>	<u>(5,659)</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	
	1996	1995
	\$ 7,854	\$ 7,485
	952	1,044
	17,895	14,765
	5,098	5,482
	4,279	3,643
	6,172	5,692
	4,073	4,097
	1,144	2,007
	8,380	7,955
\$ 410	3,719	3,004
	9,644	9,754
<u>29</u>	<u>2,474</u>	<u>3,613</u>
<u>439</u>	<u>71,684</u>	<u>68,541</u>
	97	109
	1,038	968
	1,170	1,100
	682	492
	421	404
	6,370	5,954
	1,355	1,313
	6,614	7,517
	3,901	3,842
91	14,157	14,069
	11,739	11,437
20	13,039	12,438
	5,992	5,884
	6,296	7,722
	1,365	1,245
<u>111</u>	<u>1,125</u>	<u>1,170</u>
<u>111</u>	<u>75,361</u>	<u>75,664</u>
<u>328</u>	<u>(3,677)</u>	<u>(7,123)</u>

(Continued)

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, 1996
 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1995
 (In thousands of dollars)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 602	\$ 2,227	\$ (1,175)	\$ (5,659)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	11,504	197	657	6,487
Operating transfers out	(5,534)	(2,093)		
Total other financing sources (uses)	5,970	(1,896)	657	6,487
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	6,572	331	(518)	828
FUND BALANCES, BEGINNING OF YEAR	25,979	12,102	3,532	8,471
Residual equity transfers in	1,115		6	
Residual equity transfers out	(6)			(1,115)
FUND BALANCES, END OF YEAR	\$33,660	\$12,433	\$ 3,020	\$ 8,184

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

<u>Fiduciary Fund Type</u> Expendable Trust	Totals Reporting Entity (Memorandum Only) Year Ended June 30	
	1996	1995
\$ 328	\$ (3,677)	\$ (7,123)
50	18,895	17,980
<u>(50)</u>	<u>(7,677)</u>	<u>(8,060)</u>
<u>-</u>	<u>11,218</u>	<u>9,920</u>
328	7,541	2,797
6,897	56,981	52,827
	1,121	6,493
<u> </u>	<u>(1,121)</u>	<u>(5,136)</u>
<u>\$7,225</u>	<u>\$64,522</u>	<u>\$56,981</u>

(Concluded)

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, 1996 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES:						
Property taxes	\$ 7,656	\$ 7,854	\$ 198			
Sales taxes	16,688	17,895	1,207			
Utility users' tax	5,231	5,098	(133)			
Transient occupancy tax	3,930	4,279	349			
Other taxes and fines	4,595	5,092	497	\$ 1,037	\$ 1,080	\$ 43
Fire protection and emergency communication services	4,127	4,073	(54)			
From other agencies	174	369	195	837	383	(454)
Service fees and permits	8,313	8,380	67			
Interest earnings	2,300	2,699	399	511	488	(23)
Rental income	9,478	9,644	166			
Other	1,643	1,683	40	622	696	74
Total revenues	64,135	67,066	2,931	3,007	2,647	(360)
EXPENDITURES:						
Current operations:						
City Council	121	97	24			
City Manager	1,294	1,038	256			
City Attorney	1,418	1,170	248			
City Clerk	740	682	58			
City Auditor	469	421	48			
Administrative Services	6,865	6,370	495			
Human Resources	1,507	1,355	152			
Public works	7,453	6,614	839			
Planning and community environment	4,338	3,901	437			
Public safety - Police	14,894	14,066	828			
Public safety - Fire	12,403	11,739	664			
Community services	13,813	13,019	794			
School site operations	6,173	5,992	181			
Capital outlay				1,082	420	662
Total expenditures	71,488	66,464	5,024	1,082	420	662
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES						
	(7,353)	602	7,955	1,925	2,227	302

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)
			\$ 7,656	\$ 7,854	\$ 198
			16,688	17,895	1,207
			5,231	5,098	(133)
			3,930	4,279	349
			5,632	6,172	540
			4,127	4,073	(54)
\$ 118	\$ 149	\$ 31	1,129	901	(228)
			8,313	8,380	67
	2	2	2,811	3,189	378
			9,478	9,644	166
	<u>66</u>	<u>66</u>	<u>2,265</u>	<u>2,445</u>	<u>180</u>
<u>118</u>	<u>217</u>	<u>99</u>	<u>67,260</u>	<u>69,930</u>	<u>2,670</u>
			121	97	24
			1,294	1,038	256
			1,418	1,170	248
			740	682	58
			469	421	48
			6,865	6,370	495
			1,507	1,355	152
			7,453	6,614	839
			4,338	3,901	437
			14,894	14,066	828
			12,403	11,739	664
			13,813	13,019	794
			6,173	5,992	181
<u>8,011</u>	<u>5,876</u>	<u>2,135</u>	<u>9,093</u>	<u>6,296</u>	<u>2,797</u>
<u>8,011</u>	<u>5,876</u>	<u>2,135</u>	<u>80,581</u>	<u>72,760</u>	<u>7,821</u>
<u>(7,893)</u>	<u>(5,659)</u>	<u>2,234</u>	<u>(13,321)</u>	<u>(2,830)</u>	<u>10,491</u>

(Continued)

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, 1996 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (7,353)</u>	<u>\$ 602</u>	<u>\$7,955</u>	<u>\$ 1,925</u>	<u>\$2,227</u>	<u>\$ 302</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in	11,749	11,504	(245)	135	197	62
Operating transfers out	<u>(6,730)</u>	<u>(5,534)</u>	<u>1,196</u>	<u>(2,424)</u>	<u>(2,093)</u>	<u>331</u>
Total other financing sources (uses)	<u>5,019</u>	<u>5,970</u>	<u>951</u>	<u>(2,289)</u>	<u>(1,896)</u>	<u>393</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (2,334)</u>	<u>\$ 6,572</u>	<u>\$8,906</u>	<u>\$ (364)</u>	<u>\$ 331</u>	<u>\$ 695</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)
<u>\$ (7,893)</u>	<u>\$ (5,659)</u>	<u>\$ 2,234</u>	<u>\$(13,321)</u>	<u>\$ (2,830)</u>	<u>\$10,491</u>
<u>7,893</u>	<u>6,487</u>	<u>(1,406)</u>	<u>19,777</u>	<u>18,188</u>	<u>(1,589)</u>
			<u>(9,154)</u>	<u>(7,627)</u>	<u>1,527</u>
<u>7,893</u>	<u>6,487</u>	<u>(1,406)</u>	<u>10,623</u>	<u>10,561</u>	<u>(62)</u>
<u>\$ -</u>	<u>\$ 828</u>	<u>\$ 828</u>	<u>\$ (2,698)</u>	<u>\$ 7,731</u>	<u>\$10,429</u>

(Concluded)

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, 1996 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals Reporting Entity (Memorandum Only)	
			Year Ended June 30 1996	1995
OPERATING REVENUES:				
Sales of utilities:				
Customers	\$114,343		\$114,343	\$120,773
City departments	6,794		6,794	6,767
Wastewater treatment	6,341		6,341	5,989
Service connection charges and miscellaneous	736		736	444
Charges for services		\$29,214	29,214	28,937
Other revenues	5,433		5,433	4,395
<u>Total operating revenues</u>	<u>133,647</u>	<u>29,214</u>	<u>162,861</u>	<u>167,305</u>
OPERATING EXPENSES:				
Purchase of utilities	45,580		45,580	52,484
Administration and general	6,437	2,020	8,457	7,919
Engineering (operating)	2,151		2,151	2,756
Resource management	2,832		2,832	2,249
Operations and maintenance	22,612	1,791	24,403	25,755
Rent	6,998		6,998	7,372
Depreciation and amortization	7,635	1,419	9,054	9,047
Claim payments and change in estimated self-insured liability		2,379	2,379	219
Compensated absences and other benefits		23,627	23,627	22,800
<u>Total operating expenses</u>	<u>94,245</u>	<u>31,236</u>	<u>125,481</u>	<u>130,601</u>
OPERATING INCOME (LOSS)	<u>39,402</u>	<u>(2,022)</u>	<u>37,380</u>	<u>36,704</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	6,859	1,102	7,961	6,932
Interest expense	(796)	(8)	(804)	(865)
Joint venture debt service	(8,972)		(8,972)	(8,746)
Gain (loss) on disposal of fixed assets	(183)	92	(91)	(49)
Other		710	710	723
<u>Total nonoperating revenues (expenses)</u>	<u>(3,092)</u>	<u>1,896</u>	<u>(1,196)</u>	<u>(2,005)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>36,310</u>	<u>(126)</u>	<u>36,184</u>	<u>34,699</u>
OPERATING TRANSFERS:				
Operating transfers in	253		253	160
Operating transfers out	(11,330)	(141)	(11,471)	(10,080)
<u>Net operating transfers</u>	<u>(11,077)</u>	<u>(141)</u>	<u>(11,218)</u>	<u>(9,920)</u>
NET INCOME (LOSS)	<u>25,233</u>	<u>(267)</u>	<u>24,966</u>	<u>24,779</u>
RETAINED EARNINGS, BEGINNING OF YEAR	<u>228,636</u>	<u>14,450</u>	<u>243,086</u>	<u>219,664</u>
RESIDUAL EQUITY TRANSFER OUT				<u>(1,357)</u>
RETAINED EARNINGS, END OF YEAR	<u>\$253,869</u>	<u>\$14,183</u>	<u>\$268,052</u>	<u>\$243,086</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, 1996 WITH COMPARATIVE TOTAL YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals Reporting Entity (Memorandum Only) Year Ended June 30	
			1996	1995
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 39,402	\$ (2,022)	\$ 37,380	\$ 36,704
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	7,635	1,419	9,054	9,047
Other		802	802	745
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(482)	7	(475)	379
(Increase) decrease in interest receivable	(125)	92	(33)	(619)
(Increase) decrease in stores inventories		(9)	(9)	(1)
(Increase) decrease in prepaid items	(104)	20	(84)	362
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(2,922)	78	(2,844)	2,056
Increase (decrease) in accrued compensated absences	(538)	1,010	472	678
Increase (decrease) in accrued self-insurance	(1,462)	1,918	456	(1,834)
Increase in accrued landfill closure liability	247		247	1,508
Net cash provided by operating activities	<u>41,651</u>	<u>3,315</u>	<u>44,966</u>	<u>49,025</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in	253		253	160
Operating transfers out	(11,330)	(141)	(11,471)	(10,080)
Residual equity transfers				(1,357)
Net cash used in noncapital financing activities	<u>(11,077)</u>	<u>(141)</u>	<u>(11,218)</u>	<u>(11,277)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(18,598)	(2,113)	(20,711)	(16,113)
Principal paid on revenue bonds	(755)		(755)	(555)
Proceeds from bond reserves				8,353
Proceeds from bond issuances				(552)
Principal paid on capital leases		(311)	(311)	(552)
Interest paid on revenue bonds and capital leases	(9,739)	(8)	(9,747)	(9,611)
Contributed capital		208	208	
Net cash used in capital and related financing activities	<u>(29,092)</u>	<u>(2,224)</u>	<u>(31,316)</u>	<u>(18,478)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -				
Interest and dividends on pooled cash and investments	<u>6,859</u>	<u>1,102</u>	<u>7,961</u>	<u>6,932</u>
NET INCREASE IN CASH AND EQUIVALENTS	8,341	2,052	10,393	26,202
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>119,875</u>	<u>29,813</u>	<u>149,688</u>	<u>123,486</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$128,216</u>	<u>\$ 31,865</u>	<u>\$160,081</u>	<u>\$149,688</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - Increase in contributed capital	\$ -	\$ -	\$ -	\$ 152

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, 1996

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 and the City of Palo Alto Golf Course Corporation.

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 City of Palo Alto Golf Course Corporation was organized under the general corporation not-for-profit law of the State of California. The corporation was formed in 1977 to finance improvements to the City's municipal golf course. Lease revenue bonds series 1978 were issued to finance the Golf Course improvements. The existing golf course was leased by the City to the Corporation. The Corporation's use of the property is limited to the construction of the improved facility. Title to the golf course vests in the City throughout the term of the lease. The corporation is prohibited from engaging in any business activities other than those incidental to its primary purposes (financing golf course improvements). 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 improvements 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 Fund.

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

The City of Palo Alto
Administrative Services 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 Fund is used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. The Agency Fund is 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 Fund or Proprietary Fund Types.

Measurement Focus and Basis of Accounting

Governmental Fund Types and the Expendable Trust Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. 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). The City includes property taxes received within 60 days of the close of the fiscal year as available revenues of the previous fiscal period.

All Proprietary Fund Types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded in the period in which they are earned and expenses are recognized at the time liabilities are incurred. The City applies Governmental Accounting Standards Board pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Principles Board

pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board pronouncements.

Agency Funds are accounted for using the modified accrual basis of accounting.

Appropriated Budget and Budgetary Control - The City Council adopts a budget resolution on or before July 1 of each year for the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, and Capital Project Funds. No annual budget is adopted for Trust and Agency Funds and Debt Service Funds. Governmental fund budgets are adopted on a GAAP basis.

The legal level of budgetary control is by department in the General Fund and by fund for the Special Revenue, Enterprise and Internal Service Funds. The legal level of budgetary control is at the project level for the Capital Project Funds. Any amendments to the total level of appropriations by department in the General Fund must be approved by the City Council. Any amendments to the total level of appropriations for the Special Revenue, Enterprise, Internal Service, and Capital Project Funds or transfers of appropriations between funds must be approved by the City Council. The City Council grants the City Manager the authority to reallocate funds from a contingent account maintained in the General, Enterprise and Internal Service Funds. Net budget amendments during 1995-96 are considered to be immaterial. 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, which has investments that are managed by an administrator. The cash balance in the cash and investments pooled 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 cost, 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, rather than purchased.

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 (\$8,080,000 at June 30, 1996) 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 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 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 \$5,473,000 for all funds at June 30, 1996. Vested accumulated sick pay is paid in the event of termination due to disability and under certain conditions specified in employment agreements primarily restricted to individuals with fifteen or more years of continuous service. An accrual of approximately \$3,459,000 at June 30, 1996 for vested accumulated sick pay is included in accrued liabilities of the

General Benefits and Insurance 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:

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

Property taxes levied are recognized as revenue in the year of levy.

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.

Effective with 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 fiscal year 1993-94.

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.

Reclassifications have been made to the fiscal year 1994-95 financial statements in order to conform to the current year's presentation.

2. CASH AND INVESTMENTS

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, Union 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, 1996 follow (in thousands):

	Carrying Value	Bank Balance
Cash in banks or on hand	\$ 1,795	\$ 3,959
Cash held in trust with fiscal agent	<u>8,035</u>	<u>8,035</u>
Total	<u>\$9,830</u>	<u>\$11,994</u>

At June 30, 1996, the difference between the carrying amount of the City's cash in banks and on hand is due to outstanding checks of \$2,680,000, deposits in transit of \$510,000 and petty cash of \$6,000. Of the bank balance, \$100,000 was covered by depository insurance and \$11,894,000 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 amounts held with a fiscal agent are bond proceeds in the amount of \$7,000,500 held in a construction fund, which earns interest. As of June 30, 1996, all cash held in trust was in compliance with the respective trust agreements.

Investments

The June 30, 1996 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 had liquidated 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 except for investments in the Local Agency Investment Fund and mutual funds which are not subject to credit risk categorization. Investments and deposits are required to be categorized accordingly to the level of credit risk. Credit risk is defined as the risk associated with custodial credit risk. The three types of custodial credit risk are presented below:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.

All deposits and investments of the City are classified as Category 1 of credit risk; insured or collateralized with securities held by the entity or by its agent in the entity's name.

Deferred compensation fund investments of \$40,105,000 at June 30, 1996 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, 1996 were as follows (in thousands):

	Carrying Value	Market Value
U.S. Treasury obligations	\$ 25,897	\$ 25,812
U.S. Agency obligations	166,588	165,208
Investment in Local Agency Investment Fund	9,100	9,100
Mutual funds:		
Unrestricted	3,300	3,300
Restricted	<u>40,105</u>	<u>40,105</u>
Total investments	<u>\$ 244,990</u>	<u>\$ 243,525</u>

The City did not enter into any reverse repurchase agreements during the year ended June 30, 1996.

As of June 30, 1996, the City's investments were scheduled to mature as follows (in thousands):

	Carrying Value	Market Value
Less than one year	\$ 104,580(a)	\$ 104,655(a)
One to five years	139,899	138,340
More than five years	<u>511</u>	<u>530</u>
Total	<u>\$ 244,990</u>	<u>\$ 243,525</u>

(a) Includes \$40,105,000 of investments in restricted mutual funds held with a fiscal agent for employees' deferred compensation.

3. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in the general fixed assets account group for the fiscal year ended June 30, 1996 (in thousands):

	Balances June 30, 1995	Additions	Deletions/ Transfers	Balances June 30, 1996
Land and improvements	\$ 51,440	\$ 1,039	\$ (2,786)	\$ 49,693
Buildings and structures	45,811	1,994	406	48,211
Equipment	<u>7,777</u>	<u>378</u>	<u>(3,121)</u>	<u>5,034</u>
Total	<u>\$ 105,028</u>	<u>\$ 3,411</u>	<u>\$ 5,501</u>	<u>\$ 102,938</u>

In fiscal year 1995-96, a physical inventory was conducted of the City's general fixed assets. Also, in this fiscal year, the City increased the fixed asset capitalization threshold from \$1,000 to \$5,000. The amount of deletions above primarily resulted from adjustments related thereto.

Included in land and improvements and equipment at June 30, 1996 are assets under capital leases amounting to \$6,321,000.

Included in the general fixed assets account group at June 30, 1996 is \$1,772,182 of construction-in-progress (capital improvements) expended in fiscal year 1995-96.

A summary of Proprietary Fund Type fixed assets at June 30, 1996 follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and improvements	\$ 1,541	
Buildings and structures	11,203	
Equipment	278,055	\$ 16,095
Construction in progress	<u>19,480</u>	<u> </u>
Total	310,279	16,095
Less accumulated depreciation	<u>(109,696)</u>	<u>(9,805)</u>
Net fixed assets	<u>\$ 200,583</u>	<u>\$ 6,290</u>

Capitalized interest for the year ended June 30, 1996 in the Enterprise Funds' fixed assets increased the carrying value of such assets by \$274,802.

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, 1996 follows (in thousands):

	Project Authorization	Expended to June 30, 1996	Committed
Storm drainage structural and water quality improvements	\$ 6,740,341	\$ 3,401,769	\$ 1,475,637
Gas system extension replacements and improvements	3,662,729	2,860,736	877,182
Water system extension replacements and improvements	4,847,609	2,081,918	1,567,108
Street lighting	1,660,000	1,025,975	
Electric distribution system improvements	7,376,492	4,156,029	2,322,320
Other electrical improvement projects	3,233,594	991,406	1,793,322
Water quality control plant equipment replacement and lab facilities	2,257,710	326,105	846,274
Sewer system rehabilitation and extensions	7,274,663	2,933,141	4,451,026
Automated mapping	631,057	525,852	
Water-Gas-Storm Drain Station Improvements	965,272	442,138	715,776
Natural gas vehicle conversion	594,593	548,190	127,593
Other construction in progress	<u>1,430,956</u>	<u>186,326</u>	<u>94,031</u>
	<u>\$40,675,016</u>	<u>\$19,479,585</u>	<u>\$14,270,269</u>

Allocations of administration and general expenses of \$3,023,366 are included in amounts expended to June 30, 1996.

4. LONG-TERM DEBT

Long-term debt at June 30, 1996 follows (in thousands):

	Maturity	Effective Interest Rates	Authorized and Issued	Outstanding at June 30, 1996
General revenue bonds (a) -				
Golf Course Corporation Lease Revenue Bonds, Series 1978	2003	5.00% - 6.00%	\$ 1,800	\$ 825
Utility revenue bonds (b):				
Utility Revenue Refunding Bonds 1990 Series A	2006	5.70% - 6.80%	9,650	7,075
Utility Revenue Bonds 1992 Series A	2007	6.30% - 6.375%	4,750	4,475
Utility Revenue Bonds 1995 Series A	2020	5.00% - 6.25%	8,640	8,475
Less: unamortized discount/issuance cost				(529)
Total utility revenue bonds			23,040	19,496
1992 Certificates of Participation - Civic Center improvement certificates (c)				
	2012	3.60% - 6.70%	7,670	6,115
Special assessment debt with governmental commitment - Utility street improvement and parking district bonds (d)				
	2016	3.40% - 9.50%	13,360	8,555
Capital lease obligations:				
Terman School (e)	2000	Variable	6,321	1,976
Other equipment (f)	1997	1.5% - 7.0%	189	14
Less: unamortized discount				
Total capital lease obligations			8,856	1,990
Total long-term debt			\$ 54,726	\$ 36,981

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, Wastewater Collection, Wastewater Treatment and Storm Drainage Enterprise Funds. 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, 6.343% for the 1992 Series A and 5.63% for the 1995 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 Service Fund.

- (e) The variable interest rate for the Terman School site lease is based on the lessor's investment portfolio; the rate for the 1995-96 fiscal year was 4.765%. Future interest payments are based on an estimated rate of 5% and are payable first from lease revenue of the site, then from the City's General Fund revenues.
- (f) The leases of other equipment is funded 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, 1996 follows (in thousands):

	Balance July 1, 1995	Additional Obligations	Current Maturities and Retirements	Balance June 30, 1996
GOVERNMENTAL FUND TYPES				
LONG-TERM DEBT				
General revenue bonds	\$ 925	\$	\$ 100	\$ 825
Certificates of participation	6,530		415	6,115
Special assessment debt with governmental commitment	9,010		455	8,555
Capital lease obligations	<u>2,398</u>	<u> </u>	<u>408</u>	<u>1,990</u>
Total governmental	<u>18,863</u>	<u>-</u>	<u>1,378</u>	<u>17,485</u>
PROPRIETARY FUND TYPES				
LONG-TERM DEBT				
Enterprise Funds:				
Utility Revenue Bond - 1990 Series	7,570		495	7,075
Utility Revenue Bond - 1992 Series	4,570		95	4,475
Utility Revenue Bond - 1995 Series	8,640		165	8,475
Less - unamortized discount/issuance cost	<u>(562)</u>		<u>(33)</u>	<u>(529)</u>
Total enterprise	20,218		722	19,496
Internal Service Fund - capital lease obligations	<u>303</u>		<u>303</u>	<u> </u>
Total proprietary	<u>20,521</u>	<u> </u>	<u>1,025</u>	<u>19,496</u>
Total governmental and proprietary long-term debt	<u>\$ 39,384</u>	<u>\$ -</u>	<u>\$ 2,403</u>	<u>\$ 36,981</u>

The annual requirements to amortize all bonds, certificates of participation and capital leases outstanding as of June 30, 1996 are as follows (in thousands):

	Principal	Interest	Total
General revenue bonds:			
1997	\$ 100	\$ 47	\$ 147
1998	100	41	141
1999	100	36	136
2000	125	30	155
2001	125	23	148
Thereafter	<u>275</u>	<u>24</u>	<u>299</u>
Total	<u>\$ 825</u>	<u>\$ 201</u>	<u>\$ 1,026</u>
Utility revenue bonds:			
1997	\$ 769	\$ 1,263	\$ 2,032
1998	809	1,214	2,023
1999	864	1,163	2,027
2000	919	1,107	2,026
2001	984	1,048	2,032
Thereafter	<u>15,151</u>	<u>8,947</u>	<u>24,098</u>
Total	<u>\$19,496</u>	<u>\$14,742</u>	<u>\$34,238</u>
Certificates of participation:			
1997	\$ 440	\$ 380	\$ 820
1998	460	356	816
1999	485	330	815
2000	510	303	813
2001	550	272	822
Thereafter	<u>3,670</u>	<u>1,047</u>	<u>4,717</u>
Total	<u>\$ 6,115</u>	<u>\$ 2,688</u>	<u>\$ 8,803</u>
Special assessment debt:			
1997	\$ 475	\$ 530	\$ 1,005
1998	510	499	1,009
1999	550	466	1,016
2000	590	430	1,020
2001	645	391	1,036
Thereafter	<u>5,785</u>	<u>1,700</u>	<u>7,485</u>
Total	<u>\$ 8,555</u>	<u>\$ 4,016</u>	<u>\$12,571</u>
Capital lease obligations:			
1997	\$ 408	\$ 100	\$ 508
1998	395	79	474
1999	395	59	454
2000	396	40	436
2001	396	20	416
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,990</u>	<u>\$ 298</u>	<u>\$ 2,288</u>

Long-term debt as of June 30, 1996 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:			
08/01/90	5.70% - 6.80%	06/01/99	(2)
04/01/92	6.30% - 6.375%	06/01/01	(2)
02/01/95	5.00% - 6.25%	06/01/04	(2)
Certificates of participation issued - 03/18/92	3.60% - 6.70%	03/01/01	(4)
Special assessment bonds issued:			
01/02/75	7.00% - 7.50%	07/02/85	(1)
06/02/77	5.40% - 7.75%	07/02/87	(1)
05/02/80	7.25% - 9.50%	07/02/90	(1)
03/30/87	6.70% - 9.25%	09/02/96	(3)
12/18/89	5.75% - 6.90%	09/01/00	(2)
11/22/93	3.40% - 5.40%	03/02/94	(5)

- (1) Callable in inverse numerical order of maturity at par plus a premium of .25% for each year from redemption to maturity date.
- (2) Callable in inverse numerical order of maturity at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (3) 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.
- (4) 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.
- (5) 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, 1996 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, 1996, the outstanding balance on these defeased bonds totaled \$3,825,000.

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, 1996 interfund receivable and payable is as follows (in thousands):

	Interfund Receivable	Interfund Payable
General Fund	\$ 106	
Federal Revenue Special Revenue Fund	_____	<u>\$ 106</u>
Total	<u>\$ 106</u>	<u>\$ 106</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 \$7,891,000 (adjusted for inflation).

The \$6,685,000 reported as landfill closure and postclosure care liability at June 30, 1996 represents 85 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 1996. 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, 1996 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 14.30% of payroll for public safety personnel and 7.36% for other covered employees. The City's covered payroll for employees participating in CalPERS for the year ended June 30, 1996 was \$50,173,000. The City's payroll for all employees was \$56,705,000 in 1996. The City, due to a collective bargaining agreement, also has a legal obligation to contribute an additional 9% of payroll on behalf of police safety employees and 7% for miscellaneous nonsafety employees. Employees in these two groups have no obligation to contribute to CalPERS. Beginning July 1, 1995, employees in the International Association of Fire Fighters have a legal obligation to contribute 9% of payroll 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, 1994, the latest available. The significant economic actuarial assumptions used in the 1994 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.50%; annual payroll increases of 4.5% attributable to inflation and 0% attributable to across the board increase and merit adjustments that vary by length of service.

Total pension benefit obligation applicable to the City's employees at June 30, 1995 follows (in thousands):

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 105,791
Current employees:	
Accumulated employee contributions including allocated investment earnings	49,641
Employer-financed, vested	47,181
Employer-financed, nonvested	<u>1,584</u>
Total pension benefit obligation	204,197
Net assets available for benefits, at cost (market value, \$241,245)	<u>226,947</u>
Net assets in excess of pension benefit obligation	<u>\$ 22,750</u>

The pension benefit obligation increased by \$21,233,000 during 1995 due to normal changes in the age, length of service and salary of covered employees.

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 increased the pension benefit obligation by \$239,000 at June 30, 1995.

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, 1996 of \$7,644,000 was made in accordance with the actuarially determined requirements computed as of June 30, 1994. The contribution consisted of \$6,981,000 for normal cost (13.91% of current covered payroll), and \$663,000 (1.32% of covered payroll) for the amortization of the unfunded actuarial liability. The City contributed \$4,595,000 as its share (9.16% of current covered payroll), and contributed \$3,049,000 (6.08% of current covered payroll) on behalf of employees due to a collective bargaining agreement; employees contributed \$763,000 (1.52% 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 1994 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 1995 follows (in millions):

	1995	1994	1993	1992	1991	1990	1989	1988	1987
Net assets available for benefits, at cost	\$226.9	\$210.1	\$174.0	\$158.1	\$144.8	\$134.7	\$119.6	\$104.6	\$ 91.4
Pension benefit obligation	204.1	182.9	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	111.1%	114.9%	100.5%	95.4%	94.9%	93.7%	93.6%	90.0%	87.0%
Unfunded (assets in excess of) pension benefit obligation	\$ (22.8)	\$ (27.3)	\$ (0.8)	\$ 7.7	\$ 7.8	\$ 9.0	\$ 8.1	\$ 11.5	\$ 13.6
Annual covered payroll	54.5	51.4	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	(41.7)%	(52.9)%	(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	7.8%	8.5%	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 9.2% in 1996. Other trend information for 1996 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 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 1996, expenditures for retiree health care for approximately 393 eligible retired employees totaled \$822,000. The premium is based upon an average annual cost of coverage per retiree of \$2,092.

The City provides retirees with fully paid health care premiums and pays a portion (15% in 1995-96) of the premium for dependent coverage. The percentage of dependent coverage increases by approximately 5% per year. The City pays the widows and widowers of covered retirees full health care premiums as a surviving spousal benefit.

All employees grouped are covered under this benefit. An employee becomes eligible upon regular retirement at age 50 with at least five years of service, and at any age upon disability retirement with five years of service. Industrial disability retirees become eligible with no age or service requirement for coverage.

These benefit provisions and all other requirements are established by State Statute and City Ordinance. The City funds the benefit on a pay-as-you-go basis.

In fiscal year 1992-93, the City received a 6.1 million dollar CalPERS refund. This amount was placed in trust to defer future costs of retiree health care coverage. The City council passed a resolution that directed the City manager to use the PERS refund trust fund to offset health care premium costs that exceed in any given year 1.5% of gross Citywide payroll. In fiscal year 1995-96, the \$822,000 premium represents 1.3% of gross Citywide payroll.

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.

At June 30, 1996, net assets available for benefits totaled \$40,105,000, which are included as cash and investments of the Agency Funds and are offset by a corresponding liability.

9. SELF INSURANCE PROGRAMS

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and unemployment coverage. The City is self-insured for its general liability, workers' compensation, general and auto liability, respectively. The City has chosen to establish risk financing in the Internal Service Fund where assets are set aside for claim settlements associated with the above risks of loss up to certain limits. All transactions related to claim settlements for all Governmental Fund Types and Proprietary Fund Types are accounted for in the

Internal Service Fund. Excess coverage is provided by the Authority for California Cities Excess Liabilities (ACCEL), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member cities. The following municipalities are members of ACCEL: Anaheim, Bakersfield, Burbank, Gardena, Modesto, Monterey, Mountain View, Ontario, Santa Barbara, Santa Monica and Visalia. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. Self-insurance and ACCEL limits per occurrence are as follows:

Type of Coverage	Self-Insurance	ACCEL/Commercial
General Liability	Up to \$1,000,000	\$1,000,000 to \$27,000,000 ACCEL
Workers' Compensation	Up to \$500,000	\$500,000 to \$2,000,000 Commercial

Amounts in excess of these limits are self-insured.

Property damage risks are covered on a blanket up to \$198,980,000 by commercial insurance purchased from independent third parties. All properties are insured at replacement costs. For the past five years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial or ACCEL insurance coverage.

The unpaid claims liabilities included in each of the self-insurance internal service funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. It is the City's practice to obtain full actuarial studies annually. Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience and number of participants.

Changes in the balance of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows (in thousands):

	Year Ended June 30	
	1996	1995
Unpaid claims, beginning of fiscal year	\$7,377	\$9,211
Incurred claims and changes in estimates	2,379	219
Claim payments	(1,923)	(2,053)
Unpaid claims, end of fiscal year	<u>\$7,833</u>	<u>\$7,377</u>

Financial information on ACCEL as of and for the year ended June 30, 1996 is as follows (in thousands):

	(Unaudited)
Assets:	
Cash and investments	\$ 29,448
Other assets	<u>516</u>
Total assets	<u>\$ 29,964</u>
Liabilities and Fund Equity:	
Loss reserves	\$ 29,769
Other liabilities	107
Fund equity	<u>88</u>
Total liabilities and fund equity	<u>\$ 29,964</u>
Total revenues	\$ 5,156
Total expenses	<u>5,117</u>
Revenues over expenses	<u>\$ 39</u>

The City's annual premium paid to ACCEL for the year ended June 30, 1996 was \$351,000.

10. ESTABLISHMENT OF EXPENDABLE TRUST FUND

During the year ended June 30, 1995, the City determined to use the Assembly Bill (AB) 702 Public Employees Retirement System ("PERS") credit of \$6.1 million to establish an expendable trust fund. The trust fund is to provide for a funding of retiree health benefits to the extent that actual benefits exceed one and one-half percent of the City's gross payroll costs in any fiscal year. Approval by the City Council is required if the money is to be expended for any other purpose. The Retiree Health Benefit Trust Expendable Fund's fund balance consists of the following as of June 30, 1996 (in thousands):

Fund balance, beginning of year	\$ 6,347
Excess of revenue over expenditures	<u>380</u>
Fund balance, end of year	<u>\$ 6,727</u>

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, 1996, fund balances for Governmental Fund Types consist of the following reserves and designations (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Fund
Reserved for:				
Encumbrances and reappropriations	\$ 5,141	\$ 7,028		\$ 8,172
Notes	751	4,961		
Debt service			\$ 3,020	
Inventory	<u>1,648</u>	<u> </u>	<u> </u>	<u> </u>
Total reserved fund balances	<u>\$ 7,540</u>	<u>\$ 11,989</u>	<u>\$ 3,020</u>	<u>\$ 8,172</u>
Unreserved; designated for:				
Streets and sidewalks/school site projects	\$ 393			
Capital and special revenue projects		\$ 444		\$ 12
Budget stabilization	20,427			
Emergencies	<u>5,300</u>	<u> </u>		<u> </u>
Total unreserved; designated fund balances	<u>\$ 26,120</u>	<u>\$ 444</u>		<u>\$ 12</u>

At June 30, 1996, fund balance for the Expendable Trust Funds was reserved for long-term investments in the amount of \$6,347,000 and was unreserved; undesignated in the amount of \$878,000.

The Internal Service Fund's retained earnings consist of the following as of June 30, 1996 (in thousands):

Reserved retained earnings -	
Commitments and reappropriations	\$ 2,504
Unreserved:	
Designated for future catastrophic losses	5,190
Retained earnings	<u>6,489</u>
Total	<u>\$ 14,183</u>

At June 30, 1996, the Enterprise Funds' retained earnings consists of the following (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Unreserved and committed for:								
Emergency plant replacement	\$ 707	\$ 2,145	\$ 624	\$ 354	\$1,015			\$ 4,845
Rate stabilization	6,838	33,138	13,791	8,931	2,803	\$ 4,483	\$2,996	72,980
Calaveras		23,827						23,827
Gas supplemental supply			3,092					3,092
Commitments and reappropriations	2,555	7,033	1,802	4,880	2,941	309	4,758	24,278
Underground loan		568						568
Conservation loan			627					627
Refuse water resources						354		354
Total	10,100	66,711	19,936	14,165	6,759	5,146	7,754	130,571
Unreserved retained earnings	<u>18,056</u>	<u>68,929</u>	<u>23,559</u>	<u>10,581</u>	<u>1,872</u>	<u>5,002</u>	<u>(4,701)</u>	<u>123,298</u>
Total retained earnings	<u>\$28,156</u>	<u>\$135,640</u>	<u>\$43,495</u>	<u>\$24,746</u>	<u>\$8,631</u>	<u>\$10,148</u>	<u>\$3,053</u>	<u>\$253,869</u>

The City Council has internally committed unreserved retained earnings for general contingencies, future capital and debt service expenditures. Operating and capital contingencies have been established for unusual or emergency expenditures.

12. CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 1996 follows (in thousands):

	Enterprise	Internal Service
Balance at July 1, 1995	\$58,593	\$5,338
Additions	<u>-</u>	<u>208</u>
Balance at June 30, 1996	<u>\$58,593</u>	<u>\$5,546</u>

13. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's Enterprise Funds account for the acquisition, operation and maintenance of water, electric, gas, wastewater collection, wastewater treatment, refuse and storm drainage facilities that are supported by user charges. Segment information for the year ended June 30, 1996 is as follows (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Operating revenues	\$12,163	\$62,988	\$17,037	\$10,189	\$10,070	\$19,105	\$2,095	\$133,647
Depreciation and amortization	535	3,910	662	736	1,426	276	90	7,635
Operating income	3,387	23,733	5,966	4,561	520	315	920	39,402
Operating transfers in		140				106	7	253
Operating transfers out	1,741	7,375	2,093	62		34	25	11,330
Net income	2,256	11,273	4,853	5,009	598	563	681	25,233
Current capital contributions								
Property, plant and equipment:								
Additions (excluding construction in progress)	2,984	6,715	3,189	2,230	663		2,817	18,598
Retirements (net book value)	34	1,417	319	11	100			1,881
Net working capital	10,101	66,712	19,938	14,164	6,759	5,146	7,754	130,574
Total assets	36,927	154,257	47,643	36,078	35,511	17,801	15,991	344,208
Bonds and contracts, net of bond discount, payable from operating revenues				2,188	4,759		12,549	19,496
Total equity	35,907	152,778	46,787	33,776	30,013	10,148	3,053	312,462

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 and the joint venture debt service section of the Combined Statement of Revenues, Expenses and Changes in Retained Earnings in the Enterprise Funds for the year ended June 30, 1996. 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, 1996 is as follows (in thousands):

	Total NCPA Outstanding Debt	City's Participation Percentage	City's Share of Outstanding Debt
Hydroelectric Project #1:			
1991 Series E, F, G	\$ 309,335	22.92%	\$ 70,900
1986 Refunding Series A	1,195	22.92%	274
1992 Refunding Series A	193,865	22.92%	44,434
1993 Refunding Series A	61,555	22.92%	14,109
Transmission Project #1:			
1989 Series A	14,635	11.07%	1,620

During the year ended June 30, 1996, the City paid \$7,095,000 as its portion of current debt service.

The City's participation in an 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, 1996 is \$1,096,370,000. The City's participation in this project was 6.15%, or \$67,427,000.

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, 1996 and a statement of operations for NCPA for the year ended June 30, 1996 (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 708,459
Restricted assets	850,293
Other assets and deferred charges	438,837
Current assets	<u>59,402</u>
 Total assets	 <u>\$2,056,991</u>
Liabilities and retained earnings:	
Long-term debt	\$1,822,231
Current liabilities	99,293
Other liabilities	112,278
Retained earnings	<u>23,189</u>
 Total liabilities and retained earnings	 <u>\$2,056,991</u>
Statement of operations:	
Sales to participants	\$ 184,055
Operating expenses	(94,854)
Nonoperating expenses, net	(74,149)
Future recoverable costs	(13)
Additions to operating reserve and refunds to participants	<u>(11,348)</u>
 Net revenues	 <u>\$ 3,691</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 is obligated to make payments for its 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, 1996, the City has a 4% 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, 1996 are \$406,752,000 of which the City's share is \$16,270,000. During the year ended June 30, 1996, the City paid \$1,480,000 as its portion of current debt service.

Following is a condensed balance sheet as of June 30, 1996 and a statement of operations of TANC for the year then ended (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 405,973
Restricted assets	46,650
Current assets	7,848
Noncurrent assets and deferred charges	<u>34,730</u>
Total assets	<u>\$ 495,201</u>
Liabilities and equity:	
Long-term debt	\$ 399,597
Current liabilities	90,434
Members' equity	412
Settlement obligation	<u>4,758</u>
Total liabilities and equity	<u>\$ 495,201</u>
Statement of operations:	
Revenues	\$ 33,069
Expenses	<u>35,844</u>
Operating loss	(2,775)
Interest income	<u>2,797</u>
Net income	<u>\$ 22</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, 1996 amounted to \$11,696,000. Future minimum annual lease and covenant payments are as follows (in thousands):

Year ending June 30:	
1997	\$ 4,797
1998	4,797
1999	4,797
2000	4,797
2001	4,797
Thereafter	<u>16,789</u>
Total	<u>\$ 40,774</u>

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 entered into contract in 1987 with the Palo Alto Sanitation Company (PASCO) for services related to refuse collection, the curbside recycling program, operation of the Recycling Center, and emptying and maintenance of public trash receptacles. The contract is for an indefinite period unless either party gives a written cancellation notice which will become effective five years from the date of notification. The City is committed to pay PASCO a percentage of refuse revenue billed to the customers. That percentage, negotiated annually, was 31.3% for collection services and 95% for the bin rentals in fiscal 1995-96. During this period, the City made payments of approximately \$6,000,000 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 1996, such amount was forgiven. The outstanding principal balance of the note at June 30, 1996 is \$1,685,075, 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, 1996. 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% 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, 1996 is \$4,830,000. During the year ended June 30, 1996, the City paid \$397,000 as its portion of current debt service.

16. RELATED PARTY TRANSACTION

The City Council may authorize 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, 1996, the City has two loans outstanding and the outstanding balance of the loans totaled \$751,000, and is reported as a note receivable and a reservation of the City's General Fund balance.

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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, 1996 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1995
(In thousands of dollars)

	1996	1995
ASSETS		
Cash, cash equivalents and investments	\$ 28,247	\$ 23,272
Receivables, net:		
Accounts	4,290	3,681
Interest	926	708
Notes	751	527
Interfund receivable	106	218
Inventory	<u>1,648</u>	<u>1,185</u>
TOTAL ASSETS	<u>\$ 35,968</u>	<u>\$ 29,591</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,636	\$ 2,989
Accrued salaries and benefits	<u>672</u>	<u>623</u>
Total liabilities	<u>2,308</u>	<u>3,612</u>
FUND BALANCES:		
Reserved for:		
Encumbrances and reappropriations	5,141	4,503
Notes	751	527
Inventory	1,648	1,185
Unreserved - designated for:		
Streets and sidewalks/school site projects	393	865
Budget stabilization	20,427	13,899
Emergencies	<u>5,300</u>	<u>5,000</u>
Total fund balances	<u>33,660</u>	<u>25,979</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,968</u>	<u>\$ 29,591</u>

CITY OF PALO ALTO, CALIFORNIA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING
SOURCES (USES) - BUDGET AND ACTUAL FOR THE
YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1995
(In thousands of dollars)**

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1995 Actual
REVENUES:				
Taxes:				
Property taxes	\$ 7,656	\$ 7,854	\$ 198	\$ 7,485
Sales taxes	16,688	17,895	1,207	14,765
Utility users' tax	5,231	5,098	(133)	5,482
Transient occupancy tax	3,930	4,279	349	3,643
Other taxes and fines	<u>4,595</u>	<u>5,092</u>	<u>497</u>	<u>4,633</u>
Total taxes	38,100	40,218	2,118	36,008
Fire protection and emergency communication services	4,127	4,073	(54)	4,097
From other agencies	174	369	195	349
Service fees and permits	8,313	8,380	67	7,955
Interest earnings	2,300	2,699	399	2,136
Rent	9,478	9,644	166	9,754
Other	<u>1,643</u>	<u>1,683</u>	<u>40</u>	<u>1,922</u>
Total revenues	<u>64,135</u>	<u>67,066</u>	<u>2,931</u>	<u>62,221</u>
EXPENDITURES - Current operations:				
City Council	121	97	24	109
City Manager	1,294	1,038	256	968
City Attorney	1,418	1,170	248	1,100
City Clerk	740	682	58	492
City Auditor	469	421	48	404
Administrative Services	6,865	6,370	495	5,954
Human Resources	1,507	1,355	152	1,313
Public works	7,453	6,614	839	7,517
Planning and community environment	4,338	3,901	437	3,842
Public safety - Police	14,894	14,066	828	14,058
Public safety - Fire	12,403	11,739	664	11,437
Community services	13,813	13,019	794	12,435
School site operations	<u>6,173</u>	<u>5,992</u>	<u>181</u>	<u>5,884</u>
Total expenditures	<u>71,488</u>	<u>66,464</u>	<u>5,024</u>	<u>65,513</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(7,353)</u>	<u>602</u>	<u>7,955</u>	<u>(3,292)</u>

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1995 Actual
EXCESS OF EXPENDITURES OVER REVENUES	\$ (7,353)	\$ 602	\$ 7,955	\$ (3,292)
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
Street Improvement Special Revenue Fund	274	176	(98)	167
Federal Revenue Special Revenue Fund	178	173	(5)	188
Special District Special Revenue Fund	438	342	(96)	557
Housing Improvement Special Revenue Fund	48	2	(46)	8
Capital Improvement Project Fund				
Debt Service Fund				18
Enterprise Funds	<u>10,811</u>	<u>10,811</u>		<u>9,621</u>
Total operating transfers in	<u>11,749</u>	<u>11,504</u>	<u>(245)</u>	<u>10,559</u>
Operating transfers out:				
Capital Improvement Project Fund	6,177	4,980	1,197	4,742
Debt Service Fund	546	547	(1)	944
Enterprise Funds	<u>7</u>	<u>7</u>		
Total operating transfers out	<u>6,730</u>	<u>5,534</u>	<u>1,196</u>	<u>5,686</u>
Total other financing sources	<u>5,019</u>	<u>5,970</u>	<u>951</u>	<u>4,873</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (2,334)	\$ 6,572	\$ 8,906	\$ 1,581

(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.

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET JUNE 30, 1996 WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS				
Cash, cash equivalents and investments	\$3,224	\$ 33	\$2,726	\$ 791
Receivables, net	74	68		
Interest receivable	49		43	12
Notes		1,575	3,386	
Inventory	_____	_____	_____	_____
TOTAL ASSETS	<u>\$3,347</u>	<u>\$1,676</u>	<u>\$6,155</u>	<u>\$ 803</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities		\$ 125	\$ 294	\$ 30
Interfund payable		<u>106</u>	_____	_____
Total liabilities		<u>231</u>	<u>294</u>	<u>30</u>
FUND BALANCES:				
Reserved for:				
Encumbrances	\$ 998	21	530	
Reappropriations	2,980	1,130	1,369	
Notes		1,575	3,386	
Unreserved - Designated for special revenue projects			576	773
Unreserved, undesignated	<u>(631)</u>	<u>(1,281)</u>	_____	_____
Total fund balances	<u>3,347</u>	<u>1,445</u>	<u>5,861</u>	<u>773</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$3,347</u>	<u>\$1,676</u>	<u>\$6,155</u>	<u>\$ 803</u>

Transportation Mitigation	Totals June 30	
	1996	1995
\$ 992	\$ 7,766	\$ 7,943
	142	379
15	119	125
	4,961	4,352
<u>\$ 1,007</u>	<u>\$ 12,988</u>	<u>\$ 12,799</u>
	\$ 449	\$ 479
	<u>106</u>	<u>218</u>
	<u>555</u>	<u>697</u>
	1,549	2,634
	5,479	1,833
	4,961	4,352
\$ 1,007	2,356	3,995
<u>1,007</u>	<u>(1,912)</u>	<u>(712)</u>
<u>1,007</u>	<u>12,433</u>	<u>12,102</u>
<u>\$ 1,007</u>	<u>\$ 12,988</u>	<u>\$ 12,799</u>

CITY OF PALO ALTO, CALIFORNIA

**SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 1996
WITH COMPARATIVE TOTALS YEAR ENDED JUNE 30, 1995
(In thousands of dollars)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	<u>\$ 1,080</u>			
From other agencies:				
Federal Transportation Project		\$ 286		
Community Development Block Grant				
Federal Urban Aid	46			
State of California	28			
HOME Grant				
TDA grant	<u>23</u>			
Total from other agencies	<u>97</u>	<u>286</u>		
Interest earnings	<u>170</u>	<u>37</u>	<u>\$ 182</u>	<u>\$ 55</u>
Other:				
Great Western Bank - Loan payoff		3		
Housing-in-lieu - Residential				
Housing-in-lieu - Industrial			1	
Traffic Mitigation - Transportation				324
University Avenue Parking				77
California Avenue Parking				
Centennial support				
Other fees	<u>1</u>		<u>58</u>	<u>1</u>
Total other	<u>1</u>	<u>3</u>	<u>59</u>	<u>402</u>
Total revenues	1,348	326	241	457
EXPENDITURES FOR CAPITAL OUTLAY		<u>237</u>	<u>183</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,348</u>	<u>89</u>	<u>58</u>	<u>457</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
Transportation Mitigation Fund	75			
Housing Improvement Program		<u>122</u>		
Total transfers in	<u>75</u>	<u>122</u>	<u>-</u>	<u>-</u>
Operating transfers out:				
General Fund	(176)	(175)		(342)
Capital Project Fund	(986)			
Debt Service				(110)
Street Improvement Fund				
Community Development Block Grant Fund		(123)		
Enterprise Funds				<u>(106)</u>
Total transfers out	<u>(1,162)</u>	<u>(298)</u>	<u>-</u>	<u>(558)</u>
Total other financing uses	<u>(1,087)</u>	<u>(176)</u>	<u>-</u>	<u>(558)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	261	(87)	58	(101)
FUND BALANCES, BEGINNING OF YEAR	<u>3,086</u>	<u>1,532</u>	<u>5,803</u>	<u>874</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,347</u>	<u>\$ 1,445</u>	<u>\$ 5,861</u>	<u>\$ 773</u>

Transportation Mitigation	Totals June 30	
	1996	1995
	<u>\$ 1,080</u>	<u>\$ 1,059</u>
	286	1,099
	46	27
	28	44
		80
	<u>23</u>	<u>138</u>
	<u>383</u>	<u>1,388</u>
<u>\$ 44</u>	<u>488</u>	<u>467</u>
	3	16
	1	39
	324	257
	77	76
		501
<u>231</u>	<u>291</u>	<u>121</u>
<u>231</u>	<u>696</u>	<u>1,010</u>
275	2,647	3,924
	<u>420</u>	<u>1,983</u>
<u>275</u>	<u>2,227</u>	<u>1,941</u>
	75	145
	<u>122</u>	<u>76</u>
<u>-</u>	<u>197</u>	<u>221</u>
	(693)	(919)
	(986)	(898)
	(110)	
(75)	(75)	(145)
	(123)	(76)
	<u>(106)</u>	<u>(63)</u>
<u>(75)</u>	<u>(2,093)</u>	<u>(2,101)</u>
<u>(75)</u>	<u>(1,896)</u>	<u>(1,880)</u>
200	331	61
<u>807</u>	<u>12,102</u>	<u>12,041</u>
<u>\$ 1,007</u>	<u>\$ 12,433</u>	<u>\$ 12,102</u>

CITY OF PALO ALTO, CALIFORNIA

SPECIAL REVENUE FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Street Improvement		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Other taxes and fines	\$1,037	\$1,080	\$ 43
From other agencies:			
Community Development Block Grant			
Federal Urban Aid		46	46
State of California		28	28
HOME Grant			
TDA grant		23	23
Total from other agencies		97	97
Interest earnings	150	170	20
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	75	1	(74)
Total other	75	1	(74)
Total revenues	1,262	1,348	86
EXPENDITURES FOR SPECIAL REVENUE PROJECTS			
EXCESS OF REVENUES OVER EXPENDITURES	1,262	1,348	86
OTHER FINANCING SOURCES (USES):			
Operating transfers in:			
Transportation Mitigation Fund		75	75
Housing Improvement Program			
Total transfers in		75	75
Operating transfers out:			
General Fund	(274)	(176)	98
Capital Project Fund	(1,119)	(986)	133
Debt Service Fund			
Street Improvement Fund			
Community Development Block Grant Fund			
Enterprise Funds			
Total transfers out	(1,393)	(1,162)	231
Total other financing uses	(1,393)	(1,087)	306
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (131)	\$ 261	\$392

Federal Revenue		Variance Favorable (Unfavorable)	Housing-In-Lieu		Variance Favorable (Unfavorable)
Budget	Actual		Budget	Actual	
\$ 822	\$286	\$ (536)			
15		(15)			
<u>837</u>	<u>286</u>	<u>(551)</u>			
<u>15</u>	<u>37</u>	<u>22</u>	<u>\$245</u>	<u>\$182</u>	<u>\$ (63)</u>
7	3	(4)			
			7	1	(6)
<u>7</u>	<u>3</u>	<u>(4)</u>	<u>58</u>	<u>58</u>	<u>—</u>
859	326	(533)	310	241	(69)
<u>886</u>	<u>237</u>	<u>649</u>	<u>196</u>	<u>183</u>	<u>13</u>
<u>(27)</u>	<u>89</u>	<u>116</u>	<u>114</u>	<u>58</u>	<u>(56)</u>
<u>135</u>	<u>122</u>	<u>(13)</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>135</u>	<u>122</u>	<u>(13)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(226)	(175)	51			
(135)	(123)	12			
<u>(361)</u>	<u>(298)</u>	<u>63</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(226)</u>	<u>(176)</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (253)</u>	<u>\$ (87)</u>	<u>\$ 166</u>	<u>\$ 114</u>	<u>\$ 58</u>	<u>\$ (56)</u>

(Continued)

CITY OF PALO ALTO, CALIFORNIA

**SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE
YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1995
(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			
TDA Grant			
Total from other agencies			
Interest earnings	\$ 49	\$ 55	\$ 6
Other:			
Great Western Bank - Loan payoff			
Housing-in-lieu - Residential			
Housing-in-lieu - Industrial			
Traffic Mitigation - Transportation			
University Avenue Parking	351	324	(27)
California Avenue Parking	84	77	(7)
Other fees		1	1
Total other	<u>435</u>	<u>402</u>	<u>(33)</u>
Total revenues	484	457	(27)
EXPENDITURES FOR SPECIAL REVENUE PROJECTS			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>484</u>	<u>457</u>	<u>(27)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in:			
Transportation Mitigation Fund			
Housing Improvement Program			
Total transfers in	-	-	-
Operating transfers out:			
General Fund	(439)	(342)	97
Capital Project Fund			
Debt Service Fund	(110)	(110)	
Street Improvement Fund			
Community Development Block Grant Fund			
Enterprise Funds	<u>(46)</u>	<u>(106)</u>	<u>(60)</u>
Total transfers out	<u>(595)</u>	<u>(558)</u>	<u>37</u>
Total other financing uses	<u>(595)</u>	<u>(558)</u>	<u>37</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (111)</u>	<u>\$ (101)</u>	<u>\$ 10</u>

Transportation Mitigation		Variance Favorable (Unfavorable)	Total Special Revenue Funds			
			Budget 1996	Actual 1996	Variance Favorable (Unfavorable)	Actual 1995
			<u>\$1,037</u>	<u>\$1,080</u>	<u>\$ 43</u>	<u>\$1,059</u>
			822	286	(536)	1,099
			15	46	31	27
				28	28	44
						80
				<u>23</u>	<u>23</u>	<u>138</u>
			<u>837</u>	<u>383</u>	<u>(454)</u>	<u>1,388</u>
<u>S52</u>	<u>S 44</u>	<u>S (8)</u>	<u>511</u>	<u>488</u>	<u>(23)</u>	<u>467</u>
			7	3	(4)	16
			7	1	(6)	39
			351	324	(27)	257
			84	77	(7)	76
<u>40</u>	<u>231</u>	<u>191</u>	<u>173</u>	<u>291</u>	<u>118</u>	<u>121</u>
<u>40</u>	<u>231</u>	<u>191</u>	<u>622</u>	<u>696</u>	<u>74</u>	<u>509</u>
92	275	183	3,007	2,647	(360)	3,423
			<u>1,082</u>	<u>420</u>	<u>662</u>	<u>1,275</u>
<u>92</u>	<u>275</u>	<u>183</u>	<u>1,925</u>	<u>2,227</u>	<u>302</u>	<u>2,148</u>
				75	75	145
			<u>135</u>	<u>122</u>	<u>(13)</u>	<u>76</u>
			<u>135</u>	<u>197</u>	<u>62</u>	<u>221</u>
			(939)	(693)	246	(919)
(75)		75	(1,194)	(986)	208	(898)
			(110)	(110)		
	(75)	(75)		(75)	(75)	(145)
			(135)	(123)	12	(76)
			<u>(46)</u>	<u>(106)</u>	<u>(60)</u>	<u>(63)</u>
<u>(75)</u>	<u>(75)</u>	<u>-</u>	<u>(2,424)</u>	<u>(2,093)</u>	<u>331</u>	<u>(2,101)</u>
<u>(75)</u>	<u>(75)</u>	<u>-</u>	<u>(2,289)</u>	<u>(1,896)</u>	<u>393</u>	<u>(1,880)</u>
<u>S17</u>	<u>S200</u>	<u>S183</u>	<u>S (364)</u>	<u>S 331</u>	<u>\$695</u>	<u>\$ 268</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, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995
(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1996	1995
ASSETS						
Cash, cash equivalents and investments	\$918			\$1,031	\$ 1,949	\$ 2,038
Restricted:						
Cash and cash equivalents				92	92	270
Investments		\$162	\$780		942	1,199
Interest receivable	14	3	4		21	25
Special assessment receivable	—	—	—	8,096	8,096	8,555
TOTAL ASSETS	<u>\$932</u>	<u>\$165</u>	<u>\$784</u>	<u>\$9,219</u>	<u>\$11,100</u>	<u>\$12,087</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable and accrued liabilities						
Deferred revenue				\$8,080	\$ 8,080	\$ 8,555
Total liabilities				8,080	8,080	8,555
FUND BALANCES - Reserved for debt service	<u>\$932</u>	<u>\$165</u>	<u>\$784</u>	<u>1,139</u>	<u>3,020</u>	<u>3,532</u>
Total fund balances	<u>932</u>	<u>165</u>	<u>784</u>	<u>1,139</u>	<u>3,020</u>	<u>3,532</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$932</u>	<u>\$165</u>	<u>\$784</u>	<u>\$9,219</u>	<u>\$11,100</u>	<u>\$12,087</u>

CITY OF PALO ALTO, CALIFORNIA

CAPITAL PROJECT FUND BALANCE SHEET JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	<u>Totals June 30</u>	
	<u>1996</u>	<u>1995</u>
ASSETS		
Cash, cash equivalents and investments	\$ 8,502	\$ 8,961
Restricted - cash and cash equivalents	12	156
Accounts receivable	<u>52</u>	<u>36</u>
TOTAL ASSETS	<u>\$ 8,566</u>	<u>\$ 9,153</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>\$ 382</u>	<u>\$ 682</u>
Total liabilities	<u>382</u>	<u>682</u>
FUND BALANCES:		
Reserved for -		
Reappropriations and encumbrances	8,172	8,403
Unreserved -		
Designated for capital projects	<u>12</u>	<u>68</u>
Total fund balances	<u>8,184</u>	<u>8,471</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,566</u>	<u>\$ 9,153</u>

CITY OF PALO ALTO, CALIFORNIA

CAPITAL PROJECT FUND SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Year Ended June 30, 1996			Year Ended
	Budget	Actual	Variance Favorable (Unfavorable)	June 30, 1995 Actual
REVENUES:				
From other agencies:				
Stanford University	\$ 9	\$ 23	\$ 14	\$ 30
Santa Clara County		50	50	
Palo Alto Unified School District	109	76	(33)	
Total from other agencies	118	149	31	30
Interest earnings		2	2	21
Proceeds from bond sales		58	58	
Other		8	8	6
Total revenues	118	217	99	57
EXPENDITURES FOR CAPITAL PROJECTS	8,011	5,876	2,135	5,739
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,893)	(5,659)	2,234	(5,682)
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund	6,177	4,979	(1,198)	4,742
Utilities - General Fund projects	381	381		143
Debt Service Fund				
Special Revenue Funds:				
Street Improvement	1,119	986	(133)	898
Traffic mitigation	75		(75)	
Internal Service Fund				
Equipment Replacement	141	141		221
Total operating transfers in	7,893	6,487	(1,406)	6,004
Operating transfers out:				
Debt Service Fund				(196)
Reimbursement from bond reserves				252
Total other financing sources	7,893	6,487	(1,406)	6,060
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 828	\$ 828	\$ 378

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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 Collection Fund
- Wastewater Treatment Fund
- Refuse Fund
- Storm Drainage Fund

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE
 YEAR ENDED JUNE 30, 1995
 (In thousands of dollars)

	Water	Electric	Gas
ASSETS			
CURRENT ASSETS:			
Cash, cash equivalents and investments	\$ 9,348	\$ 60,424	\$ 19,280
Restricted:			
Cash and cash equivalents			
Investments			
Accounts receivable, net	1,625	6,817	1,210
Interest receivable	148	950	304
Prepaid items			
	<hr/>	<hr/>	<hr/>
Total current assets	11,121	68,191	20,794
Property, plant and equipment, net	<u>25,806</u>	<u>86,066</u>	<u>26,849</u>
TOTAL ASSETS	<u>\$36,927</u>	<u>\$154,257</u>	<u>\$47,643</u>
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	\$ 987	\$ 1,383	\$ 818
Accrued salaries and benefits	33	96	38
Current portion of revenue bonds, net			
Accrued landfill closure liability			
	<hr/>	<hr/>	<hr/>
Total current liabilities	<u>1,020</u>	<u>1,479</u>	<u>856</u>
LONG-TERM LIABILITIES:			
Accrued compensated absences			
Accrued self insurance			
Revenue bonds, net of current portion			
	<hr/>	<hr/>	<hr/>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND EQUITY:			
Contributed capital	7,751	17,138	3,292
Retained earnings	<u>28,156</u>	<u>135,640</u>	<u>43,495</u>
	<hr/>	<hr/>	<hr/>
Total fund equity	<u>35,907</u>	<u>152,778</u>	<u>46,787</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$36,927</u>	<u>\$154,257</u>	<u>\$47,643</u>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1996	1995
\$ 12,915	\$ 7,282	\$ 10,771	\$ 1,207	\$ 121,227	\$ 111,334
			6,989	6,989	8,541
1,331	459	1,694	203	13,339	12,857
198	117	170	19	1,906	1,781
		164		164	60
14,444	7,858	12,799	8,418	143,625	134,573
<u>21,634</u>	<u>27,653</u>	<u>5,002</u>	<u>7,573</u>	<u>200,583</u>	<u>189,799</u>
<u>\$36,078</u>	<u>\$35,511</u>	<u>\$17,801</u>	<u>\$15,991</u>	<u>\$344,208</u>	<u>\$324,372</u>
\$ 94	\$ 686	\$ 947	\$ 381	\$ 5,296	\$ 8,216
20	53	21	8	269	271
166	360		275	801	755
		6,685		6,685	6,438
<u>280</u>	<u>1,099</u>	<u>7,653</u>	<u>664</u>	<u>13,051</u>	<u>15,680</u>
					538
					1,462
<u>2,022</u>	<u>4,399</u>		<u>12,274</u>	<u>18,695</u>	<u>19,463</u>
<u>2,022</u>	<u>4,399</u>	<u>-</u>	<u>12,274</u>	<u>18,695</u>	<u>21,463</u>
9,030	21,382			58,593	58,593
<u>24,746</u>	<u>8,631</u>	<u>10,148</u>	<u>3,053</u>	<u>253,869</u>	<u>228,636</u>
<u>33,776</u>	<u>30,013</u>	<u>10,148</u>	<u>3,053</u>	<u>312,462</u>	<u>287,229</u>
<u>\$36,078</u>	<u>\$35,511</u>	<u>\$17,801</u>	<u>\$15,991</u>	<u>\$344,208</u>	<u>\$324,372</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Water	Electric	Gas
OPERATING REVENUES:			
Sales of utilities:			
Customers	\$ 11,233	\$ 58,932	\$ 16,301
City departments	590	1,581	366
Wastewater treatment			
Service connection charges and miscellaneous	216	178	276
Other revenues	<u>124</u>	<u>2,297</u>	<u>94</u>
Total operating revenues	<u>12,163</u>	<u>62,988</u>	<u>17,037</u>
OPERATING EXPENSES:			
Purchase of utilities	4,595	24,492	6,860
Administration and general	1,222	1,862	1,158
Engineering (operating)	51	255	147
Resource management	344	1,808	680
Operations and maintenance	1,412	5,113	1,366
Rent	617	1,815	198
Depreciation and amortization	<u>535</u>	<u>3,910</u>	<u>662</u>
Total operating expenses	<u>8,776</u>	<u>39,255</u>	<u>11,071</u>
OPERATING INCOME	<u>3,387</u>	<u>23,733</u>	<u>5,966</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	612	3,428	1,069
Interest expense			
Joint venture debt service		(8,575)	
Loss on disposal of fixed assets	<u>(2)</u>	<u>(78)</u>	<u>(89)</u>
Total nonoperating revenues (expenses)	<u>610</u>	<u>(5,225)</u>	<u>980</u>
INCOME BEFORE OPERATING TRANSFERS	<u>3,997</u>	<u>18,508</u>	<u>6,946</u>
OPERATING TRANSFERS:			
Operating transfers in		140	
Operating transfers out	<u>(1,741)</u>	<u>(7,375)</u>	<u>(2,093)</u>
Net operating transfers	<u>(1,741)</u>	<u>(7,235)</u>	<u>(2,093)</u>
NET INCOME (LOSS)	2,256	11,273	4,853
RETAINED EARNINGS, BEGINNING OF YEAR	25,900	124,367	38,642
RESIDUAL EQUITY TRANSFER OUT	<u> </u>	<u> </u>	<u> </u>
RETAINED EARNINGS, END OF YEAR	<u>\$28,156</u>	<u>\$135,640</u>	<u>\$43,495</u>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1996	1995
\$ 9,236		\$16,660	\$1,981	\$114,343	\$120,773
143	\$3,625	380	109	6,794	6,767
	6,341			6,341	5,989
66				736	444
<u>744</u>	<u>104</u>	<u>2,065</u>	<u>5</u>	<u>5,433</u>	<u>4,395</u>
<u>10,189</u>	<u>10,070</u>	<u>19,105</u>	<u>2,095</u>	<u>133,647</u>	<u>138,368</u>
3,625		6,008		45,580	52,484
278	753	827	337	6,437	6,455
75	999	365	259	2,151	2,756
				2,832	2,249
834	6,372	7,026	489	22,612	23,640
80		4,288		6,998	7,372
<u>736</u>	<u>1,426</u>	<u>276</u>	<u>90</u>	<u>7,635</u>	<u>7,547</u>
<u>5,628</u>	<u>9,550</u>	<u>18,790</u>	<u>1,175</u>	<u>94,245</u>	<u>102,503</u>
<u>4,561</u>	<u>520</u>	<u>315</u>	<u>920</u>	<u>39,402</u>	<u>35,865</u>
669	434	573	74	6,859	5,669
(158)	(343)		(295)	(796)	(823)
		(397)		(8,972)	(8,746)
<u>(1)</u>	<u>(13)</u>	<u>_____</u>	<u>_____</u>	<u>(183)</u>	<u>(71)</u>
<u>510</u>	<u>78</u>	<u>176</u>	<u>(221)</u>	<u>(3,092)</u>	<u>(3,971)</u>
<u>5,071</u>	<u>598</u>	<u>491</u>	<u>699</u>	<u>36,310</u>	<u>31,894</u>
		106	7	253	128
<u>(62)</u>	<u>_____</u>	<u>(34)</u>	<u>(25)</u>	<u>(11,330)</u>	<u>(9,860)</u>
<u>(62)</u>	<u>-</u>	<u>72</u>	<u>(18)</u>	<u>(11,077)</u>	<u>(9,732)</u>
5,009	598	563	681	25,233	22,162
19,737	8,033	9,585	2,372	228,636	207,760
<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>_____</u>	<u>(1,286)</u>
<u>\$24,746</u>	<u>\$8,631</u>	<u>\$10,148</u>	<u>\$3,053</u>	<u>\$253,869</u>	<u>\$228,636</u>

CITY OF PALO ALTO, CALIFORNIA

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1995

(In thousands of dollars)

	Water	Electric	Gas
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income	\$3,387	\$23,733	\$ 5,966
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	535	3,910	662
Other nonoperating loss			
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(273)	(593)	52
(Increase) decrease in interest receivable	8	(67)	(16)
(Increase) decrease in prepaid items			60
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	183	(1,827)	(926)
Increase (decrease) in accrued compensated absences	(59)	(234)	(95)
Increase (decrease) in accrued self insurance	(136)	(557)	(228)
Increase in accrued landfill closure liability			
Net cash provided by operating activities	<u>3,645</u>	<u>24,365</u>	<u>5,475</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers in		140	
Operating transfers out	(1,741)	(7,375)	(2,093)
Residual equity transfers			
Net cash provided by (used in) noncapital financing activities	<u>(1,741)</u>	<u>(7,235)</u>	<u>(2,093)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,984)	(6,715)	(3,189)
Principal paid on revenue bonds			
Proceeds from bond reserves			
Proceeds from bond issuances			
Interest paid on revenue bonds		(8,575)	
Net cash provided by (used in) capital and related financing activities	<u>(2,984)</u>	<u>(15,290)</u>	<u>(3,189)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -			
Interest and dividends on pooled investments	612	3,428	1,069
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(468)	5,268	1,262
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>9,816</u>	<u>55,156</u>	<u>18,018</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$9,348</u>	<u>\$60,424</u>	<u>\$19,280</u>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1996	1995
\$ 4,561	\$ 520	\$ 315	\$ 920	\$ 39,402	\$ 35,865
736	1,426	276	90	7,635	7,547
(34)	49	336	(19)	(482)	386
(32)	(10)	(16)	8	(125)	(545)
		(164)		(104)	168
(601)	(126)	74	301	(2,922)	1,390
(46)	(81)	(2)	(21)	(538)	97
(108)	(266)	(140)	(27)	(1,462)	(431)
		247		247	1,508
<u>4,476</u>	<u>1,512</u>	<u>926</u>	<u>1,252</u>	<u>41,651</u>	<u>45,985</u>
		106	7	253	128
(62)		(34)	(25)	(11,330)	(9,860)
					(1,286)
<u>(62)</u>	<u>-</u>	<u>72</u>	<u>(18)</u>	<u>(11,077)</u>	<u>(11,018)</u>
(2,230)	(663)		(2,817)	(18,598)	(16,083)
(156)	(339)		(260)	(755)	(555)
					8,353
<u>(156)</u>	<u>(340)</u>	<u>(397)</u>	<u>(271)</u>	<u>(9,739)</u>	<u>(9,569)</u>
<u>(2,542)</u>	<u>(1,342)</u>	<u>(397)</u>	<u>(3,348)</u>	<u>(29,092)</u>	<u>(17,854)</u>
<u>669</u>	<u>434</u>	<u>573</u>	<u>74</u>	<u>6,859</u>	<u>5,669</u>
2,541	604	1,174	(2,040)	8,341	22,782
<u>10,374</u>	<u>6,678</u>	<u>9,597</u>	<u>10,236</u>	<u>119,875</u>	<u>97,093</u>
<u>\$12,915</u>	<u>\$7,282</u>	<u>\$10,771</u>	<u>\$8,196</u>	<u>\$128,216</u>	<u>\$119,875</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:

- ***Vehicle Replacement and Maintenance Fund*** - established to account for the accumulation of resources to provide for current and future replacement of the City's motor vehicle equipment and for central maintenance services on all City-owned vehicles.
- ***Printing and Mailing Services Fund*** - established to account for central duplicating, printing 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, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1996	1995
ASSETS					
CURRENT ASSETS:					
Cash, cash equivalents and investments	\$ 7,599	\$376	\$23,890	\$31,865	\$29,813
Accounts receivable, net	8		3	11	18
Interest receivable	118	6	173	297	389
Stores inventory	187			187	179
Prepaid items					20
Total current assets	7,912	382	24,066	32,360	30,419
Property, plant and equipment, net	6,203	87		6,290	5,587
TOTAL ASSETS	\$14,115	\$469	\$24,066	\$38,650	\$36,006
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 96	\$ 3	\$ 805	904	\$ 889
Accrued salaries and benefits	11	3	1,239	1,253	1,190
Accrued compensated absences - current			5,837	5,837	5,504
Accrued self insurance - current			2,388	2,388	2,853
Capital lease obligations - current					288
Total current liabilities	107	6	10,269	10,382	10,724
LONG-TERM LIABILITIES:					
Accrued compensated absences			3,094	3,094	2,417
Accrued self insurance			5,445	5,445	3,062
Capital lease obligations					15
Total long-term liabilities	-	-	8,539	8,539	5,494
EQUITY:					
Contributed capital	5,350	196		5,546	5,338
Retained earnings	8,658	267	5,258	14,183	14,450
Total equity	14,008	463	5,258	19,729	19,788
TOTAL LIABILITIES AND EQUITY	\$14,115	\$469	\$24,066	\$38,650	\$36,006

CITY OF PALO ALTO, CALIFORNIA

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1996	1995
OPERATING REVENUES -					
Charges for services	<u>\$3,354</u>	<u>\$763</u>	<u>\$25,097</u>	<u>\$29,214</u>	<u>\$28,937</u>
OPERATING EXPENSES:					
Administration and general	509	702	809	2,020	1,464
Operations and maintenance	1,791			1,791	2,115
Depreciation and amortization	1,388	31		1,419	1,500
Claim payments and change in estimated self-insured liability			2,379	2,379	219
Compensated absences and other benefits			<u>23,627</u>	<u>23,627</u>	<u>22,800</u>
Total operating expenses	<u>3,688</u>	<u>733</u>	<u>26,815</u>	<u>31,236</u>	<u>28,098</u>
OPERATING INCOME (LOSS)	<u>(334)</u>	<u>30</u>	<u>(1,718)</u>	<u>(2,022)</u>	<u>839</u>
NONOPERATING REVENUES (EXPENSES):					
Interest income	478	21	603	1,102	1,263
Interest expense	(8)			(8)	(42)
Gain on disposal of fixed assets	92			92	22
Other	<u>14</u>		<u>696</u>	<u>710</u>	<u>723</u>
Total nonoperating revenues	<u>576</u>	<u>21</u>	<u>1,299</u>	<u>1,896</u>	<u>1,966</u>
INCOME BEFORE OPERATING TRANSFERS	<u>242</u>	<u>51</u>	<u>(419)</u>	<u>(126)</u>	<u>2,805</u>
OPERATING TRANSFERS:					
Operating transfers in					32
Operating transfers out	<u>(141)</u>			<u>(141)</u>	<u>(220)</u>
Net operating transfers	<u>(141)</u>	<u>-</u>	<u>-</u>	<u>(141)</u>	<u>(188)</u>
NET INCOME	101	51	(419)	(267)	2,617
RETAINED EARNINGS, BEGINNING OF YEAR	8,557	216	5,677	14,450	11,904
RESIDUAL EQUITY TRANSFER OUT	-	-	-	-	(71)
RETAINED EARNINGS, END OF YEAR	<u>\$8,658</u>	<u>\$267</u>	<u>\$ 5,258</u>	<u>\$14,183</u>	<u>\$14,450</u>

CITY OF PALO ALTO, CALIFORNIA

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1996	1995
CASH FLOWS PROVIDED BY (USED IN) FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ (334)	\$ 30	\$ (1,718)	\$ (2,022)	\$ 839
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,388	31		1,419	1,500
Other	106		696	802	745
Changes in assets and liabilities:					
Decrease (increase) in accounts receivable	(1)	2	6	7	(7)
Decrease (increase) in interest receivable	14		78	92	(74)
Increase in stores inventories	(9)			(9)	(1)
Decrease in prepaid items			20	20	194
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	38	(4)	44	78	666
Increase in accrued compensated absences			1,010	1,010	581
Decrease in accrued self-insurance			1,918	1,918	(1,403)
Net cash provided by operating activities	<u>1,202</u>	<u>59</u>	<u>2,054</u>	<u>3,315</u>	<u>3,040</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:					
Operating transfers in					32
Operating transfers out	(141)			(141)	(220)
Residual equity transfer out					(71)
Net cash provided by (used in) noncapital financing activities	<u>(141)</u>	<u>-</u>	<u>-</u>	<u>(141)</u>	<u>(259)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(2,093)	(20)		(2,113)	(30)
Principal paid on capital leases	(277)	(34)		(311)	(552)
Interest paid on capital leases	(8)			(8)	(42)
Contributed capital	208			208	
Net cash used in capital related activities	<u>(2,170)</u>	<u>(54)</u>	<u>-</u>	<u>(2,224)</u>	<u>(624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES - Interest and dividends on pooled investments					
	<u>478</u>	<u>21</u>	<u>603</u>	<u>1,102</u>	<u>1,263</u>
NET INCREASE IN CASH AND INVESTMENTS	(631)	26	2,657	2,052	3,420
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>8,230</u>	<u>350</u>	<u>21,233</u>	<u>29,813</u>	<u>26,393</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$7,599</u>	<u>\$376</u>	<u>\$23,890</u>	<u>\$31,865</u>	<u>\$29,813</u>

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TRUST AND AGENCY FUNDS

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

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

- *The Community Projects Donations Fund* accounts for all donations dedicated for community projects on behalf of the City's residents.
- *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.
- *The Retiree Health Benefit Fund* - established to account for funding of retiree health benefits to the extent that actual benefits exceed one and one-half of the City's gross payroll costs in any fiscal period.

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, 1996 WITH COMPARATIVE TOTALS FOR THE
 YEAR ENDED JUNE 30, 1995
 (In thousands of dollars)

	Expendable Trust Funds			
	Community Projects Donation	Assets Seizure	Child Care	Retiree Health Benefit
ASSETS				
Cash, cash equivalents and investments	\$ 167	\$ 65	\$ 267	\$ 6,624
Restricted:				
Cash and cash equivalents		1		
Investments				
Interest receivable	<u>3</u>	<u>1</u>	<u>4</u>	<u>103</u>
TOTAL ASSETS	<u>\$ 170</u>	<u>\$ 67</u>	<u>\$ 271</u>	<u>\$ 6,727</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 8	\$ 1	\$ 1	
Deferred compensation	<u> </u>	<u> </u>	<u> </u>	
Total liabilities	<u>8</u>	<u>1</u>	<u>1</u>	
FUND BALANCES:				
Reserved for long-term investments				\$ 6,347
Unreserved and undesignated	<u>162</u>	<u>66</u>	<u>270</u>	<u>380</u>
Total fund balances	<u>162</u>	<u>66</u>	<u>270</u>	<u>6,727</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 170</u>	<u>\$ 67</u>	<u>\$ 271</u>	<u>\$ 6,727</u>

<u>Agency Funds</u> <u>Deferred</u> <u>Compensation</u> <u>Program</u>	<u>Totals</u> <u>June 30</u>	
	<u>1996</u>	<u>1995</u>
	\$ 7,123	\$ 6,793
	1	7
\$40,105	40,105	33,687
	111	104
<u>\$40,105</u>	<u>\$47,340</u>	<u>\$40,591</u>
	\$ 10	\$ 7
\$40,105	40,105	33,687
<u>40,105</u>	<u>40,115</u>	<u>33,694</u>
	6,347	6,129
	878	768
-	7,225	6,897
<u>\$40,105</u>	<u>\$47,340</u>	<u>\$40,591</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, 1996 WITH

COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995

(In thousands of dollars)

	Expendable Trust Funds				Totals	
	Community	Assets	Child	Retiree	June 30	
	Projects Donation	Seizure	Care	Health Benefit	1996	1995
REVENUES:						
Interest earnings	\$ 10	\$ 4	\$ 16	\$ 380	\$ 410	\$ 230
Other	<u>10</u>	<u>4</u>	<u>15</u>	<u> </u>	<u>29</u>	<u>423</u>
Total revenues	<u>20</u>	<u>8</u>	<u>31</u>	<u>380</u>	<u>439</u>	<u>653</u>
EXPENDITURES:						
Public safety - police	81	10			91	11
Community services	<u> </u>	<u> </u>	<u>20</u>	<u> </u>	<u>20</u>	<u>3</u>
Total expenditures	<u>81</u>	<u>10</u>	<u>20</u>	<u>-</u>	<u>111</u>	<u>14</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(61)</u>	<u>(2)</u>	<u>11</u>	<u>380</u>	<u>328</u>	<u>639</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in			50		50	-
Operating transfers out	<u>(50)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(50)</u>	<u>-</u>
Total other financing sources	<u>(50)</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(111)	(2)	61	380	328	639
FUND BALANCES, BEGINNING OF YEAR	273	68	209	6,347	6,897	129
RESIDUAL EQUITY TRANSFER IN - General Fund and Proprietary Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,129</u>
FUND BALANCES, END OF YEAR	<u>\$ 162</u>	<u>\$ 66</u>	<u>\$ 270</u>	<u>\$ 6,727</u>	<u>\$ 7,225</u>	<u>\$ 6,897</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, 1996
 (In thousands of dollars)

	Balances July 1, 1995	Additions	Deductions	Balances June 30, 1996
ASSETS				
RESTRICTED INVESTMENTS:				
The Hartford	\$22,607	\$4,317	\$1,204	\$25,720
ICMA	10,210	3,828	467	13,571
Great Western Savings	870	37	93	814
	<u>33,687</u>	<u>8,182</u>	<u>1,764</u>	<u>40,105</u>
Total cash and cash equivalents with fiscal agents				
	<u>33,687</u>	<u>8,182</u>	<u>1,764</u>	<u>40,105</u>
TOTAL ASSETS	<u>\$33,687</u>	<u>\$8,182</u>	<u>\$1,764</u>	<u>\$40,105</u>
LIABILITIES				
DEFERRED COMPENSATION	<u>\$33,687</u>	<u>\$8,182</u>	<u>\$1,764</u>	<u>\$40,105</u>
TOTAL LIABILITIES	<u>\$33,687</u>	<u>\$8,182</u>	<u>\$1,764</u>	<u>\$40,105</u>

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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, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	June 30	
	1996	1995
GENERAL FIXED ASSETS:		
Land and improvements	\$ 49,693	\$ 51,440
Buildings and structures	48,211	45,811
Equipment	<u>5,034</u>	<u>7,777</u>
TOTAL GENERAL FIXED ASSETS	<u>\$ 102,938</u>	<u>\$ 105,028</u>
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
Investment in assets, beginning of year	\$ 105,028	\$ 102,840
Investment in assets acquired from current activity, net	3,411	2,188
Adjustment to the carrying value of fixed assets as discussed in the general purpose financial statements	<u>(5,501)</u>	<u> </u>
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	<u>\$ 102,938</u>	<u>\$ 105,028</u>

	Beginning Balance July 1, 1995	Additions Fiscal Year 1995-1996	Deletions/ Transfers	Ending Balance June 30, 1996
Investments in general fixed assets acquired prior to July 1, 1995	\$105,028			\$105,028
Adjustments to the carrying value			\$(4,781)	(4,781)
Source of funding for general fixed assets acquired from July 1, 1995 through June 30, 1996:				
General Fund		\$ 75	(290)	(215)
Capital Projects Funds		<u>3,336</u>	<u>(430)</u>	<u>2,906</u>
TOTAL INVESTMENTS IN GENERAL FIXED ASSETS	<u>\$105,028</u>	<u>\$ 3,411</u>	<u>\$(5,501)</u>	<u>\$ 102,938</u>

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY SOURCE FOR THE YEAR ENDED JUNE 30, 1996

(In thousands of dollars)

	Land and Improvements	Buildings and Structures	Equipment	Total Cost
GENERAL FIXED ASSETS, JUNE 30, 1995	<u>\$51,440</u>	<u>\$45,811</u>	<u>\$7,777</u>	<u>\$105,028</u>
ADD:				
Expenditures from:				
General Fund Revenues			75	75
Capital Projects Fund Revenues	<u>1,039</u>	<u>1,994</u>	<u>303</u>	<u>3,336</u>
Total additions	<u>1,039</u>	<u>1,994</u>	<u>378</u>	<u>3,411</u>
DEDUCT:				
Deletions	2,327	36	3,138	5,501
Transfers	<u>459</u>	<u>(442)</u>	<u>(17)</u>	<u>-</u>
Total deductions	<u>2,786</u>	<u>(406)</u>	<u>3,121</u>	<u>5,501</u>
GENERAL FIXED ASSETS, JUNE 30, 1996	<u>\$49,693</u>	<u>\$48,211</u>	<u>\$5,034</u>	<u>\$102,938</u>

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 1995 (In thousands of dollars)

	Land and Improvements	Buildings and Structures	Equipment	June 30	
				1996	1995
ADMINISTRATION:					
City clerk and council			\$ 52	\$ 52	\$ 88
City manager			5	5	43
City attorney			22	22	108
City auditor					19
Administrative services			1,144	1,144	248
Human resources					50
General government	<u>\$ 1,782</u>	<u>\$13,697</u>	<u>1,647</u>	<u>17,126</u>	<u>16,033</u>
Total administration	1,782	13,697	2,870	18,349	17,956
PUBLIC SAFETY:					
Police			287	287	683
Fire	392	5,188	277	5,857	6,139
Communications			378	378	1,605
Animal services	<u>37</u>	<u>330</u>	<u>18</u>	<u>385</u>	<u>429</u>
Total public safety	429	5,518	960	6,907	8,856
LIBRARIES	245	2,765	162	3,172	3,219
PARKS, RECREATION AND CULTURE	26,131	17,556	1,042	44,729	43,417
PARKING FACILITIES	3,012	8,675		11,687	11,200
OPEN SPACE	17,808			17,808	17,816
HOUSING	<u>286</u>			<u>286</u>	<u>2,564</u>
TOTAL GENERAL FIXED ASSETS	<u>\$49,693</u>	<u>\$48,211</u>	<u>\$5,034</u>	<u>\$102,938</u>	<u>\$105,028</u>

CITY OF PALO ALTO, CALIFORNIA

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY

JUNE 30, 1996 WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 1995

(In thousands of dollars)

	Balances July 1, 1995	Additions	Deletions/ Transfers	Balances June 30, 1996
ADMINISTRATION:				
City clerk and council	\$ 88		\$ 36	\$ 52
City manager	43		38	5
City attorney	108		86	22
City auditor	19		19	
Administrative services	1,615	\$ 80	551	1,144
Human resources	50		50	
General government	<u>16,033</u>	<u>942</u>	<u>(151)</u>	<u>17,126</u>
Total administration	17,956	1,022	629	18,349
PUBLIC SAFETY:				
Police	683		396	287
Fire	6,139	240	522	5,857
Communications	1,605		1,227	378
Animal services	<u>429</u>	<u> </u>	<u>44</u>	<u>385</u>
Total public safety	8,856	240	2,189	6,907
LIBRARIES	3,219	42	89	3,172
PARKS, RECREATION AND CULTURE	43,417	1,620	308	44,729
PARKING FACILITIES	11,200	487		11,687
OPEN SPACE	17,816		8	17,808
HOUSING	<u>2,564</u>	<u> </u>	<u>2,278</u>	<u>286</u>
TOTAL GENERAL FIXED ASSETS	<u>\$ 105,028</u>	<u>\$ 3,411</u>	<u>\$ 5,501</u>	<u>\$ 102,938</u>

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STATISTICAL TABLES AND OTHER SCHEDULES (UNAUDITED)

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

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
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
1994-95	14,765	7,485	14,682	7,955	1,179
1995-96	17,895	7,854	15,469	8,380	1,032

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

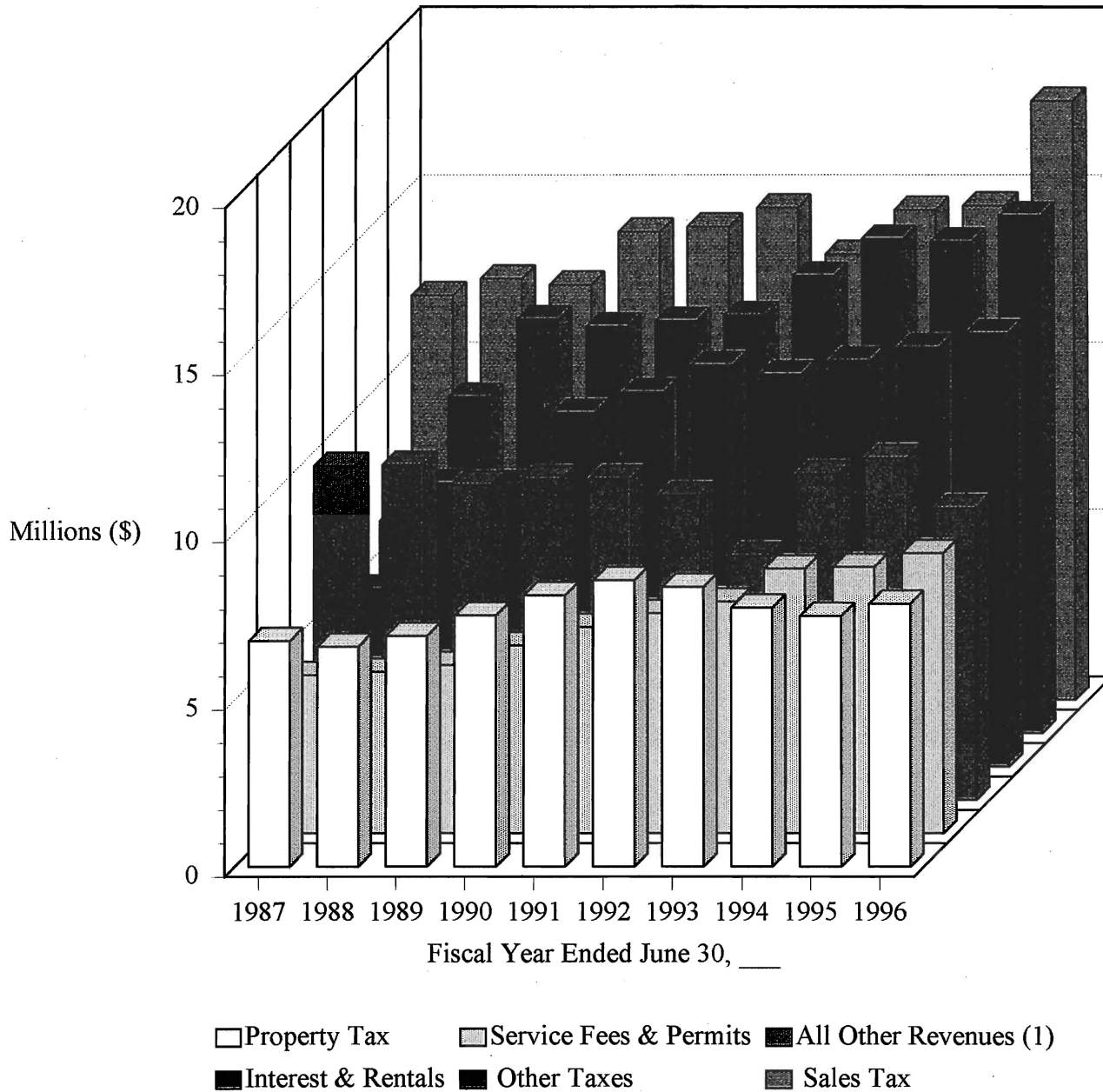
(B) During fiscal year 1987-88 the City implemented GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*. Data prior to 1987-88 has not been restated.

Interest and Rentals	Fire Protection and Emergency Communication Services	From Other Agencies	Other	Total
\$ 5,315	\$ 3,172	\$ 1,328	\$ 4,547	\$ 45,184
8,468	3,479	1,365	4,182	52,551
8,444	3,227	1,193	3,628	54,571
10,567	3,029	1,269	4,038	59,426
11,190	3,561	1,711	3,110	61,528
12,001	3,908	2,982	1,127	63,425
11,725	3,565	1,910	750	61,293
12,132	3,884	2,295	2,381	66,922
12,528	4,097	2,007	2,938	67,636
12,953	4,073	1,144	2,445	71,245

CITY OF PALO ALTO

GENERAL REVENUES BY SOURCE

(unaudited)



(1) Includes all revenues from categories: Fines, Forfeits and Penalties; Fire Protection and Emergency Communication Services; From Other Agencies; and Other. (pp 92-93)

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CITY OF PALO ALTO, CALIFORNIA

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

Fiscal Year	Administration (A)	Public Works	Planning and Community Environment	Police	Fire
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 (C)	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 (D)	9,343	7,058	4,160	14,150	11,718
1994-95	10,340	7,517	3,842	14,058	11,437
1995-96	11,133	6,614	3,901	14,066	11,739

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

(A) Comprised of the following departments:

City Council	City Auditor
City Manager	Administrative Services
City Attorney	Human Resources
City Clerk	

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

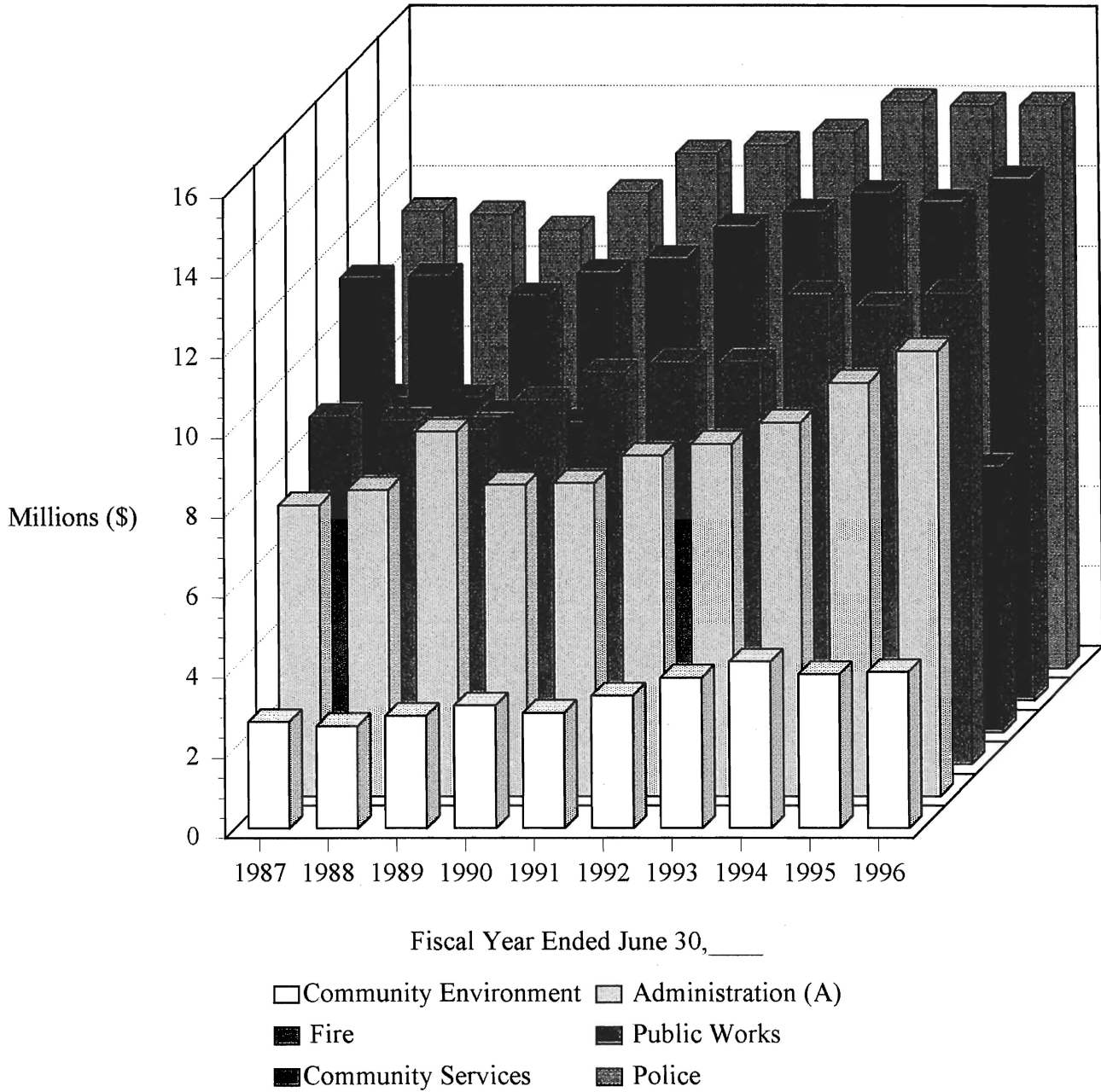
(D) During fiscal year 1993-94 the City implemented GASB Statement No. 14, *The Reporting Entity*, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.

Community Services	School Site Operations	Special Revenue and Capital Projects	Debt Service	Total
\$ 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
12,651	5,645	7,450	2,569	74,744
12,435	5,884	7,722	2,415	75,650
13,019	5,992	6,296	2,490	75,250

CITY OF PALO ALTO

GENERAL FUND DEPARTMENTAL EXPENDITURES

(unaudited)



(A) Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and Human Resources

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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)
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
1994-95	7,795,396	7,485	7,485	-	7,485
1995-96	8,058,927	7,854	7,854	-	7,854

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.

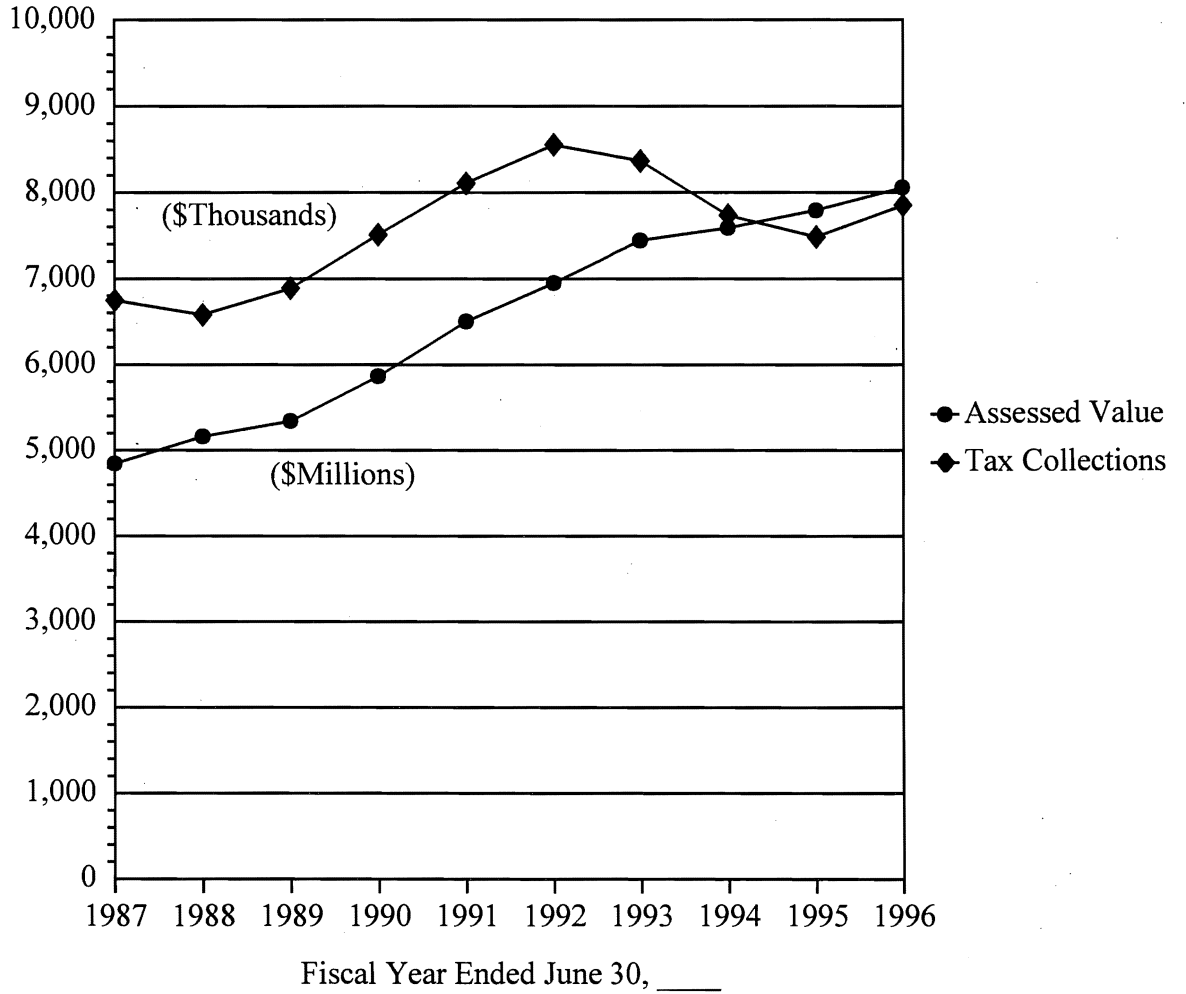
(2) Includes collection of the current levy plus delinquencies and penalties of prior years.

(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 (1)
	Land	Improvements	Personal Property	
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
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
1994-95	2,764,558	4,018,251	281,479	1,508
1995-96	2,865,710	4,129,805	277,037	2,508

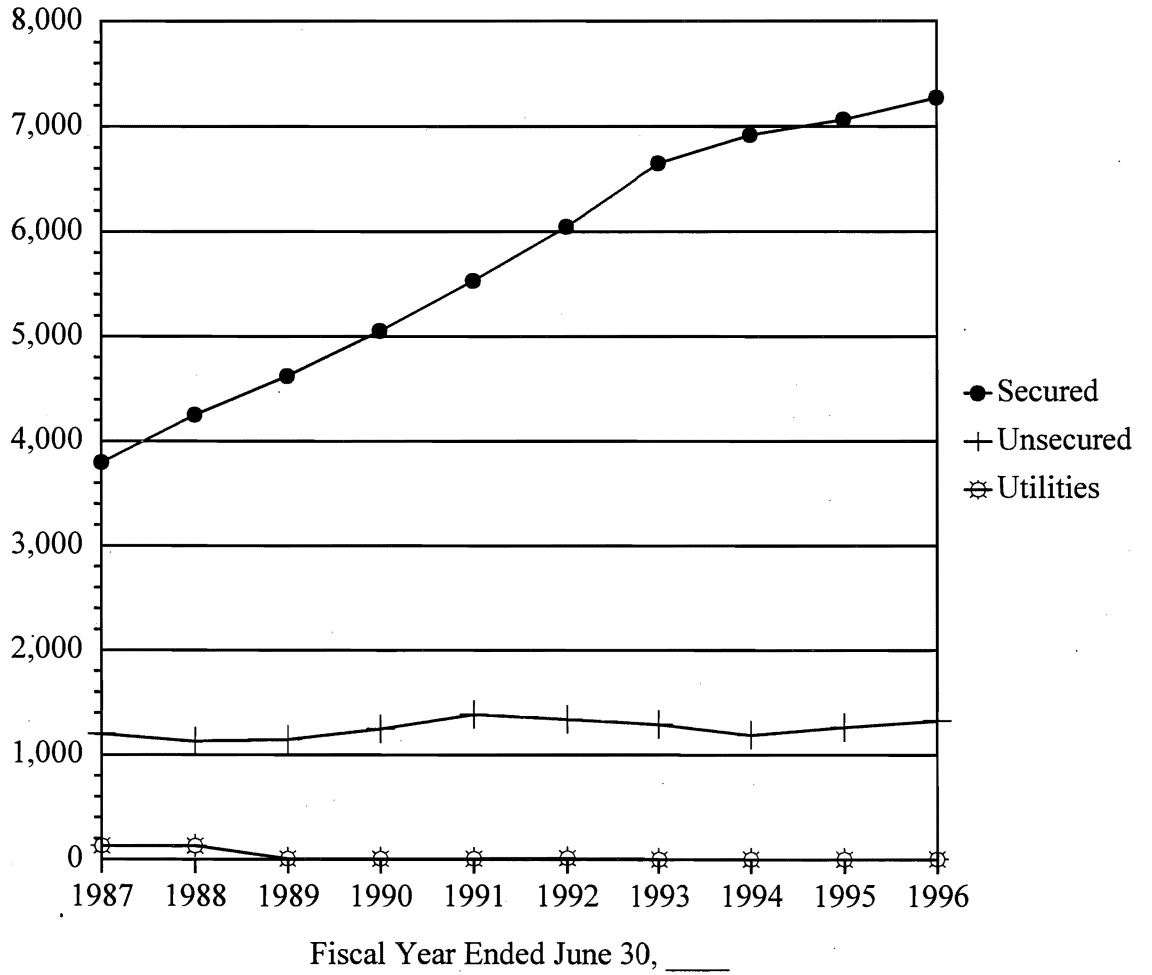
Note: (1) Beginning in fiscal year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single county-wide tax rate area for the assignment of the assessed value of certain types of state-assessed utility property and sets forth formulas for the determination of county-wide tax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

Source: County of Santa Clara Assessor's Office

Unsecured Roll	Less Exemptions Net of State-Aid	Total Assessed Value
\$ 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
1,188,354	514,712	7,592,131
1,262,254	532,654	7,795,396
1,325,835	541,968	8,058,927

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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
1986-87	\$ 1.024	\$ 0.017	\$ 0.001	\$ 1.042	-
1987-88	1.039	0.016	0.002	1.057	-
1988-89	1.038	0.011	0.000	1.049	-
1989-90	1.038	0.008	0.000	1.046	-
1990-91	1.039	0.004	0.000	1.043	-
1991-92	1.039	0.002	0.000	1.041	-
1992-93	1.029	0.003	0.000	1.032	-
1993-94	1.031	0.000	0.000	1.031	-
1994-95	1.033	0.000	0.000	1.033	-
1995-96	1.034	0.003	0.000	1.037	-

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

Source: County of Santa Clara, Tax Rates and Information

CITY OF PALO ALTO, CALIFORNIA

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

Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent and Penalties Collected	Total Collections
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
1993-94 (1)	850	850	14	864
1994-95	1,016	1,016	-	1,016
1995-96	952	952	-	952

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

DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year	City Size Square Miles	Street Miles	City Population (1)	County Population (1)
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
1994-95	25.98	193.12	58,580	1,607,700
1995-96	25.98	193.12	58,500	1,612,300

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

City Population as a % of County	School Population (2)	Unemployment Rate (3)
4.02	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%
3.66	8,334	3.3%
3.64	8,419	2.8%
3.63	9,122	1.9%

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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
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
1994-95	20	2,169	364	42,302	1,032	35,563	72	7,055
1995-96	10	1,256	400	71,015	1,194	58,262	89	11,052

CITY OF PALO ALTO, CALIFORNIA

INSURANCE COVERAGE JUNE 30, 1996 (Unaudited)

Type	Coverage (or comment)
Property Loss	
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)
Financial Loss	
Employee Blanket	Position bond - faithful performance per loss - (\$5,000 deductible)
Comprehensive Public Liability	City is self-insured for first \$1,000,000 of liability
Umbrella Excess	City is a member of an insurance pool participating with a number of other California cities. First excess layer (\$5,000,000 deductible) Second excess layer (\$6,000,000 deductible)
Special Liability	
Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)
Special Events	Bodily Injury (\$250 deductible)
Employee Benefit	
Travel Accident	Indemnity, based on salary
Employee Health Plan	The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees.
Workers' Compensation	City is self-insured for first \$500,000 of liability
Excess Workers' Compensation	Excess Workers' Compensation Employers Liability

Limits	Company	Expiration Date
\$198,980,000	Chubb/Federal	07/01/96
\$10,000,000 per accident	Chubb/Pacific Indemnity	07/01/96
\$1,000,000	Hartford Accident & Indemnity	07/01/96
\$9,000,000 per occurrence \$27,000,000 aggregate	ACCEL Group	07/01/96
\$1,000,000 per occurrence	Insurance Company of the West	07/01/96
\$14,000,000 per occurrence	Insurance Company of the West	07/01/96
\$5,002 \$5,000	National American Life Insurance Co.	01/03/97
\$1,000,000 per occurrence	Scottsdale Insurance	03/24/97
\$1,500,000 per accident	Life Insurance Co. of No. America	06/01/97
\$2,000,000	National Union Fire Insurance	07/01/96

CITY OF PALO ALTO, CALIFORNIA

PRINCIPAL PROPERTY TAXPAYERS

JUNE 30, 1996

(In thousands of dollars) (Unaudited)

	Type of Business	Assessed Valuation	% of Total Assessed Valuation
Leland Stanford Jr. University	University and Ancillary	\$1,296,178	16.09
Space Systems/Loral, Inc.	Research and Development	143,071	1.78
Sun Microsystems, Inc.	Computers and Electronics	49,427	0.61
Harbor Investment Partners	General Industrial	39,000	0.48
S I Palo Alto, Inc.	Offices, Banks and Clinics	35,575	0.44
Cowper-Hamilton Associates	Offices, Banks and Clinics	34,698	0.43
Stanford Square Limited Partners	Offices, Banks and Clinics	21,104	0.26
Maytai Investments, Inc.	Offices, Banks and Clinics	15,332	0.19
Digital Equipment Corporation	Computers and Electronics	14,399	0.18
Hewlett-Packard Company	Computers and Electronics	<u>14,273</u>	<u>0.18</u>
Totals		<u>\$1,663,057</u>	<u>20.64</u>

Source: Center for Urban Analysis, County of Santa Clara

CITY OF PALO ALTO, CALIFORNIA

MISCELLANEOUS STATISTICAL INFORMATION

JUNE 30, 1996

(Unaudited)

Discovered	1769
Incorporated	April 16, 1894
Incorporated as charter city	July 1, 1909
Government	Council - City Manager Form
Population	58,500
Land Area	25.98 Square Miles
City Maintained Trees	38,600
Police Protection	1 Station 157 Regular Employees 30 Police Patrol Vehicles
Fire Protection	7 Stations 119 Regular Employees 24 Fire Apparatus 1,500 Fire Hydrants
Community Services	141 Acres - Downtown Parks 3,997 Acres - Open Space 34 Parks 1 Golf Course 45 Tennis Courts 1 Athletic Center 4 Community Centers 3 Theatres 1 Cultural Center 1 Junior Museum and Zoo 2 Swimming Pools 2 Nature Centers
Number of Housing Units	25,541 Units
Commercial and Industrial Space	27.0 Million Square Feet
Municipal Utility Plants:	
Water	5.9 Million CCF Sold, 19,171 Accounts 219 Miles of Mains
Wastewater	10,003 Million Gallons Processed 21,881 Accounts 221 Miles of Sanitary Sewer Lines
Electric	1,056 Million KWH Sold, 27,501 Accounts 211 Pole Miles, 251 Trench Miles
Gas	33 Million Therms Sold, 23,280 Accounts 165 Miles of Gas Mains

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CITY OF PALO ALTO, CALIFORNIA

SINGLE AUDIT REPORTS

for the year ended June 30, 1996



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 1996, and for the year then ended, and have issued our report thereon dated October 17, 1996.

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.

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.

In planning and performing our audit of the general purpose financial statements of the City for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 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. Accordingly, we do not express such an opinion.

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 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 operations that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated October 17, 1996.

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 17, 1996



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF THE
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 1996, and for the year then ended, and have issued our report thereon dated October 17, 1996.

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 of the general purpose financial statements 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 disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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 17, 1996



**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, 1996 and for the year then ended, and have issued our report thereon dated October 17, 1996. 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, 1996, 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 17, 1996

CITY OF PALO ALTO, CALIFORNIA

SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 1996

Federal Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT - Direct Program: Community Development Block Grant - entitlement	14.218*	\$410,267
U.S. DEPARTMENT OF TRANSPORTATION - Pass-Through - City of San Jose Highway Planning and Construction	20.205	<u>46,035</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$456,302</u>

*Major Program

See Notes to the Supplementary Schedule of Federal Financial Assistance.

CITY OF PALO ALTO, CALIFORNIA

NOTES TO THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Note 1 *Basis of Accounting* - The Supplementary Schedule of Federal Financial Assistance is not prepared on the accrual 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 City for purposes of the Supplementary Schedule of Federal Financial Assistance includes all the funds of the primary government as defined by GASB 14, *The Financial Reporting Entity*.

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, 1996 and for the year then ended, and have issued our report thereon dated October 17, 1996. 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 17, 1996.

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, 1996, 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 17, 1996.

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
 - 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, 1996, the City expended 90% of its total federal financial assistance under its major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the City's major federal financial assistance program, which is identified in the accompanying Supplementary Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

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

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated October 17, 1996.

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 17, 1996

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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, 1996, and for the year then ended, and have issued our report thereon dated October 17, 1996. 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 17, 1996.

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, 1996:

- 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.

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 17, 1996



**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, 1996, and for the year then ended, and have issued our report thereon dated October 17, 1996.

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

that are applicable to its major federal financial assistance program, which is identified in the accompanying Supplementary Schedule of Federal Financial Assistance, for the year ended June 30, 1996. 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 its major federal financial assistance program for the year ended June 30, 1996.

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 17, 1996



**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, 1996 and for the year then ended, and have issued our report thereon dated October 17, 1996. 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 17, 1996.

In connection with our audit of the 1996 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 (OMB) Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1996.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance 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. 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 these requirements. Accordingly, we do not express such an opinion.

With respect to items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed 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 requirements.

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 17, 1996

CITY OF PALO ALTO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 1996**

CURRENT YEAR FINDING - NONE

STATUS OF PRIOR YEAR FINDING - NONE