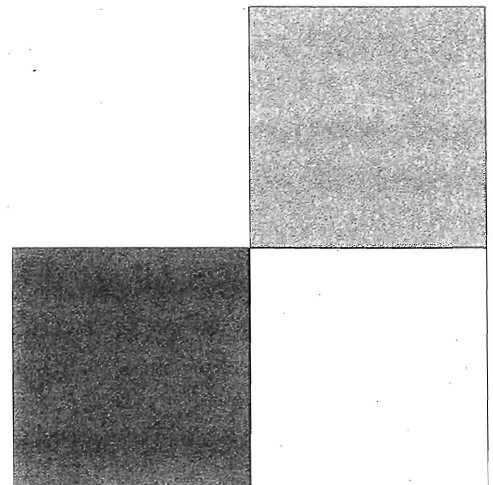




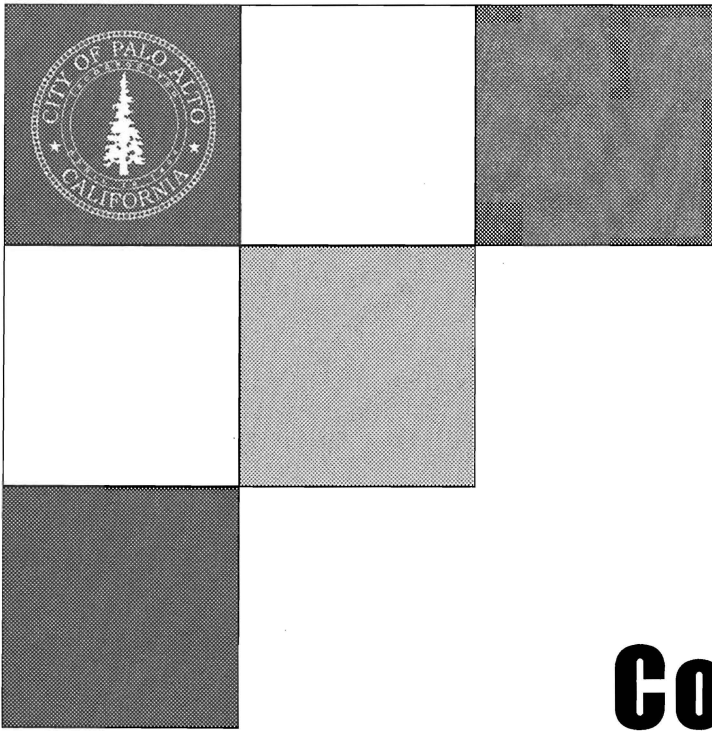
*City of Palo Alto*

# **Comprehensive Annual Financial Report**

*Fiscal Year Ended June 30, 2000*





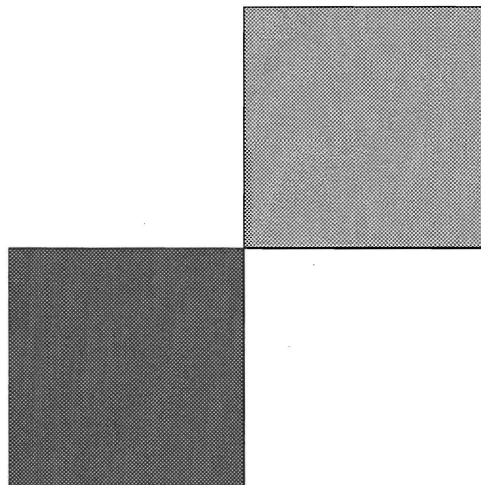


*City of Palo Alto*

# **Comprehensive Annual Financial Report**

*Prepared by the Administrative  
Services Department*

*Fiscal Year Ended June 30, 2000*



.....

*The City of Palo Alto is located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco and 12 miles north of the City of San Jose. Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909.*

.....

**Americans With Disabilities Act Statement**

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

***For information contact:***

Fred Herman  
City of Palo Alto  
250 Hamilton Avenue  
(650) 329-2550  
(650) 328-1199 (TDD)





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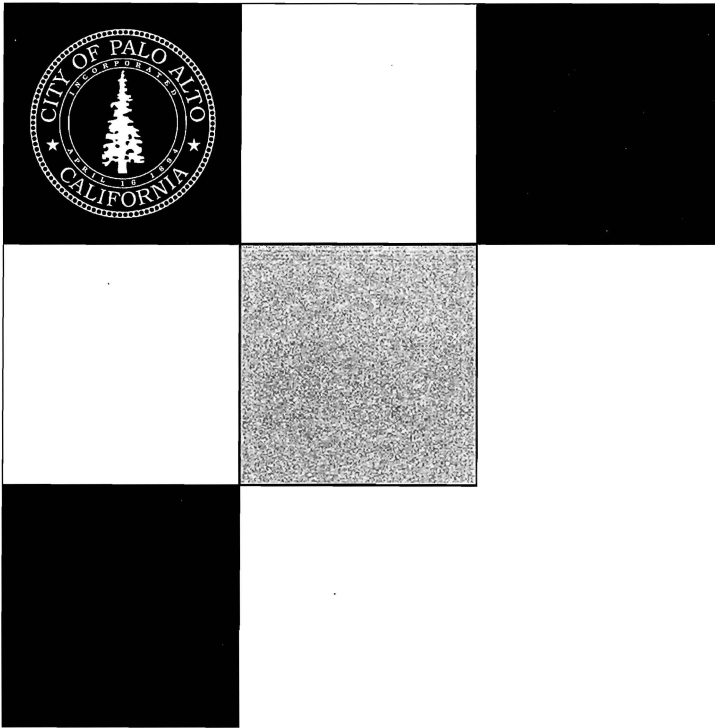
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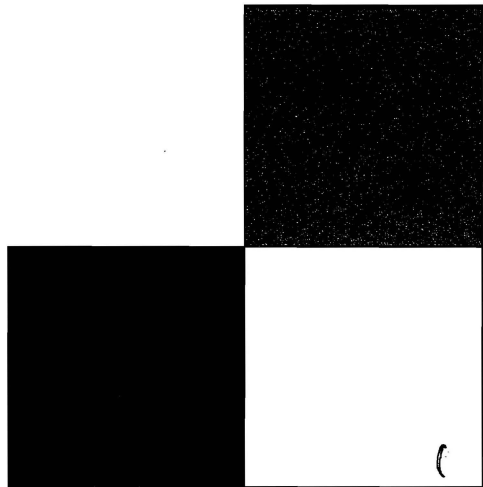
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# Introduction

*Fiscal Year Ended June 30, 2000*



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# Transmittal Letter .....

**December 1, 2000**

**The Honorable City Council  
Palo Alto, California**

**Attention: Finance Committee**

## **Comprehensive Annual Financial Report Year Ended June 30, 2000**

### **Members of the Council and Citizens of Palo Alto:**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2000 is submitted for Council review in accordance with Article IV, Section 13 of the City of Palo Alto Charter and published as a matter of public record for interested citizens. This transmittal letter intends to provide a summary of the City of Palo Alto's finances, economic prospects and achievements that is easily accessible to those without a background in accounting or finance. As such, unnecessary use of accounting and legal jargon has been avoided, the length has been kept to a minimum and color graphics have been used to illustrate key financial results.

### **CAFR Overview**

**Reporting Entity:** The financial statements of the CAFR include all the transactions of the City of Palo Alto's governmental and utility operations plus those of the Palo Alto Public Improvement Corporation, a separate legal entity financially accountable to the City whose omission would make the financial statements misleading and incomplete.

**Contents:** This CAFR is presented in four sections. The introduction section provides the table of contents, information about the City's organization and this transmittal letter. The financial statements section contains the independent auditor's opinion and reports of financial position, cash flows and operating results. The statistical section displays ten-year trend data for key financial, demographic and other indicators.

**Independent Audit:** Maze & Associates has audited the financial statements contained in this CAFR and has expressed an opinion that they are fairly stated and in compliance with generally accepted accounting principles. This is the most favorable type of opinion and is commonly referred to as "unqualified".

**Management Responsibility:** While the independent auditor has expressed an opinion on the financial statements contained in this report, management takes sole responsibility for the contents of the CAFR. To the best of its knowledge, staff believes the information is accurate in all material respects.

.....

**The Palo Alto Economy**

The City of Palo Alto, population 61,500, is a thriving, largely built-out community in the heart of the Silicon Valley and Greater San Francisco economies. The adjacent Stanford University, one of the most prestigious institutions of higher education in the nation, has produced much of the talent that founded many successful high-tech companies in Palo Alto and the entire Silicon Valley. With significant employment also in several other industries, Palo Alto enjoys an economic stability lacking in other Silicon Valley cities.

**Labor Market:** Palo Alto is home to a diverse base of many large, medium and small firms. Stanford University (higher education), Space Systems Loral (satellite communications), Palo Alto Medical Foundation (research and outpatient services), Hewlett-Packard Company (electronics) and Roche Bioscience (pharmaceuticals) all exceed 1,000 employees. Other notable employers include Agilent Technologies (information systems), Veterans' Affairs Health Care Systems (hospital services) and Wilson Sonsini Goodrich Rosati (corporate law). Both the City of Palo Alto and the Palo Alto School District (PAUSD) are also major employers.

**Workforce:** During the past year, the number of jobs in Palo Alto totaled approximately 107,000, including those at Stanford University. With a local workforce of only 38,000, commuters hold almost two-thirds of Palo Alto jobs. High demand in the labor market lowered this year's unemployment rate to 1.0 percent from last year's already low 1.7 percent. This is the lowest rate in Santa Clara County. Palo Alto households enjoy a per capita income that is 180 percent, 140 percent and 124 percent of the state, regional and county figures respectively.

**Housing Market:** Assessed property valuation, which increased 8.3 percent in both 1997-98 and 1998-99, jumped another 9.4 percent in the past year to \$10.5 billion. The median price for sixty-four June 2000 sales of single family homes in Palo Alto was an extremely high \$1,081,250, an increase of 48.0 percent over the \$730,000 median of fifty-eight sales in the prior June.

**Commercial Market:** The vacancy rate for commercial office space in September 2000 was a low 1.0 percent, improving from a 3.0 percent vacancy rate twelve months earlier. Office space rates in downtown Palo Alto are significantly higher than in other Santa Clara County cities and are comparable to those of downtown San Francisco. The City also is an important retail center with the downtown area and the Stanford Shopping Center recording per capita sales nearly three times the state and national averages.

**The Palo Alto Government**

As a charter city delivering a full range of municipal services and public utilities under the council-manager form of government, Palo Alto offers an outstanding quality of life for its residents. The independent Palo Alto Unified School District (PAUSD) has achieved state and national recognition for the excellence of its programs. The City has dedicated over 4,000 acres of open space to parks and wildlife preserves. Public facilities include six libraries, four community centers, a cultural arts center, adult and children theaters, and a golf course. The City provides human services for seniors and youths, subsidized childcare





and an extensive continuing education program. A wide array of concerts, exhibits, team sports and special events are produced. Also, the City and PAUSD jointly maintain school athletic fields for recreational use by the community.

**City Council:** The Council consists of nine members elected at-large for four-year, staggered terms. At the first meeting of each calendar year, the Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. The Council is the appointing authority for the City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, who all report directly to it. During 1999-00, voters elected four first-time members to the Council.

**Finance Committee:** While retaining the authority to approve all actions, the City Council has established a subcommittee to review financial matters. Staff provides the CAFR, the results of external and internal audits and periodic budget-versus-actual, investment and performance measure reports to the Council and the Finance Committee to assist their evaluation of the City's financial performance.

**City Manager:** The City Manager directs administrative services, human resources, public works, planning, public safety, and community services departments and also the municipal electric, water, gas, wastewater collection, wastewater treatment, storm drainage, and refuse services utilities that represent almost two-thirds of the City's revenues. During 1999-00, City Manager June Fleming retired after thirty-two years of service to the City of Palo Alto, of which the final eight were as City Manager. In April 2000, the City hired Frank Benest as its new City Manager. His prior position was with the City of Brea, California, also as City Manager.

**Financial Policy & Control**

The City has given primary consideration to the adequacy of internal controls in the design and implementation of its financial management system. These controls intend to protect City assets from loss, theft, or misuse, to record transactions reliably for preparation of financial statements and to provide reasonable assurance that these objectives are met. "Reasonable assurance" recognizes that control cannot be absolute and that the cost of internal controls should not exceed their benefits. The evaluation of costs and benefits requires management estimates and judgments.

**Strategic Planning:** The City maintains the following formal plans: comprehensive land use and services, long-range financial forecast, infrastructure needs and information systems. Plan development is a thorough collaborative effort between staff, citizens, interest groups, advisory boards, commissions and the City Council. As input to the budgeting process, the Council and City Manager work together to establish an achievable list of current priorities consistent with the plans.

**Budgetary Control:** The City has implemented a performance-based budgeting format that focuses on presenting services by functions, objectives and service delivery measures. This format permits the Council and Finance Committee to allocate resources rationally, determine the effectiveness of City services and better evaluate staff performance.



**Introduction**

The Council establishes two-year budgets for all operating funds, except for the Capital Project Fund, which has a five-year plan. Trust & Agency funds do not require appropriation due to their custodial nature. Since the City is required under the terms of a state law (Proposition 4 – Gann) to adhere to an annual appropriation limit, Council votes to adopt formally only the first year of the budget. The Council has the authority to amend the budget as necessary during the year.

The level at which expenditures may not exceed appropriated amounts (“legal level of budgetary control”) is by department for the General Fund and by fund for the Special Revenue, Debt Service, Enterprise and Internal Service Funds. The Capital Projects Fund budgets and manages expenditures at the project level. The City reduces budget balances available for expenditure as purchase orders are issued (“encumbrance system”) to reserve funds for later payment and to avoid over-commitments.

**Cash & Investments:** The City of Palo Alto invests funds prudently and has adopted an investment policy as prescribed by State law that restricts the City to investments emphasizing safety and liquidity versus return on investment. Staff provides a quarterly report of investments for Council and Finance Committee review. The City’s investment practice is to buy securities and hold them to maturity to avoid potential losses from a sale. During 1999-00, staff complied with all aspects of the investment policy.

As of June 30, 2000, fifty-four percent of the City’s investments will mature in less than two years and \$18.4 million was available in next day funds, representing over one month’s expenditures. The strong cash flow is due in part to the daily billing cycle for the utility operations.

The City earned a \$17.2 million cash return on investments for an unadjusted yield of 6.05 percent on the average market value of its portfolio during the year. After adjusting for an “unrealized” \$3.1 million loss due to the accounting requirement to restate the portfolio at market values, the City achieved an adjusted yield of 4.96 percent. The results in the prior year were a \$16.0 million cash return and a \$1.9 million “unrealized” loss, producing an unadjusted yield of 5.85 percent and an adjusted yield of 5.16 percent.

**Debt Administration:** Debt recorded in the General Long-Term Debt Group at June 30, 2000 totaled \$16.7 million, a \$1.8 million reduction compared to the \$18.5 million at the close of the prior fiscal year. These debt obligations consist of:

<i>Type</i>	<i>Principal Outstanding</i>
Golf Course Certificates of Participation (COPs)	\$7.4 million
Civic Center Certificates of Participation (COPs)	\$4.2 million
Special Assessment Debt with City Commitment	\$4.7 million
Terman School Capital Lease	\$0.4 million

Debt recorded in Enterprise Funds totaled \$23.9 million at June 30, 2000, a \$500 thousand reduction compared to the \$24.4 million at the close of the prior fiscal year. New debt in the Internal Services funds for an Information Systems Capital Lease totaled \$141 thousand at year-end.

For a 1998-99 debt issuance, the City received the highest general city credit rating possible from both Standard & Poor's (AAA) and Moody's Investor Services (Aaa). Palo Alto was the first city in California to obtain the top rating from Standard and Poors since the passage of Proposition 13 in 1978.

**Risk Management:** The City is obligated by law to maintain adequate reserves for its self-insured health, dental, workers' compensation and general liability programs. Reserve levels are calculated and recorded annually based on an actuarial study that also includes an estimate of incurred, but not reported, losses. The City's self-insurance reserves totaled \$8.2 million, which is a \$500 thousand increase from last year's \$7.7 million reserve balances. The City handles liability claims through the Authority of California Cities Excess Liabilities (ACCEL) Program, a shared risk pool with eleven other cities. Participation in ACCEL provides the City with an alternative to purchasing liability insurance from commercial carriers and the cost has been significantly less.

**Information Technology:** The City has automated all major financial management and operational control systems. Passwords, daily data back-up and the ability to recover automatically from routine system failures ("fault tolerance") protect these systems. The City has a "disaster recovery" plan in place to minimize interruption to the City's business should these systems be destroyed. Due to effective advance preparation, the City experienced no systems failures at the turn of the millennium. To address interface problems with products from multiple vendors and aging of some systems, the City has developed a Strategic Information Plan.

**Spotlight On Priorities**

The first effort of the new City Manager was to lead a process to identify the top five priorities for the City of Palo Alto from a list of over forty current and future projects. The Council has established the following five "must do above all else" items:

**Long-Range Financial Plan Update:** "Complete the Long Range Financial Plan by 1) identifying the remainder of the financing required for the Infrastructure Management Plan; 2) making recommendations and receiving Council approval for a financing plan for new infrastructure; and 3) completing implementation of financing plans for Council-approved initiatives, including the storm drainage fee increase, downtown maintenance district and parking assessment district."

This item reflects the concern of the Council that the City does not have the financial resources to fund the \$100 million of needs expressed in the infrastructure plan and several other high cost proposed projects.

**Joint Master Planning of City/School Facilities:** "With the Palo Alto Unified School District, develop and implement a process for long-range planning for facilities addressing educational and community services; actively explore opportunities for joint use of facilities."

Recognizing overlap in both services provided and communities served, the Palo Alto Unified School District and the City of Palo Alto have committed to joint planning and

development of community services for the next ten to fifteen years. The impetus comes from the burgeoning school population and the desire of the District to regain control of vacant school sites leased or sold to the City in the 1970's. Since there is precedent for joint use of facilities, by non-profit organizations as well as by the City and the District, the City wishes to avoid duplication and to create opportunities for serving the community effectively. Stanford University has also been invited to be an active participant in the development of the master plan.

**Zoning Ordinance Update:** "Complete Work Plan for Zoning Ordinance update by the end of FY 00-01; review and receive approval from the Council and initiate public input process in FY 01-02."

In 1998-99, after five years of collaborative development with citizens, staff, advisory boards and the Planning Commission, the City Council adopted the 1998-2010 Comprehensive Plan. This plan is the primary tool for guiding the future development of the City in the areas of land use and community design, transportation, housing, natural environment, community facilities and services, business and economics, and governance. Aspects of the plan are now incorporated in the annual budget. Another key implementation task is updating the City's zoning ordinance, which currently is inconsistent with over fifty policies established by the new Comprehensive Plan.

**Infrastructure Master Plan:** "Continue implementation of the Infrastructure Master Plan through recruiting and hiring key staff, developing standards and procedures and initiating first year projects."

This item recognizes that the capital improvements in the ten-year, \$75 million program for replacing and upgrading infrastructure are essential to the continued success of the City. The current funding represents only a portion of the City's long-term capital improvement needs. Identifying financing sources for these other critical projects is a major challenge facing the City.

**Residential Traffic Calming:** "Implement residential traffic calming by developing and receiving approval for a prioritization system and completing the first year (\$100,000) of projects. (The Neighborhood Traffic Calming Program will address single street, low-impact traffic calming measures and neighborhood-wide traffic calming studies and projects)."

This item addresses neighborhood concerns about increased vehicular traffic that has been generated, in part, by the City's success as a regional employment center.

**Financial Highlights: Governmental Funds**

The City of Palo Alto accounts for its general government functions in general, special revenue, debt service and capital project funds. These "governmental" type funds focus on cash flows and current financial resources and they emphasize budgetary control, annual appropriations and fund balance amounts. These accounting principles for governmental funds are called the "modified accrual basis" and are different from the "full accrual basis" accounting principles of the private sector.

**Fund Balances:** In 1999-00, combined governmental fund revenues and other financing sources totaled \$127.5 million and expenditures and other financing uses totaled \$119.5 million. The \$8.0 million net of revenues over expenditures resulted in a combined fund balance for all governmental funds of \$89.4 million at June 30, 2000. This addition to fund balance is \$4.7 million higher than the prior year's addition of \$3.3 million, primarily due to strong performance by the City's direct revenue sources. The June 30, 2000 fund balance of \$55.8 million for the General Fund alone represents 63.2 percent of the direct 1999-00 General Fund expenditures, providing a generous buffer against unexpected financial events.

**Revenues & Other Sources:** Direct revenues for combined governmental funds rose \$12.8 million or 14.8 percent in 1999-00 from 1998-99 levels. This compares to last year's increase of only 1.9 percent. General Fund revenue sources sensitive to the economy, such as sales, property, transient occupancy taxes and construction related sources account for this dramatic increase.

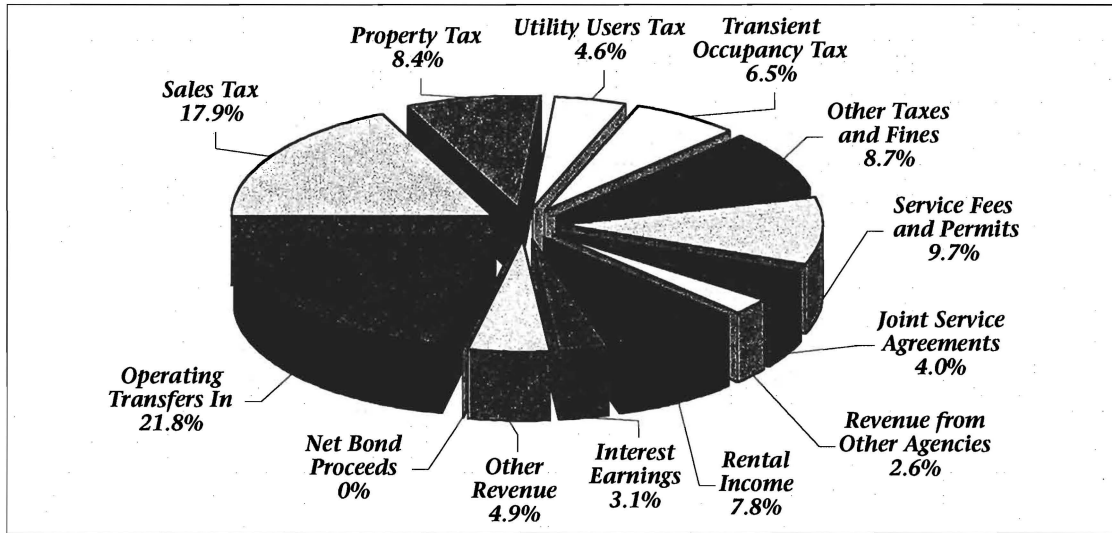
Despite concerns about the flat performance a year ago, sales taxes, and the City's largest revenue source, surged by \$2.6 million or 13.1 percent in 1999-00. The business segments most responsible for the sales tax performance are new autos sales, office equipment, furniture & appliances, restaurants and miscellaneous retail. The predominant factor supporting growth of the sales tax, the City's largest revenue source, is the consumer confidence that derives from wealth. Increases in home and stock values have allowed consumers to be comfortable spending freely on high-end products and services.

Service fees and permits, the City's second largest source of revenue, grew by \$3.6 million or an astounding 40.8 percent over last year's level. Vigorous renovation activity and a strong shift towards new construction have resulted in substantial increases in fees collected. Also, growth in community education classes, paramedic services and golf course fees have contributed significantly to the outstanding performance.

**Expenditures & Other Uses:** Direct expenditures for combined governmental funds direct expenditures increased to \$104.2 million in 1999-00, only 1.0 percent more than the prior year amount of \$103.1 million. Operating transfers out of governmental funds increased \$3.0 million or 24.7 percent. One significant component of this change was a \$1.8 million increase in transfers from the Street Improvement Fund to the Capital Project Fund for a pavement management grant from the County of Santa Clara. Another significant component was a \$1.7 million increase in transfers from the General Fund to the Capital Project Fund for the Infrastructure Management Plan. Actual capital outlay expenditures within the Capital Project Funds fell by \$3.1 million or 20.0 percent, compared to the prior year as there were unforeseen project design and staffing delays. Grand total expenditures and transfers out increased 3.6 percent between 1998-99 and 1999-00.

**Governmental Funds Revenues .....  
and Other Financing Sources by Revenue Source**

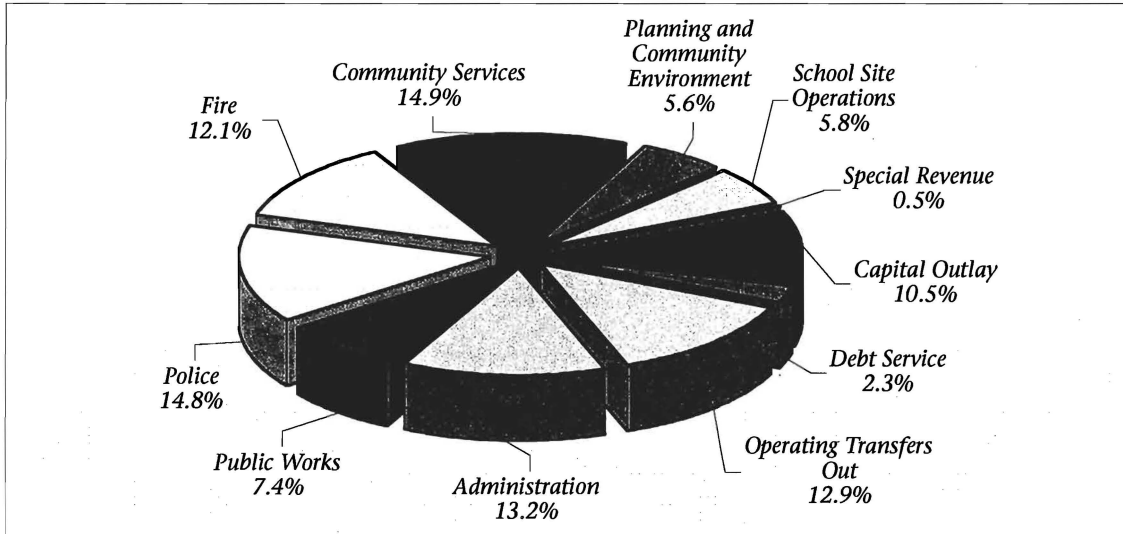
**City of Palo Alto – for the Year Ended June 30, 2000**



Revenues By Source (\$000)	2000 Actual	% of Total	Increase (Decrease) from 1999
Sales Tax	\$ 22,867	17.9	\$ 2,642
Property Tax	10,770	8.4	1,249
Utility Users Tax	5,861	4.6	(178)
Transient Occupancy Tax	8,293	6.5	1,742
Other Taxes and Fines	11,131	8.7	1,853
Service Fees and Permits	12,408	9.7	3,598
Joint Service Agreements	5,053	4.0	302
Revenue from Other Agencies	3,282	2.6	(92)
Rental Income	9,944	7.8	(211)
Interest Earnings	3,930	3.1	93
Other Revenue	6,213	4.9	1,837
<b>Total Direct Revenues</b>	<b>99,752</b>	<b>78.2</b>	<b>12,835</b>
Net Bond Proceeds	0.0	0.0	(7,101)
Operating Transfers In	27,795	21.8	3,080
<b>Total Revenues</b>	<b>\$ 127,547</b>	<b>100.0</b>	<b>\$ 8,814</b>

**Governmental Funds Expenditures .....  
and Other Uses by Cost Center**

**City of Palo Alto – for the Year Ended June 30, 2000**



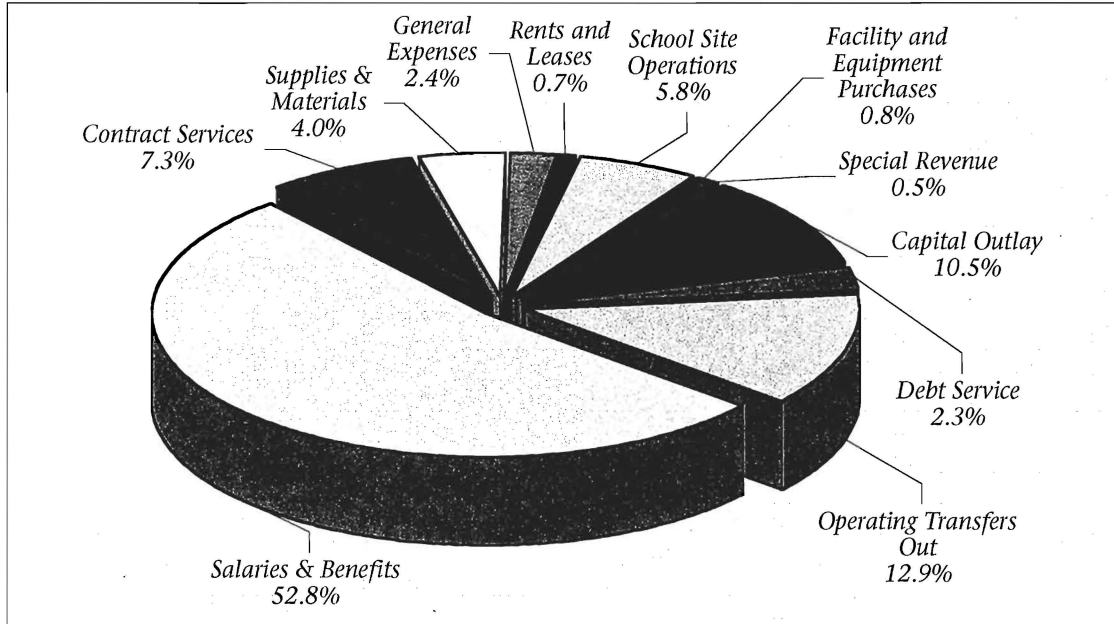
<u>Expenditure Cost Centers (\$000)</u>	<u>2000 Actual</u>	<u>% of Total</u>	<u>Increase (Decrease) from 1999</u>
* Administration	\$ 15,772	13.2	\$ 706
Public Works	8,827	7.4	(375)
Police	17,666	14.8	961
Fire	14,512	12.1	563
Community Services	17,858	14.9	1,038
Planning and Community Environment	6,639	5.6	965
School Site Operations	6,927	5.8	407
Special Revenue	564	0.5	(313)
Capital Outlay	12,587	10.5	(3,141)
Debt Service	2,801	2.3	292
<b>Total Direct Expenditures</b>	<b>104,153</b>	<b>87.1</b>	<b>1,103</b>
Operating Transfers Out	15,418	12.9	3,049
<b>Total Expenditures and Other Uses</b>	<b>\$ 119,571</b>	<b>100.0</b>	<b>\$ 4,152</b>

\* *Administration is comprised of the following departments:*

City Council	216
City Manager	1,483
City Attorney	1,671
City Clerk	830
City Auditor	526
Administrative Services	8,963
Human Services	2,083

**Governmental Funds Expenditures .....  
and Other Uses by Type**

**City of Palo Alto – for the Year Ended June 30, 2000**



<u>Expenditures By Type (\$000)</u>	<u>2000 Actual</u>	<u>% of Total</u>	<u>Increase (Decrease) from 1999</u>
Salaries and Benefits	\$ 63,123	52.8	\$ 4,119
Contract Services	8,743	7.3	(617)
Supplies and Materials	4,739	4.0	118
General Expenses	2,885	2.4	432
Rents and Leases	837	0.7	139
School Site Operations	6,927	5.8	407
Facility and Equipment Purchases	947	0.8	(333)
Special Revenue	564	0.5	(313)
Capital Outlay	12,587	10.5	(3,141)
Debt Service	2,801	2.3	292
<b>Total Direct Expenditures</b>	<b>104,153</b>	<b>87.1</b>	<b>1,103</b>
<b>Operating Transfers Out</b>	<b>15,418</b>	<b>12.9</b>	<b>3,049</b>
<b>Total Expenditures &amp; Other Uses</b>	<b>\$ 119,571</b>	<b>100.0</b>	<b>\$ 4,152</b>





**Financial Highlights: Proprietary Funds**

The City of Palo Alto accounts for its businesslike operations in seven enterprise funds and four internal service funds. These "proprietary" type funds are intended to recover their full cost through customer or user charges. Unlike governmental funds, proprietary funds use the same accounting principles as private business called the "full accrual basis". Proprietary funds seek to determine whether the financial position of the fund is improved or diminished by operations and, therefore, emphasize sales, expenses, net income and retained earnings. Since Palo Alto's internal service funds allocate their costs to other city departments through user charges and their operations showed no significant variances, the discussion below and the enclosed graphics center on the City's enterprise funds.

**Financial Results:** Enterprise funds provided \$153.5 million or 54.6 percent of the City's revenues for 1999-00. Compared to the prior year, combined enterprise revenues decreased \$10.5 million or 6.4 percent while expenditures decreased \$1.4 million or 1.1 percent. The larger reduction in revenues over expenses produced current net income of \$20.5 million that is \$9.1 million less than the prior year's performance. Lower rates that reduced Electric Fund income by \$12.4 million in 1999-00 compared to 1998-99 combined with modest gains in the other enterprise funds account for the decreased overall revenue and net income for enterprise funds. Combined retained earnings rose to \$359.9 million, a 6.0 percent increase from the prior year amount. Palo Alto has reserved portions of retained earnings for all enterprise funds to supplement regular budgets when unusual events such as unseasonable weather conditions, affect revenues or expenses negatively. The combined "rate stabilization reserves" (RSRs) of \$71.6 million represent 46.6 percent of 1999-00 revenues, providing generous protection from unexpected revenue and expense fluctuations.

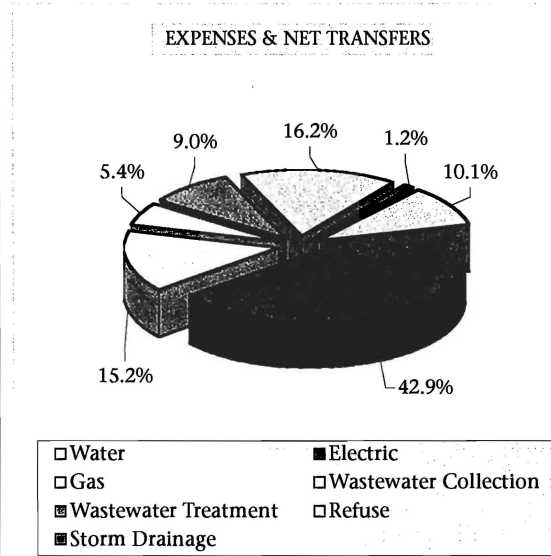
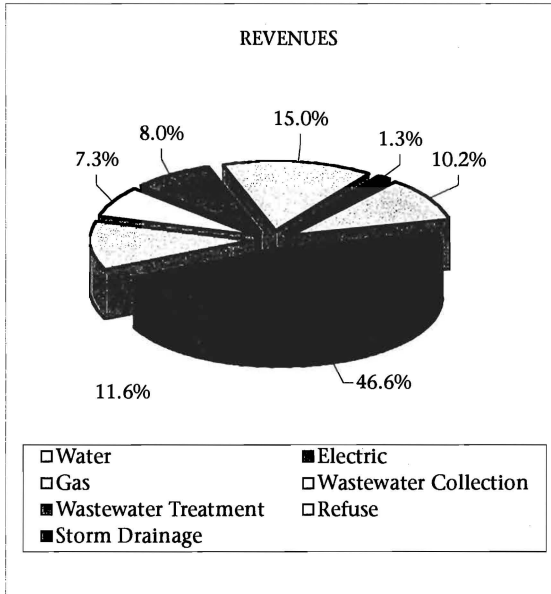
**Electric & Gas Deregulation:** The City continues to respond to the deregulation of the electric and natural gas industries that permits other utility companies to supply electricity and natural gas to Palo Alto customers. Conversely, Palo Alto's electric and gas enterprise fund utilities now have the right to sell their services outside of Palo Alto. The City is evaluating its rate setting methodologies, accounting practices and outside sales opportunities to more effectively compete in the deregulated market. Near the end of the fiscal year, natural gas prices increased dramatically to all-time highs requiring a significant increase in the rates charged to Palo Alto customers.

**Summary**

Although the rate of job growth has slowed in the technology sector across the region, the City of Palo Alto continues to benefit from the diversity and strength of its employer and retail base, consistently outpacing the performance of other local communities. When awarding the highest possible credit rating to the City of Palo Alto's last general obligation debt issue, Moody's and Standard & Poor's investor services concluded that the financial condition of the City of Palo Alto is excellent, with positive economic prospects and more than adequate reserves.

**Enterprise Funds Net Income by Fund .....**

**City of Palo Alto – for the Year Ended June 30, 2000**

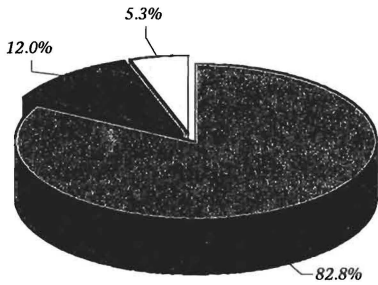


Enterprise Funds (\$000)	Revenues	Expenses & Net Transfers	Net Income
Water	\$ 15,714	\$ 13,376	2,338
Electric	71,511	57,056	14,455
Gas	17,815	20,236	(2,421)
Wastewater Collection	11,146	7,235	3,911
Wastewater Treatment	12,364	11,975	389
Refuse	22,977	21,538	1,439
Storm Drainage	2,000	1,589	411
<b>Total</b>	<b>\$ 153,527</b>	<b>\$ 133,005</b>	<b>\$ 20,522</b>

**Enterprise Funds Net Income .....  
by Revenue and Expense Type**

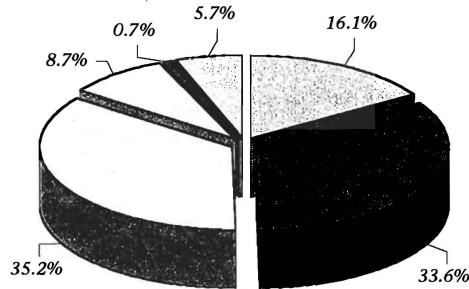
**City of Palo Alto – for the Year Ended June 30, 2000**

REVENUES BY TYPE



Utility Sales ■ Other Revenue □ Investment Income

EXPENSES & NET TRANSFERS BY TYPE



Salaries and Benefits  
Operating Expenses  
Purchases  
Transfers to General Fund, Net  
Interest Expense  
Rent

	2000 Actual	% of Total	Increase (Decrease) from 1999
<b>Revenues (\$000)</b>			
Utility Sales	\$ 127,050	82.8	\$ (9,586)
Other Revenue	18,419	12.0	(448)
Investment Income	8,058	5.3	(497)
<b>Total Revenues</b>	<b>\$ 153,527</b>	<b>100.0</b>	<b>\$ (10,531)</b>
<b>Expenses &amp; Net Transfers (\$000)</b>			
Salaries and Benefits	\$ 21,383	16.1	\$ 2,488
Operating Expenses	44,746	33.6	1,272
Purchases	46,839	35.2	(4,423)
Transfers to General Fund, Net	11,567	8.7	(803)
Interest Expense	933	0.7	(151)
Rent	7,537	5.7	173
<b>Total Expenses</b>	<b>\$ 133,005</b>	<b>100.0</b>	<b>\$ (1,444)</b>
<b>Net Income</b>	<b>\$ 20,522</b>	<b>100.0</b>	<b>\$ (9,087)</b>

**Awards:** During the past year, the City received two awards for the prior fiscal year Comprehensive Annual Financial Report, one from the Government Finance Officers Association (GFOA) for “excellence in financial reporting” and one from the California Society of Municipal Finance Officers (CSMFO) for “outstanding financial reporting”. This is the sixth consecutive year the City has received both of these awards and the current certificates appear immediately after the end of this transmittal letter.

**Acknowledgment:** This Comprehensive Annual Financial Report reflects the hard work, dedication, talent and commitment of the staff members of the Administrative Services Department. This document could not have been accomplished without their efforts and each contributor deserves sincere appreciation. Management particularly wishes to acknowledge the support of Stanley Arend, Accounting Division Manager, Trudy Eikenberry, Senior Accountant and Amy Javelosa-Rio, Senior Accountant and to recognize the high level of professionalism and dedication they bring to the City of Palo Alto. Management would also like to express its appreciation to Maze & Associates, the City’s independent auditors, who assisted and contributed to the preparation of this Comprehensive Annual Financial Report.

Special acknowledgment also should be given to the City Council Finance Committee for its support and interest in directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,



Carl Yeats,  
Administrative Services Director



Frank Benest,  
City Manager



# City of Palo Alto City Officials .....

## City Council

Liz Kniss, *Mayor*

Sandy Eakins, *Vice Mayor*

Bern Beecham

Jim Burch

Gary Fazzino

Judy Kleinberg

Nancy Lytle

Dena Mossar

Victor Ojakian

## Finance Committee

Dena Mossar, *Chair*

Sandy Eakins

Nancy Lytle

Victor Ojakian

## Policy and Services Committee

Bern Beecham, *Chair*

Jim Burch

Gary Fazzino

Judy Kleinberg

## Council-Appointed Officers

### City Manager

Frank Benest

### City Attorney

Ariel Pierre Calonne

### City Clerk

Donna Rogers

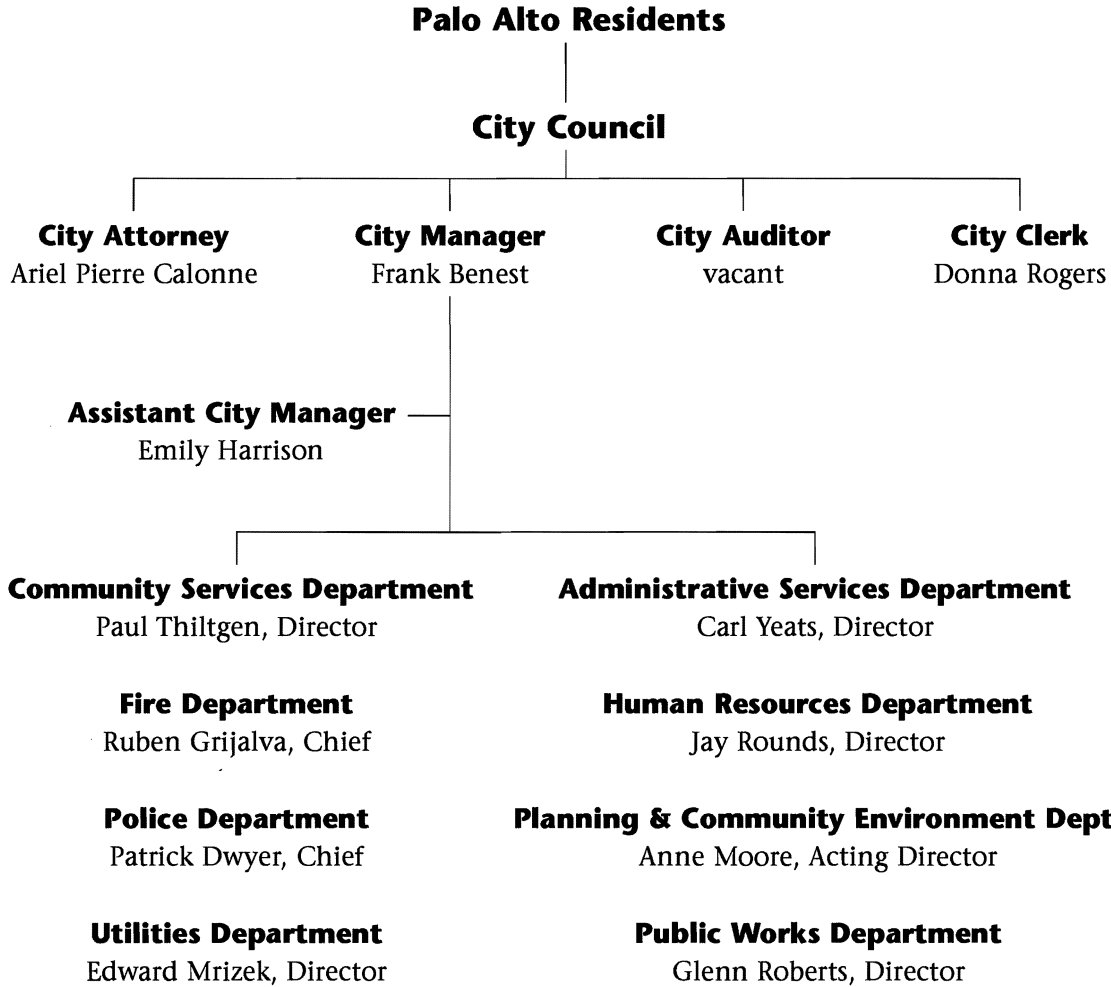
### City Auditor

vacant



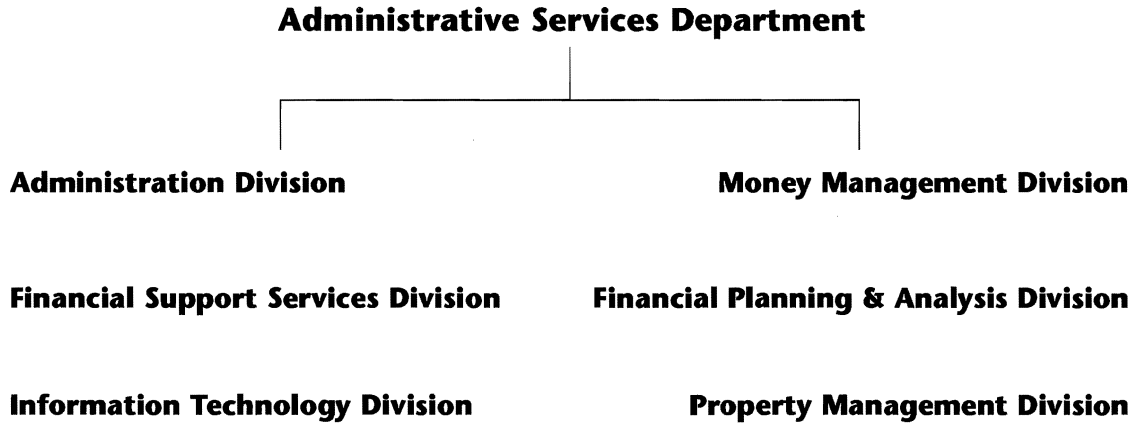


# City of Palo Alto Organization .....





# Administrative Services Organization .....



## Mission Statement

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



# 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, 1999

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.



*Anne Spray Kinney*  
President

*Jeffrey L. Esler*  
Executive Director



# California Society of Municipal Finance Officers

Certificate of Award

*Outstanding Financial Reporting 1998-99*

Presented to the

*City of Palo Alto*



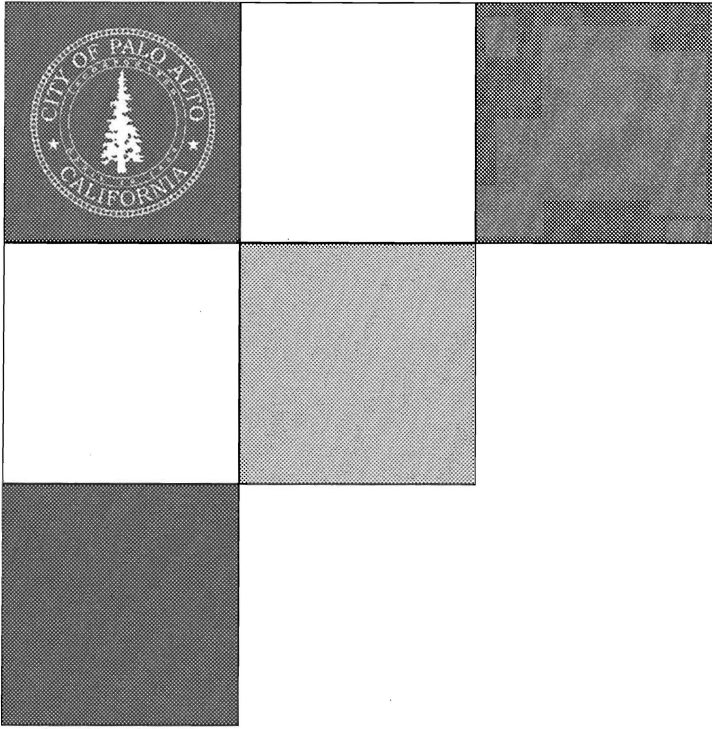
*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 28, 2000*

  
Chair, Professional & Technical Standards Committee

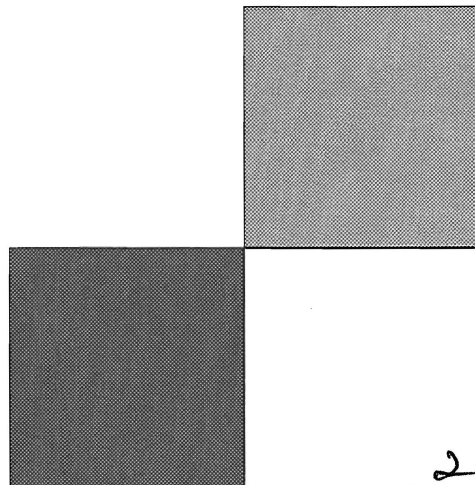
*Dedicated to Excellence in Municipal Financial Management*

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# Financial Statements

*Fiscal Year Ended June 30, 2000*



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# Financial Statements .....

## Introduction

This section contains the following subsections:

### General Purpose Financial Statements (GPFS)

Also known as the combined financial statements, the GPFS subsection reflects a complete summary of the City's activities and encompass all fund types and account groups. They present a combined overview of financial position, operating results and cash flows for all funds and account groups for the completed fiscal year.

### Notes

The Notes subsection 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. The GPFS and Notes together are "liftable" in that they 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.

### Supplemental Statements

Also known as combining financial statements, this subsection presents combined and individual fund and account group statements and schedules. Combined financial statements are presented in each instance where the City has more than one fund of a given type, e.g., for 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., for the Capital Projects Fund or to give more detailed information than is presented in the GPFS.

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**ACCOUNTANCY CORPORATION**  
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Walnut Creek, California 94596  
(925) 930-0902 • FAX (925) 930-0135  
E-Mail: [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
Website: [www.mazeassociates.com](http://www.mazeassociates.com)

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Palo Alto, California

We have audited the general purpose financial statements of the City of Palo Alto as of and for the years ended June 30, 2000 and 1999 as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

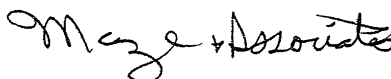
We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly in all material respects the financial position of the City of Palo Alto at June 30, 2000 and 1999 and the results of its operations and the cash flows of its proprietary fund types for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated October 13, 2000, on our consideration of the City of Palo Alto's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and account group statements and schedules section listed in the 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 of Palo Alto. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements, and in our opinion is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

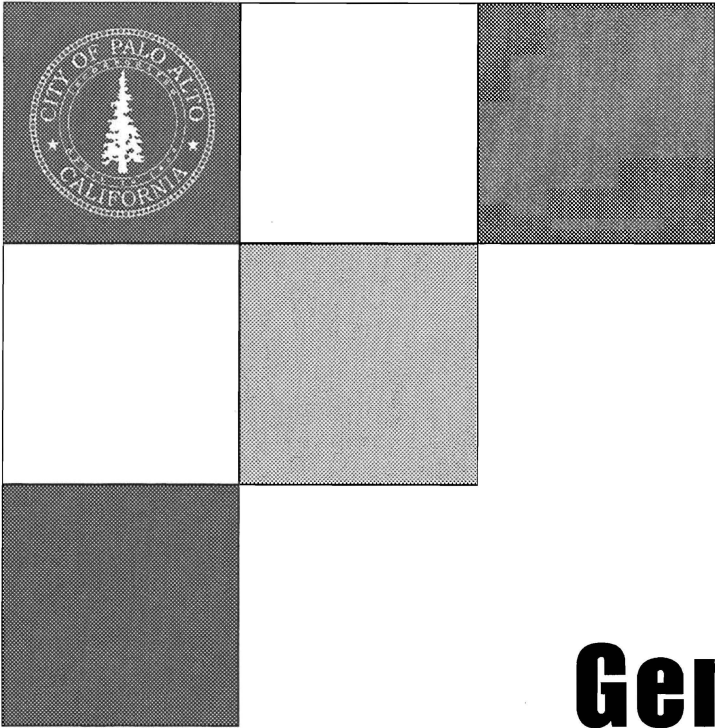
The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.



October 13, 2000

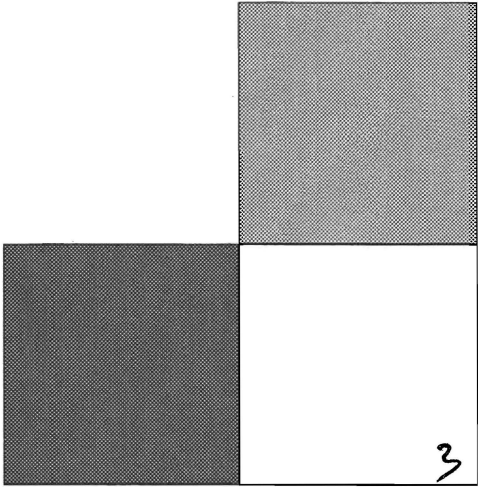






# **General Purpose Financial Statements**

*Fiscal Year Ended June 30, 2000*



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# General Purpose Financial Statements .....

## **Introduction**

These statements provide an overview of the combined financial position and the operating results of all fund types and account groups. Individual funds utilized by the City are grouped in these statements as follows:

### **Governmental Fund Type Operation**

These funds (general, special revenue, debt service and capital projects) are those through which governmental functions are typically funded with the emphasis on sources and uses of resources.

### **Proprietary Fund Type Operation**

These funds (enterprise and internal service) are used to account for activities similar to private industry with the emphasis on net income determination.

### **Fiduciary Fund Type**

These funds account for assets held by the City in a trustee capacity or as an agent for others.

### **Account Groups**

Account groups are used to establish accounting control for the City's general fixed assets and unmatured principal of its general long-term obligations. Because these assets and liabilities are long-term they are neither spendable resources nor do they require current appropriation. They are accounted for separate from governmental fund types.

**City of Palo Alto – Combined Balance Sheets** .....

**All Fund Types and Account Groups – June 30, 2000 and 1999**

(in thousands of dollars)

ASSETS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Cash and investments (Note 3):						
Available for operations	\$49,621	\$9,141	\$808	\$13,916	\$169,956	\$31,552
Restricted			1,476	492	3,765	
Receivables, net:						
Accounts	5,576	149		65	16,358	17
Special assessments			4,095			
Interest	1,414	137	21	3	2,418	431
Notes (Note 5)	649	9,078				
Interfund receivable (Note 4)	130					80
Inventory of materials and supplies	2,144					289
Prepaid items			102		5,202	
Property, plant and equipment, net (Note 6)					262,621	11,253
Amount available in debt service funds						
Amount to be provided for retirement of general long-term debt						
<b>Total Assets</b>	<b>\$59,534</b>	<b>\$18,505</b>	<b>\$6,502</b>	<b>\$14,476</b>	<b>\$460,320</b>	<b>\$43,622</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$1,984	\$222		\$1,424	\$8,222	\$284
Accrued salaries and benefits	1,705				642	1,456
Deferred revenue			\$4,095			
Accrued compensated absences (Note 1)						9,987
Accrued self-insurance (Note 15)						8,243
Landfill closure and postclosure care (Note 9)					7,136	
Interfund payable and advances (Note 4)	80	130				
Due to bondholders						
Due to developers						
Long term debt (Note 7):						
Lease revenue bonds						
Certificates of participation						
Capital lease obligations						141
Utility revenue bonds, net of unamortized issuance costs and discounts					23,935	
Special assessment debt with city commitment (Note 8)						
<b>Total Liabilities</b>	<b>3,769</b>	<b>352</b>	<b>4,095</b>	<b>1,424</b>	<b>39,935</b>	<b>20,111</b>
<b>FUND EQUITY AND OTHER CREDITS</b>						
Investment in general fixed assets						
Contributed capital (Note 1)					60,507	7,030
Retained earnings (Note 10)					359,878	16,481
Fund balances (Note 10):						
Reserved	14,838	13,245	2,407	5,065		
Unreserved:						
Designated	40,927	5,019		7,987		
Undesignated		(111)				
<b>Total Fund Equity</b>	<b>55,765</b>	<b>18,153</b>	<b>2,407</b>	<b>13,052</b>	<b>420,385</b>	<b>23,511</b>
<b>Total Equity and Other Credits</b>	<b>55,765</b>	<b>18,153</b>	<b>2,407</b>	<b>13,052</b>	<b>420,385</b>	<b>23,511</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$59,534</b>	<b>\$18,505</b>	<b>\$6,502</b>	<b>\$14,476</b>	<b>\$460,320</b>	<b>\$43,622</b>

See accompanying notes to financial statements

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (Memorandum Only)	
	Trust and Agency	General Fixed Assets	General Long- Term Obligations	2000
\$12,404			\$287,398	\$282,579
			5,733	11,220
			22,165	19,134
			4,095	4,670
157			4,581	4,094
			9,727	9,705
			210	98
			2,433	1,917
			5,304	138
	\$115,889		389,763	361,004
		\$2,407	2,407	2,624
		14,284	14,284	15,842
<u>\$12,561</u>	<u>\$115,889</u>	<u>\$16,691</u>	<u>\$748,100</u>	<u>\$713,025</u>
\$1			\$12,137	\$11,818
			3,803	3,467
			4,095	4,742
			9,987	10,038
			8,243	7,653
			7,136	6,871
			210	98
374			374	388
617			617	443
		\$11,625	11,625	12,480
		396	537	791
			23,935	24,368
		4,670	4,670	5,195
<u>992</u>		<u>16,691</u>	<u>87,369</u>	<u>88,352</u>
	\$115,889		115,889	113,548
			67,537	65,767
			376,359	355,416
			35,555	25,033
			53,933	56,810
11,569			11,458	8,099
<u>11,569</u>			<u>544,842</u>	<u>511,125</u>
<u>11,569</u>	<u>115,889</u>		<u>660,731</u>	<u>624,673</u>
<u>\$12,561</u>	<u>\$115,889</u>	<u>\$16,691</u>	<u>\$748,100</u>	<u>\$713,025</u>

**City of Palo Alto – Combined Statements of Revenues, Expenditures and Changes in Fund Balances**

**All Governmental Fund Types and Expendable Trust Fund – Fiscal Year Ended June 30, 2000**

with comparative amounts for the fiscal year ended June 30, 1999 (in thousands of dollars)

	GOVERNMENTAL FUND TYPES				FIDUCIARY
	General	Special Revenue	Debt Service	Capital Projects	FUND TYPE Expendable Trust
<b>REVENUES</b>					
Property taxes	\$10,770				
Special assessments			\$887		
Sales taxes	22,867				
Utility users' tax	5,861				
Transient occupancy tax	8,293				
Other taxes and fines	9,096	\$1,148			
Fire protection and emergency communication services	5,053				
From other agencies	517	2,338	288	\$139	
Service fees and permits	12,408				
Return on investment	3,447	402	49	32	\$426
Rental income	9,944				
Other	3,341	2,828		44	2,675
<b>Total Revenues</b>	<b>91,597</b>	<b>6,716</b>	<b>1,224</b>	<b>215</b>	<b>3,101</b>
<b>EXPENDITURES</b>					
Current operations:					
City Council	216				
City Manager	1,483				
City Attorney	1,671				
City Clerk	830				
City Auditor	526				
Administrative Services	8,963				
Human Resources	2,083				
Public Works	8,827				
Planning and Community Environment	6,639				
Public Safety - Police	17,666				27
Public Safety - Fire	14,512				
Community Services	17,858				46
School site operations	6,927				
Capital outlay		564		12,587	
Debt service:					
Principal retirement			1,775		
Interest and fiscal charges			1,026		
<b>Total Expenditures</b>	<b>88,201</b>	<b>564</b>	<b>2,801</b>	<b>12,587</b>	<b>73</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,396</b>	<b>6,152</b>	<b>(1,577)</b>	<b>(12,372)</b>	<b>3,028</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond proceeds (Note 7)					
Payment to bond escrow agent (Note 7)					
Operating transfers in (Note 4)	12,837	703	1,360	12,895	
Operating transfers (out) (Note 4)	(9,605)	(5,770)		(43)	
<b>Total Other Financing Sources (Uses)</b>	<b>3,232</b>	<b>(5,067)</b>	<b>1,360</b>	<b>12,852</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>6,628</b>	<b>1,085</b>	<b>(217)</b>	<b>480</b>	<b>3,028</b>
Fund balances at beginning of year	49,137	17,068	2,624	12,572	8,541
Fund balances at end of year	\$55,765	\$18,153	\$2,407	\$13,052	\$11,569

See accompanying notes to financial statements



.....

TOTALS (Memorandum Only)	
<u>2000</u>	<u>1999</u>
\$10,770	\$9,521
887	874
22,867	20,225
5,861	6,039
8,293	6,551
10,244	8,404
5,053	4,751
3,282	3,374
12,408	8,810
4,356	4,262
9,944	10,155
8,888	4,468
<u>102,853</u>	<u>87,434</u>
216	197
1,483	1,417
1,671	1,535
830	744
526	462
8,963	8,937
2,083	1,817
8,827	9,202
6,639	5,674
17,693	16,738
14,512	13,949
17,904	16,844
6,927	6,520
13,151	16,605
1,775	1,553
1,026	956
<u>104,226</u>	<u>103,150</u>
<u>(1,373)</u>	<u>(15,716)</u>
	7,750
	(649)
27,795	24,715
<u>(15,418)</u>	<u>(12,410)</u>
<u>12,377</u>	<u>19,406</u>
11,004	3,690
<u>89,942</u>	<u>86,252</u>
<u>\$100,946</u>	<u>\$89,942</u>

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**City of Palo Alto – Combined Statements of Revenues, .....  
Expenditures and Changes in Fund Balances – Budget and Actual**

**General, Special Revenue, and Debt Service Funds –  
Fiscal Year Ended June 30, 2000**

(in thousands of dollars)

	GENERAL			SPECIAL REVENUE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$10,057	\$10,770	\$713			
Special assessments						
Sales taxes	20,850	22,867	2,017			
Utility users' tax	5,775	5,861	86			
Transient occupancy tax	7,600	8,293	693			
Other taxes and fines	7,522	9,096	1,574	\$1,125	\$1,148	\$23
Fire protection and emergency communication services	4,991	5,053	62			
From other agencies	575	517	(58)	2,386	2,338	(48)
Service fees and permits	10,619	12,408	1,789			
Return on investment	3,575	3,447	(128)	396	402	6
Rental income	9,917	9,944	27			
Other	3,429	3,341	(88)	1,805	2,828	1,023
<b>Total Revenues</b>	<b>84,910</b>	<b>91,597</b>	<b>6,687</b>	<b>5,712</b>	<b>6,716</b>	<b>1,004</b>
<b>EXPENDITURES</b>						
Current operations:						
City Council	214	216	(2)			
City Manager	1,639	1,483	156			
City Attorney	2,109	1,671	438			
City Clerk	909	830	79			
City Auditor	675	526	149			
Administrative Services	9,695	8,963	732			
Human Resources	2,137	2,083	54			
Public Works	9,863	8,827	1,036			
Planning and Community Environment	7,497	6,639	858			
Public Safety - Police	18,039	17,666	373			
Public Safety - Fire	14,267	14,512	(245)			
Community Services	18,794	17,858	936			
School site operations	6,985	6,927	58			
Capital outlay				1,536	564	972
Debt Service						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<b>92,823</b>	<b>88,201</b>	<b>4,622</b>	<b>1,536</b>	<b>564</b>	<b>972</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(7,913)</b>	<b>3,396</b>	<b>11,309</b>	<b>4,176</b>	<b>6,152</b>	<b>1,976</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	12,987	12,837	(150)	778	703	(75)
Operating transfers (out)	(9,594)	(9,605)	(11)	(4,980)	(5,770)	(790)
<b>Total Other Financing Sources (Uses)</b>	<b>3,393</b>	<b>3,232</b>	<b>(161)</b>	<b>(4,202)</b>	<b>(5,067)</b>	<b>(865)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(\$4,520)</b>	<b>6,628</b>	<b>\$11,148</b>	<b>(\$26)</b>	<b>1,085</b>	<b>\$1,111</b>
Fund balances at beginning of year		49,137			17,068	
Fund balances at end of year		\$55,765			\$18,153	

See accompanying notes to financial statements





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DEBT SERVICE		
Budget	Actual	Variance Favorable (Unfavorable)
\$875	\$887	\$12
259	288	29
133	49	(84)
<u>1,267</u>	<u>1,224</u>	<u>(43)</u>

1,775	1,775	
<u>1,025</u>	<u>1,026</u>	<u>(1)</u>
<u>2,800</u>	<u>2,801</u>	<u>(1)</u>
<u>(1,533)</u>	<u>(1,577)</u>	<u>(44)</u>
1,378	1,360	(18)
<u>1,378</u>	<u>1,360</u>	<u>(18)</u>
<u>(\$155)</u>	(217)	<u>(\$62)</u>
	<u>2,624</u>	
	<u>\$2,407</u>	

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**City of Palo Alto – Combined Statements of Revenues, Expenses and Changes in Retained Earnings**

**All Proprietary Fund Types – Fiscal Year Ended June 30, 2000**

with comparative amounts for June 30, 1999 (in thousands of dollars)

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			2000	1999
<b>OPERATING REVENUES</b>				
Sales of utilities:				
Customers	\$114,573		\$114,573	\$123,083
City departments	7,895		7,895	7,912
Wholesale	4,582		4,582	5,641
Wastewater treatment	7,405		7,405	7,403
Service connection charges and miscellaneous	2,492		2,492	1,511
Charges for services		\$35,249	35,249	36,547
Other revenues	8,522		8,522	9,953
<b>Total Operating Revenues</b>	<b>145,469</b>	<b>35,249</b>	<b>180,718</b>	<b>192,050</b>
<b>OPERATING EXPENSES</b>				
Purchase of utilities	46,839		46,839	51,262
Administration and general	10,934	2,774	13,708	12,984
Engineering (operating)	2,740		2,740	3,006
Resource management	3,979		3,979	2,722
Operations and maintenance	27,760	2,113	29,873	28,069
Rent	7,537		7,537	7,364
Depreciation and amortization	9,640	1,862	11,502	11,064
Claim payments and change in estimated self-insured liability		3,763	3,763	3,764
Compensated absences and other benefits		25,579	25,579	27,020
<b>Total Operating Expenses</b>	<b>109,429</b>	<b>36,091</b>	<b>145,520</b>	<b>147,255</b>
<b>Operating Income (Loss)</b>	<b>36,040</b>	<b>(842)</b>	<b>35,198</b>	<b>44,795</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Return on investment	8,058	1,290	9,348	9,876
Interest (expense)	(933)	(13)	(946)	(1,084)
Joint venture debt service	(11,026)		(11,026)	(10,940)
Gain (loss) on disposal of fixed assets	(50)	170	120	(44)
Other non-operating revenues		626	626	357
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(3,951)</b>	<b>2,073</b>	<b>(1,878)</b>	<b>(1,835)</b>
<b>Income Before Operating Transfers</b>	<b>32,089</b>	<b>1,231</b>	<b>33,320</b>	<b>42,960</b>
Operating transfers in (Note 4)	1,366	28	1,394	612
Operating transfers (out) (Note 4)	(12,933)	(838)	(13,771)	(12,917)
<b>Net Income</b>	<b>20,522</b>	<b>421</b>	<b>20,943</b>	<b>30,655</b>
Retained earnings at beginning of year	339,356	16,060	355,416	324,761
<b>Retained earnings at end of year</b>	<b>\$359,878</b>	<b>\$16,481</b>	<b>\$376,359</b>	<b>\$355,416</b>

See accompanying notes to financial statements

**City of Palo Alto – Combined Statements of Cash Flows .....**

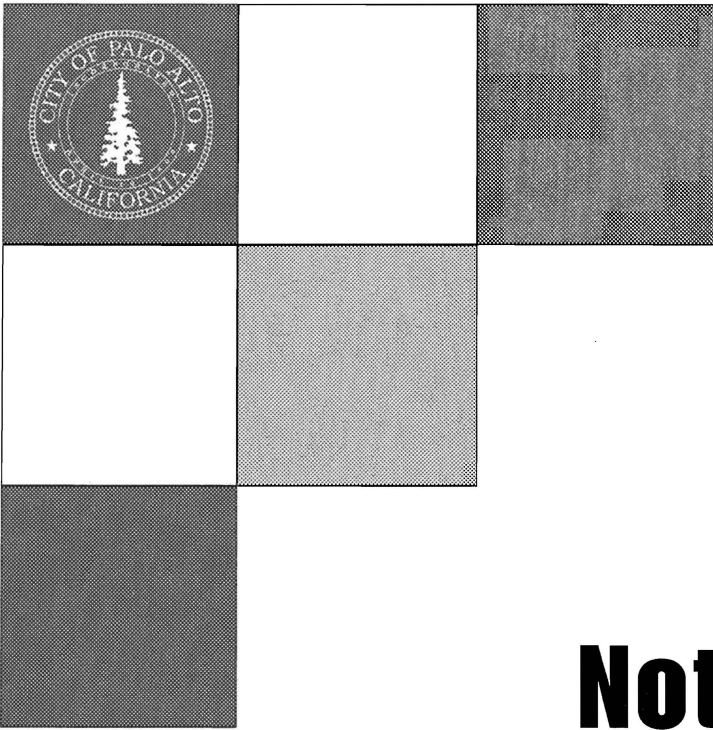
**All Proprietary Fund Types – Fiscal Year Ended June 30, 2000**

**with comparative amounts for June 30, 1999 (in thousands of dollars)**

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$36,040	(\$842)	\$35,198	\$44,795
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization	9,640	1,862	11,502	11,064
Other		626	626	357
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(2,376)	(15)	(2,391)	393
Increase in interest receivable	(20)	(70)	(90)	(187)
Increase in interfund receivable		(80)	(80)	
Increase in inventory of materials and supplies		(63)	(63)	(9)
Increase in prepaid items	(5,072)	8	(5,064)	84
Decrease in accounts payable, accrued liabilities and accrued salaries and benefits	329	(277)	52	855
Increase (decrease) in accrued compensated absences		(51)	(51)	361
Increase in accrued self-insurance		590	590	3
Increase in accrued landfill closure liability	265		265	(367)
<b>Net cash from operating activities</b>	<b>38,806</b>	<b>1,688</b>	<b>40,494</b>	<b>57,349</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in	1,366	28	1,394	612
Operating transfers (out)	(12,933)	(838)	(13,771)	(12,917)
<b>Net cash used in non capital financing activities</b>	<b>(11,567)</b>	<b>(810)</b>	<b>(12,377)</b>	<b>(12,305)</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(33,304)	(2,726)	(36,030)	(23,158)
Proceeds from long term obligations		163	163	17,735
Bond issuance costs and underwriter's discount	28		28	(542)
Payment to bond escrow agent				(9,929)
Principal paid on long term obligations	(545)	(22)	(567)	(895)
Interest paid on long term obligations	(11,875)	(13)	(11,888)	(11,971)
<b>Net cash used in capital financing activities</b>	<b>(45,696)</b>	<b>(2,598)</b>	<b>(48,294)</b>	<b>(28,760)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income received from cash and investments	8,058	1,290	9,348	9,876
<b>Net cash provided by (used in) investing activities</b>	<b>8,058</b>	<b>1,290</b>	<b>9,348</b>	<b>9,876</b>
<b>Net Cash Flows</b>	<b>(10,399)</b>	<b>(430)</b>	<b>(10,829)</b>	<b>26,160</b>
Cash and cash equivalents at beginning of year	184,120	31,982	216,102	189,942
Cash and cash equivalents at end of year	<u>\$173,721</u>	<u>\$31,552</u>	<u>\$205,273</u>	<u>\$216,102</u>
<b>FINANCIAL STATEMENT PRESENTATION:</b>				
Cash and investments available for operations	\$169,956	\$31,552	\$201,508	\$207,099
Restricted cash and investments	3,765		3,765	9,003
<b>Cash and cash equivalents at end of year</b>	<b><u>\$173,721</u></b>	<b><u>\$31,552</u></b>	<b><u>\$205,273</u></b>	<b><u>\$216,102</u></b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: Increase in contributed capital</b>	<b>\$625</b>	<b>\$551</b>	<b>\$1,176</b>	<b>\$1,034</b>

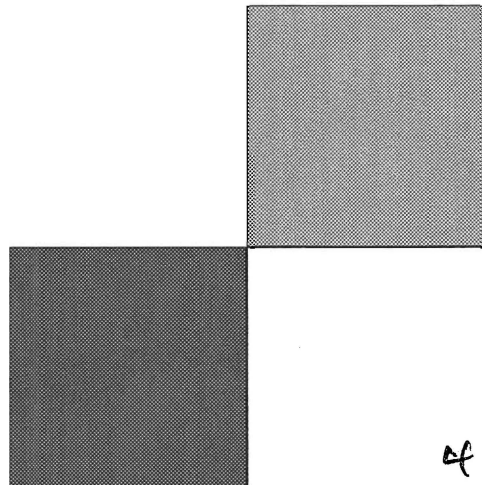
See accompanying notes to financial statements

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# Notes to General Purpose Financial Statements

*Fiscal Year Ended June 30, 2000*



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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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Note 1 .....

Summary Of Significant Accounting Policies

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

Reporting Entity

The City is governed by a nine member council elected by City residents. The City is legally separate and fiscally independent which means it can issue debt, set and modify budgets and fees and sue or be sued. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The financial statements of the City of Palo Alto include the financial activities of the City as well as the Palo Alto Public Improvement Corporation and the City of Palo Alto Golf Course Corporation, both of which provide financing of public capital improvements for the City. Their governing boards are composed of City Council members. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

The Palo Alto Public Improvement Corporation provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects which are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Golf Course and Civic Center Debt Service Funds, the Capital Projects Fund and general long term obligations account group.

The City of Palo Alto Golf Course Corporation provided financing of golf course improvements for the City through the issuance of Lease Revenue Bonds (Bonds), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the Bonds were used to construct projects which were leased to the City. The lease payments were sufficient in timing and amount to meet the debt service requirements of the Bonds. On September 1, 1998 the City repaid its outstanding lease obligation and the Corporation retired the outstanding Bonds and shortly thereafter

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ceased operations. The Corporation was controlled by the City, which performed all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Golf Course Debt Service Fund and general long term obligations account group.

Financial statements for the above component units may be obtained from the City of Palo Alto, Administrative Services Department, 250 Hamilton Avenue, Palo Alto, CA 94301.

**Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. These various funds are grouped as follows, in the general purpose financial statements:

**Governmental Fund Types**

*General Fund* is the general operating fund of the City. It is used to account for all financial resources 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 expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

*Debt Service Funds* are used to account for financial resources to be used for the payment of principal and interest on long-term obligations.

*Capital Projects 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).

**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 and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (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, or to other governments, on a cost-reimbursement basis.



**Fiduciary Fund Types**

*Trust and Agency Funds* are used to account for assets held by the City as an agent or trustee for individuals, private organizations, other governments and/or other funds. These include agency and expendable trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Expendable trust funds are accounted for in the same manner as governmental funds.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types, expendable trust and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts which could not be measured or were not available were not accrued as revenue in the current fiscal year.

Those revenues susceptible to accrual are property taxes, motor vehicle in lieu fees, utility users taxes, earned grant entitlements, special assessments, intergovernmental revenues, use of money and property revenue, and interest revenue. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. Licenses and permits, state gas taxes, charges for services, forfeitures and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred, except for revenues from utility customers, which are recognized based on cycle billings. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

The City follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.



**Measurement Focus**

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for on a spending or financial flow measurement focus, which means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund types and expendable trust fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

All proprietary fund types are accounted for on a cost of services or economic resources measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Their reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

**Inventory of Materials and Supplies**

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

**Compensated Absences**

The liability for compensated absences includes the vested portions of vacation, sick leave, and overtime compensation pay. The City's liability for accrued compensated absences is recorded in the General Benefits and Insurance Internal Service Fund. The 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. 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. The City had accumulated vacation and overtime compensation pay of \$6.176 million, and vested accumulated sick pay of \$3.811 million as of June 30, 2000.

**Contributed Capital**

Contributed capital represents contributions from developers and other funds received by the proprietary funds to acquire capital assets. Changes in contributed capital were as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Balance, June 30, 1998	\$58,593	\$6,140
Contributions from developers	695	
Contributions from other funds		339
Balance, June 30, 1999	<u>59,288</u>	<u>6,479</u>
Contributions from developers	1,219	
Contributions from other funds		551
Balance, June 30, 2000	<u><u>\$60,507</u></u>	<u><u>\$7,030</u></u>

**Property Tax**

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

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

**Classification Changes**

For the year ended June 30, 2000, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the June 30, 2000 presentation.

**Rounding**

All amounts included on the combined statements, footnotes, and combining statements and schedules are presented to the nearest thousands in accordance with the City’s policy.

**Total Columns on Combined Statements**

Although each of the City’s funds is a separate accounting entity, the Combined Financial Statements also include total columns, which are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flow in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, since no interfund eliminations have been made in the aggregation of this data.

**Note 2** .....

**Budgets And Budgetary Accounting**

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain public comments.
3. The budget is legally enacted through passage of a budget ordinance for all funds except for Trust and Agency Funds.
4. The City Manager is authorized to reallocate funds from a contingent account maintained in the General Fund in conformance with the adopted policies set by the City Council. Additional appropriations to departments in the General Fund, or to total appropriations for each other budgeted fund, or transfers of appropriations between funds, require approval by the City Council.
5. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Special Revenue and Debt Service Funds.
6. Formal budgetary integration is employed as a management control device during the year in all funds except Trust and Agency Funds.
7. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds.
8. Expenditures for the Capital Projects Fund are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**Reconciliation with Original Appropriations**

Budgeted expenditure amounts in the budgetary comparison statements are reconciled below with the amounts originally appropriated by City Council (in thousands):

Fund	Original Appropriations	Amendments (net)	Amended Budget
<b>General Fund</b>	\$94,577	(\$1,754)	\$92,823
<b>Special Revenue Funds:</b>			
Federal Revenue	861	96	957
Housing In-Lieu	50	173	223
Local Law Enforcement		356	356
<b>Debt Service Funds:</b>			
Terman Lease	438		438
Golf Course	687	1	688
Civic Center	812		812
Special Assessment Debt	862		862

**Encumbrances**

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

**Excess of Expenditures over Appropriations**

The funds below incurred expenditures and operating transfers in excess of their budgets in the amounts below as the result of unanticipated expenses. Sufficient resources were available within each fund to finance these excesses.

The Street Improvement Special Revenue Fund and the Terman Lease Debt Service Funds actual expenditures and operating transfers out exceeded budget in the amounts of \$912 thousand and \$1 thousand, respectively.

## Note 3 .....

### **Cash And Investments**

The City pools cash from all sources and all funds except Restricted Cash and Investments with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average month-end cash and investment balances in these funds.

### **Categorization of Credit Risk of Securities Instruments**

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all its investments, regardless of their form.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles are described below:

**Category 1** – The City is the registered owner of securities held in book entry form by the bank’s Trust Department. Securities instruments in this category are in the City’s name and are in the possession of the Trust Department of the bank employed by the City solely for this purpose.

**Category 2** – Securities instruments and book entry form securities in this category are held by the Bank’s Trust Department as the City’s agent in the City’s name.

**Category 3** – None of the City’s investments are in this category, which would include only City-owned securities instruments or book entry form securities which were not in the City’s name and not held by the bank’s Trust Department.

**Pooled Investments** – Pooled investments are not categorized because of their pooled, rather than individual, nature.



Investments are carried at fair value and are categorized as follows at June 30 (in thousands):

	2000			1999
	Cash and Investments			
	Available for Operations	Restricted	Total	
<b>Category 1 Investments:</b>				
U.S. Treasury Obligations				\$3,005
U.S. Agency Obligations	\$268,065		\$268,065	255,448
<b>Category 2 Investments:</b>				
U.S. Agency Obligations		\$750	750	755
<b>Pooled Investments (non Categorized):</b>				
Local Agency Investment Fund	17,439		17,439	17,335
California Asset Management Program		726	726	739
Mutual funds (government securities)	421	4,257	4,678	13,237
Total Investments	285,925	5,733	291,658	290,519
Cash in banks and on hand	1,473		1,473	3,280
Total Cash and Investments	<u>\$287,398</u>	<u>\$5,733</u>	<u>\$293,131</u>	<u>\$293,799</u>

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

Cash and investments maturing in three months or less at the time of purchase are considered to be liquid assets for purposes of measuring cash flows.

**Cash Deposits**

Cash in banks is entirely insured (Category 1) or collateralized by the institution holding the deposit (Category 2). California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral is considered to be held in the City’s name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

Bank balances before reconciling items were \$5.004 million, of which \$100 thousand was insured (Category 1) and \$4.904 million was collateralized as discussed above (Category 2) at June 30, 2000.

**Market Risk and Investment Maturities**

Market risk is the risk that investments will decline in market value. The City limits market risk by limiting the types and maturities of its investments and by not borrowing against its investments. Investment yield is ranked after safety and liquidity in making investment decisions. All investments are held to maturity and maturities are matched to the City’s projected cash flow needs. Investments matured as follows at June 30, 2000 (in thousands):

Type of Investment	Book Value	Market Value
Local Agency Investment Fund	\$17,459	\$17,439
Mutual funds (government securities)	421	421
Cash in banks and on hand	1,473	1,473
U.S. Agency Obligations:		
Maturities of less than 1 year	71,421	70,883
Maturities of 1 to 3 years	147,627	145,448
Maturities of 3 to 5 years	51,929	51,551
Mortgage Backed Securities	179	183
<b>Total Cash and Investments</b>	<b>\$290,509</b>	<b>\$287,398</b>

**Authorized City Investments**

Investment instruments authorized for purchase include:

1. Securities of the U.S. Government or its agencies. No more than ten percent of the portfolio shall be invested in Farm Credit Securities, and no more than two percent of the portfolio shall be invested in the Guaranteed Portion of Small Business Administration Notes. These securities shall include Callable and Multi-step-up securities, limited to no more than twenty percent of the City’s portfolio, provided that:
  - the potential call dates are known at the time of purchase;
  - the interest rates at which they “step-up” are known at the time of purchase; and
  - the entire face value of the security is redeemed at the call date.
2. Certificates of Deposit (or Time Deposits) with federally insured institutions. No more than ten percent of the City’s portfolio may be invested in CD’s. Rollovers are not permitted without specific instruction from authorized City staff.
3. Bankers Acceptance Notes with maturities less than two hundred seventy days. Purchases from any one bank may not exceed \$5 million, and total bankers acceptance notes may not exceed thirty percent of the City’s investment portfolio.

4. Short-term Commercial Paper. Purchases of commercial paper may not exceed 180 days maturity or more than fifteen percent of the City's investment portfolio, and purchases from any one institution may not exceed \$3 million.
5. State of California Local Agency Investment Fund
6. Short-term Repurchase Agreements
7. City of Palo Alto Bonds
8. California Asset Management Program
9. Money Market Deposit Accounts
10. Mutual Funds which are limited essentially to the above investments, registered with the Federal Securities and Exchange Commission (SEC), and which are rated in the highest rating category by a nationally recognized rating service. No more than twenty percent of the City's portfolio may be invested in mutual funds, and no more than ten percent of the portfolio may be in any one Mutual Fund.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

### **Investments Carrying Value**

The City's investments are carried at fair market value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair market value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

### **Return on Investments**

The City's realized return on investments comprises only interest income; there were no realized gains or losses on sales of securities since all were held to maturity. Recognized return on investments during the fiscal year ended June 30, 2000 represented a return of 4.96% on the City's quarter-end average investment balances. This income is allocated among funds on the basis of their average month-end cash and investment balances.

The composition of the return on investments for all the City's funds was \$17.168 million in interest income less \$3.110 million representing the net loss recognized as a result of market value changes. These amounts total to \$14.058 million representing the total return on investments.

# Note 4 .....

## Interfund Transactions

### Operating Transfers Between City Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund.

Operating transfers between City funds during fiscal year 2000 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
<b>General Fund</b>	Street Improvement Special Revenue Fund	\$441
	Federal Revenue Special Revenue Fund	119
	Special Districts Special Revenue Fund	354
	Capital Project Fund	43
	Water Enterprise Fund	2,048
	Electric Enterprise Fund	7,348
	Gas Enterprise Fund	2,481
	Wastewater Collection Enterprise Fund	4
<b>Special Revenue Funds</b>		
Local Law Enforcement Fund	General Fund	3
Street Improvement Fund	Traffic Mitigation Fund	700
<b>Debt Service Funds:</b>		
Golf Course	General Fund	640
Civic Center	General Fund	640
Civic Center	Special Districts Special Revenue Fund	80
<b>Capital Project Fund</b>	General Fund	7,835
	Street Improvement Special Revenue Fund	4,012
	Water Enterprise Fund	29
	Electric Enterprise Fund	68
	Gas Enterprise Fund	47
	Wastewater Collection Enterprise Fund	17
	Wastewater Treatment Enterprise Fund	21
	Refuse Enterprise Fund	18
	Storm Drain Enterprise Fund	10
	Computer Equipment Replacement Internal Service Fun	50
	Vehicle Replacement and Maintenance Internal Service	788
<b>Enterprise Funds:</b>		
Electric	Water Enterprise Fund	183
Electric	Gas Enterprise Fund	270
Electric	Wastewater Collection Enterprise Fund	133
Electric	Refuse Enterprise Fund	92
Electric	Storm Drain Enterprise Fund	5
Wastewater Collection	Water Enterprise Fund	80
Wastewater Collection	Gas Enterprise Fund	80
Refuse	Special Districts Special Revenue Fund	64
Storm Drainage	General Fund	458
<b>Internal Service Fund</b>		
Vehicle Replacement & Maintenance	General fund	28
		<u>\$29,189</u>

**Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2000, the Federal Revenue Special Revenue Fund owed the General Fund \$130 thousand.

The City also has a long term interfund advance which the General Fund owes the Vehicle Replacement and Maintenance Fund in the amount of \$80 thousand. The amount is expected to be repaid after fiscal 2002-2003 from the General Fund Community Services Department resources.

**Note 5** .....

**Notes And Loans Receivable**

At June 30, 2000, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation and Affiliates:	
Oak Manor Townhouse	\$1,306
Emerson Street Project	375
Stevenson House	20
Alma Single Room Occupancy Development	2,222
Barker Hotel	1,400
Sheridan Apartments	2,450
Palo Alto Gardens	1,000
Home Rehabilitation Loans	305
Executive Relocation Assistance Loans	649
Total	<u><u>\$9,727</u></u>

**Housing Loans**

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

**Oak Manor Townhouse**

On January 7, 1991, the City loaned \$2.1 million to assist in the acquisition of an apartment complex to be used to provide rental housing for low and very low income households. This loan bears interest at three percent, is due in annual installments until 2011 and is collateralized by a subordinated deed of trust. Under the terms of the loan agreement, loan payments are forgiven if the Corporation meets the objective of this project. During the year ended June 30, 2000 the City forgave the \$141 thousand annual loan payment due under the agreement.

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**Emerson Street Project**

On November 8, 1994 the City loaned \$375 thousand for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low income households in the City. This loan is collateralized by a first deed of trust. The loan bears no interest until 2009 after which the loan bears interest at three percent per year. The principal balance is due in 2034.

**Stevenson House**

On December 26, 1989, the City loaned \$20 thousand for repair costs of the Stevenson House complex. This loan bears interest at three percent per year and is collateralized by a deed of trust. Loan repayment was due December 1999 in full.

**Alma Single Room Occupancy Development**

On December 13, 1996 the City loaned \$2.695 million to the Alma Place Association for the development of a 106 unit single room occupancy development. This loan bears interest at three percent and is collateralized by a first deed of trust. Loan payments are deferred until 2011. The principal balance is due in 2041.

**Barker Hotel**

On April 12, 1994 the City loaned a total of \$2.07 million for the preservation, rehabilitation and expansion of a low income, single room occupancy hotel. This loan was funded by three sources: \$400 thousand from the Housing In-Lieu Special Revenue Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670 thousand from Community Development Block Grant Funds. All three notes bear no interest and are collateralized by a deed of trust which is subordinated to private financing. Loan repayments are deferred until 2035. The City does not expect to collect the entire loan balance and has therefore recorded an allowance for doubtful accounts amounting to \$670 thousand to reduce the carrying value of the loans to \$1.4 million.

**Sheridan Apartments**

On December 8, 1998 the City loaned \$2.45 million to the Palo Alto Housing Corporation for the purchase and rehabilitation of a 57 unit apartment complex to be used for senior and low income housing. The loan is funded by \$1.625 million in Community Development Block Grant Funds, and \$825 thousand in Housing In-Lieu funds. The note bears interest at nine percent when available surplus cash from the project equals or exceeds twenty-five percent of interest calculated using nine percent. When available surplus cash falls below this level the note bears interest at three percent. The note is collateralized by a second deed of trust and an Affordability Reserve Account held by the Corporation. Annual loan payments are deferred until the Corporation accumulates \$1 million in an Affordability Reserve Account. The principal balance is due in 2023.

**Palo Alto Garden Apartments**

On April 22, 1999 the City loaned \$1 million to the Mid-Peninsula Housing Coalition for the purchase and rehabilitation of a 155 unit complex for the continuation of low income housing. This loan is funded by \$659 thousand in Community Development Block Grant

funds and \$341 thousand in Housing In-Lieu funds. There are two notes which bear interest at three percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. Annual loan payments are deferred until certain criteria defined in the notes are reached. The principal balance is due in 2039.

**Home Rehabilitation**

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

**Executive Relocation Assistance Loans**

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust and interest is adjusted annually based on the rate of return of the invested funds of the City for the year ending June 30 plus one quarter of 1%. Principal and interest payments are due bi-weekly. Employees must pay off any outstanding balance of their loans within a certain period after ending employment with the City. As of June 30, 2000, the City had one outstanding employee home loan due in 2030.

## Note 6 .....

### Property, Plant And Equipment

The General Fixed Assets Account Group provides accounting control over the cost of fixed assets used by the City's governmental funds. The General Fixed Assets Account Group is not a fund and its balances are not financial resources available for expenditure. Rather, they provide an historical accounting record of resources expended on general fixed assets. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized because these assets are immovable and of value only to the public. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

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

Proprietary fund fixed assets are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of proprietary fund fixed assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of proprietary fund fixed assets.

Depreciation of all proprietary fund fixed assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the proprietary funds' balance sheet as a reduction in the book value of the fixed assets.

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

<i>Buildings and structures</i>	25-60 years
<i>Equipment:</i>	
Vehicles and heavy equipment	3-10 years
Machinery and equipment	10-50 years
Transmission and distribution equipment	10-100 years



**General Fixed Assets**

Changes in the City’s general fixed assets during the year ended June 30, 2000 were (in thousands):

	Balance June 30, 1999	Additions	Retirements	Balance June 30, 2000
<b>General Fixed Assets:</b>				
Land and improvements	\$56,722	\$284		\$57,006
Buildings and structures	51,457	1,113	\$163	52,407
Equipment	5,369	1,160	53	6,476
Total	<u>\$113,548</u>	<u>\$2,557</u>	<u>\$216</u>	<u>\$115,889</u>

Included in the general fixed assets account group at June 30, 2000 is \$955 thousand of construction in progress (capital improvements) expended in fiscal year 1999-2000.

The City’s practice is to perform physical inventory counts of fixed assets every two years on a rotational basis. In fiscal year 1999/00, a physical inventory was conducted of the City’s general fixed assets for the Administrative Services, City Manager, City Clerk, City Council, and Community Services Departments which resulted in no material adjustments to the balances previously reported. Physical inventories are planned for fiscal 2000/2001 for the Fire, Public Works, Planning and Police departments.

Included in general fixed assets land and improvements and equipment at June 30, 2000 are assets under capital leases amounting to \$6.321 million.

**Proprietary Fixed Assets**

Changes in the City’s proprietary fund fixed assets during the year ended June 30, 2000 were (in thousands):

Balance June 30, 1999	Additions	Retirements	Transfers	Balance June 30, 2000
\$1,541				\$1,541
11,287				11,287
335,844	\$1,714	\$332	\$12,863	350,089
21,210	32,731		(12,863)	41,078
369,882	<u>\$34,445</u>	<u>\$332</u>		403,995
(132,094)	<u>(\$9,563)</u>	<u>(\$283)</u>		(141,374)
<u>\$237,788</u>				<u>\$262,621</u>
\$22,371	<u>\$3,485</u>	<u>\$1,118</u>		\$24,738
(12,703)	<u>(\$1,862)</u>	<u>(\$1,080)</u>		(13,485)
<u>\$9,668</u>				<u>\$11,253</u>

Also included in land and improvements in the Enterprise Funds is \$1.179 million 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.

**Construction in Progress and Completed Projects**

Construction in progress and projects completed in fiscal 1999-2000 comprise (in thousands):

	<u>Project Authorization</u>	<u>Expended to June 30, 2000</u>	<u>Committed</u>
<b>Enterprise Funds:</b>			
Storm drainage structural and water quality improvements	\$1,469	\$272	\$71
Gas system extension replacements and improvements	680	4,540	39
Water system extension replacements and improvements	953	458	44
Electric distribution system improvements	6,344	4,611	934
Other electrical improvement projects	5,926	10,916	773
Water quality control plant equipment replacement and lab facilities	1,931	24	306
Sewer system rehabilitation and extensions	8,301	6,202	1,841
Sewer treatment system incinerator rehabilitation	6,883	5,069	1,897
Automated mapping	41	1	39
Other construction in progress	21,643	8,985	1,779
Total	<u>\$54,171</u>	<u>\$41,078</u>	<u>\$7,723</u>

Of the totals expended to June 30, 2000, costs amounting to \$12.863 million had been transferred from construction in progress to other fixed asset types for enterprise funds, respectively.

Allocations of enterprise fund administration and general expenses of \$3.433 million have been capitalized and included in amounts expended to June 30, 2000.

In addition to the above projects, the City has street and intersection commitments totaling \$2 million.

**Note 7** .....

**General Long Term Obligations**

**The City's Long Term Obligations**

The General Long Term Obligations Account Group provides accounting control over the principal of the City's general long term debt. This debt will be repaid out of governmental funds but is not accounted for in these funds because this part of the debt does not require an appropriation or expenditure in the current accounting period. Bond discounts and issuance costs of governmental fund types related to long-term debt issues are recorded as expenditures in the year of issuance.

Proprietary Fund (Enterprise and Internal Service) long-term debt is accounted for in the fund which will repay the debt because the fund is accounted for on the full-accrual basis in a similar manner to commercial operations. Bond discounts and issuance costs of Proprietary Funds' long-term debt issues are amortized over the life of the related debt. Gains or losses between the net book value of proprietary debt and funds placed in escrow to defease that debt are amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

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

	Original Issue Amount	Balance June 30, 1999	Additions	Retirements	Balance June 30, 2000
<b>General Long Term Obligations:</b>					
1992 Civic Center Certificates of Participation, 3.60-6.70%, due 03/01/2012	\$7,670	\$4,730		\$510	\$4,220
1998 Golf Course Certificates of Participation, 4.00-5.00%, due 09/01/2018	7,750	7,750		345	7,405
Terman School Capital Lease, variable, due 11/09/2000	6,321	791		395	396
	<u>\$21,741</u>	<u>\$13,271</u>		<u>\$1,250</u>	<u>\$12,021</u>
<b>Enterprise Long Term Obligations:</b>					
<b>Utility Revenue Bonds,</b>					
1995 Series A, 5.0-6.25%, due 06/01/2020	\$8,640	\$7,930		\$200	\$7,730
1999 Refunding, 3.25-5.25%, due 06/01/24	17,735	17,735		345	17,390
Less: unamortized discount/issuance cost		(1,268)		(83)	(1,185)
	<u>\$26,375</u>	<u>\$24,397</u>		<u>\$462</u>	<u>\$23,935</u>
<b>Internal Service Long Term Obligations:</b>					
Information Systems Capital Lease Obligations, 10.46%, due 8/2/2004	\$128		\$163	\$22	\$141

**Description of the City's Long Term Debt Issues**

**1992 Civic Center Certificates of Participation** – The City issued Certificates of Participation on March 1, 1992 to refinance its 1983 Certificates of Participation and finance certain improvements of its Civic Center. Principal payments are payable annually on March 1 and interest payments semi-annually on March 1 and September 1, and are payable from lease revenues received by the Palo Alto Public Improvement Corporation from the City from available funds.

**1998 Golf Course Certificates of Participation** – In August 1998, the City's Public Improvement Corporation issued Golf Course Improvement Certificates of Participation, Series 1998 in the amount of \$7.75 million to refund the 1978 Golf Course Lease Revenue Bonds, and to finance various improvements at the Palo Alto Public Golf Course, including upgrading five fairways and various traps, trees and greens, constructing new storm drain facilities, replacing the existing irrigation system, upgrading the driving range, and installing new cart paths. Proceeds from the 1998 COPs, along with 1978 Bond reserve funds amounted to \$647 thousand and were used to purchase US Government Securities. These securities were placed in an irrevocable trust with a Trustee to provide for the remaining debt service requirements on the 1978 Bonds. Accordingly, the 1978 Bonds are

considered to be defeased and have been removed, along with the trust, from the accompanying financial statements. The 1998 COPs are secured by lease revenues received by the Public Improvement Corporation from golf course revenues or other unrestricted revenues of the City. Principal and interest are payable semi-annually each March 1 and September 1 beginning in 1999.

**Terman School Capital Lease** – The City is purchasing a site from the Palo Alto Unified School District on an installment basis for public purposes. The lease bears annual interest at the average annual rate of return earned on the District’s portfolio of investments for the fiscal year. Principal and interest payments are payable annually on November 9. The Lease is repayable from the Terman Lease Debt Service Fund.

**1995 Utility Revenue Bonds, Series A** – The City issued Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City’s Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.86 million 6.25% term bond will be due June 1, 2020.

**1999 Utility Revenue and Refunding Bonds, Series A** – The City issued Utility Revenue Bonds on June 1, 1999 to refund the 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, and to finance rehabilitation of the Wastewater Treatment System’s two sludge incinerators. A portion of the proceeds from the 1999 Bonds amounting to \$9.929 million was used to purchase US Government Securities. These securities were placed in irrevocable trusts with a Trustee to provide for the remaining debt service requirements on the 1990 and 1992 Bonds. Accordingly, the 1990 and 1992 Bonds are considered to be defeased and have been removed, along with the trusts, from the accompanying financial statements. As a result of the refunding, aggregate debt service was increased \$5.325 million, and an economic gain of \$178 thousand was realized.

In accordance with City policy, the difference between the amount deposited in escrow of \$9.929 million and the carrying value of the refunded bonds of \$9.403 million has been capitalized and included in unamortized discounts/issuance costs and amortized over the remaining life of the refunded debt.

During the year ended June 30, 2000 the 1990 Utility Revenue Refunding Bonds, Series A were retired, and the balance outstanding on the 1992 Utility Revenue Bonds, Series A was \$4.04 million.

The 1999 Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon certain net revenues derived by the City’s Sewer System and its storm and surface water system (the “Storm Drain System”). As of June 30, 2000, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds; Wastewater Collection (10.2%), Wastewater Treatment (64.6%) and Storm Drain (25.2%). Principal payments are payable annually on June 1 and interest payments

semi-annually on June 1 and December 1. A \$3.125 million 5.25% term bond, and a \$5.12 million 5.25% term bond will be due June 1 2021 and 2024, respectively.

**Information Systems Capital Lease** – In fiscal 1999-2000, the City signed a lease to finance the acquisitions of certain information systems hardware and software. Debt service is repayable from the Computer Equipment Replacement Internal Service Fund revenues.

**Debt Service Requirements (in thousands):**

For the Year Ending June 30	Certificates of Participation	Capital Leases	Utility Revenue Bonds	Totals
2001	\$1,525	\$470	\$1,887	\$3,882
2002	1,521	42	1,893	3,456
2003	1,519	42	1,886	3,447
2004	1,367	42	1,888	3,297
2005	1,373	6	1,893	3,272
Thereafter	9,275		35,905	45,180
	16,580	602	45,352	62,534
Less amount representing interest	4,955	65	20,232	25,252
Principal amount due	\$11,625	\$537	\$25,120	\$37,282

**Debt Call Provisions**

Long-term debt as of June 30, 2000 is callable on the following terms and conditions:

	Initial Call Date	
<b>General Long Term Debt:</b>		
1992 Certificates of Participation	03/01/2001	(4)
1998 Certificates of Participation	09/01/2008	(5)
<b>Special Assessment Bonds, with City's Commitment</b>		
1975 California Avenue Parking	07/02/1985	(1)
1977 University Avenue Parking	07/02/1987	(1)
1987 California Avenue Parking,	09/02/1995	(3)
1989 University Avenue Area Off-Street Parking,	09/01/1999	(2)
<b>Enterprise Long Term Debt:</b>		
<b>Utility Revenue Bonds -</b>		
1995 Series A	06/01/2004	(2)
1999 Refunding	06/01/2009	(2)

- (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 specified by the Trustee at par plus a premium of 1% beginning on the initial call date. The call price declines subsequent to the initial date.

**Leasing Arrangements**

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

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

**Conduit Financing**

On December 15, 1996, the City acted as a financial intermediary in order to assist Lytton Gardens Health Care Center in issuing Insured Revenue Refunding Bonds. The Bonds are payable solely from revenues collected by Lytton Gardens Health Care Center. The City has not included these bonds in its general purpose financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 2000 the amount of Bonds outstanding was \$11.855 million.

## Note 8

### Special Assessment Debt

#### Special Assessment Debt with City Commitment

Special assessment districts exist in the City to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and reduced as assessments are collected. The City is obligated to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2000 all these districts were in compliance with the repayment and other requirements of their respective debt issues. The City accounts for resources available to pay special assessment debt in its Debt Service Funds. The special assessment debt is included in the General Long-Term Obligations Account Group.

Special assessment debt with City commitment comprises the following issues (in thousands):

	Original Issue Amount	Balance June 30, 1999	Retirements	Balance June 30, 2000
<b>1975 California Avenue Parking</b> 7.00-7.50%, due 07/02/00	\$420	\$65	\$30	\$35
<b>1977 University Avenue Parking</b> 5.40-7.75%, due 07/02/02	791	250	55	195
<b>1987 California Avenue Parking,</b> 6.70-9.25%, due 09/02/2007	1,325	805	65	740
<b>1989 University Avenue Area Off-Street Parking,</b> 5.75-6.90%, due 09/01/06	6,420	4,075	375	3,700
	<u>\$8,956</u>	<u>\$5,195</u>	<u>\$525</u>	<u>\$4,670</u>

Special assessment debt service requirements, including principal and interest, are as follows (in thousands):

For the Year Ending June 30	Special Assessment Debt with City's Commitment
2001	\$876
2002	852
2003	865
2004	798
2005	808
Thereafter	1,691
	5,890
Less amount representing interest	1,220
Principal amount due	<u>\$4,670</u>

**Description of Special Assessment Debt with City’s Commitment**

**1975 California Avenue District Offstreet Parking Assessment District Bonds** – The City issued Special Assessment Bonds on January 2, 1975 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**1977 University Avenue Area Offstreet Parking Assessment District Bonds** – The City issued Special Assessment Bonds on June 2, 1977 to finance the acquisition of land and construction for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**1987 California Avenue Parking Assessment District Assessment Bonds** – The City issued Special Assessment Bonds on April 13, 1987 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on September 2 and interest payments semi-annually on March 2 and September 2.

**1989 University Avenue Area Off-street Parking Assessment District Refunding and Improvement Bonds** – The City issued Special Assessment Bonds on December 18, 1989 to advance refund all of the outstanding University Avenue Lot J Parking Garage Assessment District Bonds of 1984 and to provide funds for the acquisition of one floor of public parking in a parking structure. Principal payments are payable annually on September 1 and interest payments semi-annually on March 1 and September 1.





**Special Assessment Debt with No City Commitment**

The California Avenue Parking Assessment District No. 92-13 issued Assessment Bonds of 1993, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included in general long-term debt of the City. At June 30, 2000, the District's outstanding debt amounted to \$1.76 million.

**Note 9** .....

**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 million were reported in fiscal 1991-92, when a section of the refuse area was capped with a final cover and Byxbee Park was 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 thousand. 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.

An updated cost estimate for the landfill closure and postclosure was performed during 1998. The estimates of these costs were based upon 1998 costs and are adjusted annually for inflation; the 2000 amount is \$8.124 million.

The \$7.136 million reported as landfill closure and postclosure care liability at June 30, 2000 represents 87.8% of the above estimate 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 2000. 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, 2000 with the establishment of the fully-funded liability for this purpose.

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## Note 10 .....

### Fund Equity

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and may never be legally authorized or result in expenditures.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

### Governmental Funds

At June 30, 2000, fund balance reservations and designations included (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Fund
Reserved for:				
Encumbrances	\$12,045	\$4,167		\$4,873
Notes	649	9,078		
Prepays			\$102	
Debt Service			2,305	
Debt proceeds				192
Inventory of materials and supplies	2,144			
<b>Total Reserved Fund Balance</b>	<u>\$14,838</u>	<u>\$13,245</u>	<u>\$2,407</u>	<u>\$5,065</u>
Unreserved; designated for:				
Reappropriations	\$612	\$750		\$7,987
Capital and special revenue projects		4,269		
Budget stabilization	20,029			
Emergencies	6,388			
Infrastructure	13,898			
<b>Total Unreserved/Designated Fund Balances</b>	<u>\$40,927</u>	<u>\$5,019</u>		<u>\$7,987</u>

Reserve for *encumbrances* represents the portion of fund balance set aside for open purchase orders.

Reserves for *notes, prepaid items and inventory* are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for *debt service* is the portion of fund balance legally restricted for the payment of principal and interest on long term liabilities.

Reserve for *debt proceeds* is the portion of fund balance legally restricted for the expenditure of bond proceeds on authorized project costs.

Designated for *reappropriations* is the portion of fund balance set aside for subsequent years' appropriations.

Designated for *capital and special revenue projects* is the portion of fund balance for use on capital outlay projects.

Designated for *budget stabilization* is the portion of fund balance to be used to supplement the regular budget when unexpected events such as state government action, a downturn in the economy or a natural disaster reduces revenue or creates obligations that significantly impact the current year budget.

Designated for *emergencies* is the portion of fund balance to be used for fund expenditures in emergency situations.

Designated for *infrastructure* is the portion of fund balance to be used for financing future capital improvements.

**Internal Service Funds**

At June 30, 2000, internal service fund retained earnings reservations and designations included (in thousands):

Reserved retained earnings-	
Commitments and reappropriations	\$2,305
Unreserved:	
Designated for future catastrophic losses	5,521
Undesignated	8,655
	<u>          </u>
Total	<u><u>\$16,481</u></u>

Reserve for *commitments and reappropriations* represents the portion of retained earnings set aside for open purchase orders.

Designated for *future catastrophic losses* is the portion of retained earnings to be used for unforeseen future losses.

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**Enterprise Funds**

At June 30, 2000, enterprise fund retained earnings reservations and designations included (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Reserved retained earnings:								
Rate stabilization								
Supply		\$28,750	\$3,832					\$32,582
Distribution		2,632	7,355					9,987
Operations	\$9,506			\$8,683	\$2,847	\$9,537	\$728	31,301
	9,506	31,382	11,187	8,683	2,847	9,537	728	73,870
Emergency plant replacement	879	2,198	748	420	1,367			5,612
Calaveras		68,013						68,013
Reappropriations	1,051	6,069	439	5,498	951	1,498	598	16,104
Commitments	573	4,230	815	1,961	1,499	683	252	10,013
Restricted bond proceeds					1,815		935	2,750
Underground loan		613						613
Conservation loan			634					634
Refuse Water Resources Board						590		590
Shasta rewind loan		64						64
Central Valley Project		908						908
Public benefit program		2,322						2,322
<b>Total</b>	<b>12,009</b>	<b>115,799</b>	<b>13,823</b>	<b>16,562</b>	<b>8,479</b>	<b>12,308</b>	<b>2,513</b>	<b>181,493</b>
Unreserved retained earnings	25,669	88,902	33,389	22,582	1,452	4,688	1,703	178,385
<b>Total retained earnings</b>	<b>\$37,678</b>	<b>\$204,701</b>	<b>\$47,212</b>	<b>\$39,144</b>	<b>\$9,931</b>	<b>\$16,996</b>	<b>\$4,216</b>	<b>\$359,878</b>

The City Council has committed unreserved retained earnings for general contingencies, future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

**Note 11** .....

**Segment Information For Enterprise Funds**

The City maintains seven enterprise funds. These funds are intended to be self-supporting, through user fees charged for services rendered. Segment information for these funds for the year ended June 30, 2000 follows (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Operating revenues	\$15,169	\$66,591	\$17,106	\$10,342	\$12,053	\$22,208	\$2,000	\$145,469
Depreciation and amortization	823	4,266	1,132	1,048	1,821	187	363	9,640
Operating income	4,169	27,301	(246)	3,188	313	1,112	203	36,040
Operating transfers in		684		160		64	458	1,366
Operating transfers (out)	(2,341)	(7,415)	(2,878)	(153)	(21)	(110)	(15)	(12,933)
Net income	2,338	14,455	(2,421)	3,911	389	1,439	411	20,522
Property, plant & equipment:	34,284	106,040	36,722	34,227	31,851	4,688	14,809	262,621
Additions	3,219	12,089	3,689	7,313	6,543	94	1,498	34,445
Retirements	86	146	58	42				332
Net working capital	12,009	115,799	13,823	16,562	9,889	12,308	755	181,145
Total assets	47,197	226,444	51,681	51,447	43,217	24,335	15,999	460,320
Bonds and contracts, net of bond discount, payable from operating revenues				1,648	10,689		11,598	23,935
Total equity	46,293	221,839	50,545	49,183	31,313	16,996	4,216	420,385

**Note 12** .....

**Pension Plans**

**CALPERS Safety and Miscellaneous Employees Plans**

Substantially all permanent City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS. The City contributes these amounts and has no pension benefit obligation.

The Plans' provisions and benefits in effect at June 30, 2000, are summarized as follows:

	Safety		Miscellaneous
	Police	Fire	
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of annual salary	2%-2.7%	2%-2.7%	1.426%-2.418%
Required employee contribution rates	9%	9%	7%
Required employer contribution rates	13.067%	7.227%	1.492%

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the most recently available three years is set forth below at their actuarial valuation date of June 30 (in thousands):

**Safety Police Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1996	\$46,058	\$42,921	(\$3,137)	93.2%	\$5,460	57.4%
1997	49,945	48,828	(1,117)	97.8%	5,508	20.3%
1998	55,471	56,762	1,291	102.3%	5,836	(22.1%)

**Safety Fire Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1996	\$65,714	\$63,090	(\$2,624)	96.0%	\$9,685	27.1%
1997	70,224	71,957	1,733	102.5%	9,878	(17.5%)
1998	70,445	84,651	14,206	120.2%	8,073	(176.0%)

**Miscellaneous Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1996	\$137,747	\$146,654	\$8,907	106.5%	\$37,592	(23.7%)
1997	151,939	173,858	21,919	114.4%	38,849	(56.4%)
1998	163,374	207,573	44,199	127.1%	40,146	(110.1%)

Audited annual financial statements and ten year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

PERS has reported that the value of the net assets in the Plans held for Pension Benefits changed as follows during the year ended June 30, 1998 (in thousands):

	<u>Safety</u>		<u>Miscellaneous</u>
	<u>Police</u>	<u>Fire</u>	
Beginning Balance 6/30/97	\$48,828	\$71,957	\$173,857
Contributions received	1,530	1,936	5,314
Benefits and Refunds Paid	(2,771)	(3,301)	(6,158)
Expected Investment Earnings Credited	3,978	5,882	14,309
Expected Actuarial Value of Assets 6/30/98	<u>\$51,565</u>	<u>\$76,474</u>	<u>\$187,322</u>
Market Value of Assets 6/30/98	<u>\$63,069</u>	<u>\$94,057</u>	<u>\$230,636</u>
Actuarial Value of Assets 6/30/98	<u>\$56,762</u>	<u>\$84,651</u>	<u>\$207,573</u>

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for all plans for fiscal years 2000, 1999, and 1998 were, \$7.122, \$9.878, and \$8.723 million, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

**Note 13** .....

**Retiree Health Benefits**

In addition to providing pension benefits, the City participates in the California Public Employees Medical and Health Care Act program to provide certain health care benefits for retired employees. 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 2000, expenditures for retiree health care for approximately 487 eligible retired employees totaled \$1.287 million, including administrative fees. The premium is based upon an average annual cost of coverage per retiree of \$3 thousand.

In the fiscal year ended June 30, 1993, the City received a \$6.1 million refund from the California Public Retirement System (“CALPERS”) through the passage of Assembly Bill (AB) 702. This amount was placed in trust to defer future costs of retiree health care coverage. During the fiscal year ended June 30, 1995, the City established and transferred the amount to an expendable trust fund.

For fiscal 1999/2000, the City was informed by CALPERS that retirement contribution rates would decrease substantially due to overfundings for the safety and miscellaneous



plans. Coincidentally, a consultant was hired to perform an actuarial study to estimate the liability for unfunded future retiree health benefits. The consultant estimated unfunded retiree health benefits to be \$41 million as of June 30, 1999. Because of the magnitude of the unfunded benefits, City Council directed staff to continue to charge operating departments retirement expenditures using the former contribution rates. Since these rates were higher than what was required by CALPERS for retirement benefits, a surplus of \$2.561 million was generated and was recorded in the Retiree Health Benefit Expendable Trust Fund as additional contributions towards the City's unfunded retiree health benefits.

	<u>2000</u>	<u>1999</u>
Fund balance, beginning of year	\$7,985	\$7,631
Interest earnings	398	397
Interdepartmental charges	2,561	
Benefits expenditures	<u>          </u>	<u>(43)</u>
Fund balance, end of year	<u><u>\$10,944</u></u>	<u><u>\$7,985</u></u>

The Retiree Health Benefit Expendable Trust Fund's fund balance consists of the following for the fiscal year ended June 30 (in thousands):

**Note 14** .....

**Deferred Compensation Plan**

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

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

**Note 15** .....

**Risk Management**

**Coverage**

The City provides dental coverage to employees through programs which are administered by a service agent. The City is self-insured for the dental coverage.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$300 thousand in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5 thousand deductible and coverage up to \$1 million per loss. The City's property and machinery insurance policy has various deductibles and various coverages based on the kind of machinery.

The City is a member of the Authority for California Cities Excess Liability (ACCEL) which provides general liability, including auto liability, insurance coverage up to \$20 million per occurrence. The City retains the risk for the first \$1 million in losses for each occurrence under this policy.

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

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

During the fiscal year ended June 30, 2000 the City contributed \$432 thousand to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 160 Spear Street, San Francisco, California 94105.

**Claims Liability**

The City provides for the uninsured portion of claims and judgments in the General Benefits and Insurance Internal Service Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed, above, the City has a coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City’s liability for uninsured claims is limited to dental, general liability, and workers’ compensation claims, as discussed above, and was estimated by management based on prior years claims experience as follows (in thousands):

	Year Ended June 30	
	2000	1999
Beginning Balance	\$7,653	\$7,650
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	3,248	2,777
Claims paid	(2,658)	(2,774)
Ending Balance	<u>\$8,243</u>	<u>\$7,653</u>

**Note 16** .....

**Joint Ventures**

**General**

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

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

**Northern California Power Agency**

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

During the year ended June 30, 2000, the City incurred expenses totaling \$5.169 million for purchased power and assessments earned by NCPA.

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The City's interest in NCPA projects and reserves, as computed by NCPA, was \$2.406 million at June 30, 2000. This amount represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

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

**Geothermal Projects**

A purchased power agreement with NCPA obligated the City for 6.158% and 6.158%, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Project Number 2 and Project Number 3.

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 2000 is \$389.869 million. The City's participation in this project was 6.158%, or \$24.008 million.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects will be higher than anticipated.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other vicinity of reinjection wells and is attempting to increase water reinjection at strategic

locations. NCPA, other steam developers, and the Lake County Sanitation District are constructing a wastewater pipeline project that will greatly increase the amount of water available for reinjection.

**Calaveras Hydroelectric Project**

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February, 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.92% of this Project's debt service and operating costs. At June 30, 2000, the book value of this Project's plant, equipment and other assets was \$545.139 million, while its long term debt totaled \$539.512 million and other liabilities totaled \$ 5.627 million. The City's share of the Project's long term debt amounted to \$123.656 million at that date.

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 pays 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.

**Geothermal Public Power Line**

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 11.074% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 11.074% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2000, the book value of this Project's plant, equipment and other assets was \$8.964 million, while its long term debt totaled \$8.964 million. The City's share of the Project's long term debt amounted to \$0.993 million at that date.

**Northwest Power Purchase Contract**

The City's participation with other NCPA members in a long-term contract for purchase of power from the Washington Water Power Company was approved in 1993. At that date the City did not have a share of the Project's long term debt. On February 1, 1997, the NCPA issued \$18,310,000 in Northwest Resource Revenue Bonds. The proceeds will be used to finance a portion of a payment to be made under the Northwest Power Purchase Contract and costs of issuance of the debt. Under the NCPA Agreement for Financing Electric Capacity, the City is obligated to pay 13.61% of this debt service. At June 30, 2000 the book value of this Project's plant, equipment and other assets was \$19.711 million, while its long term debt totaled \$8.778 million and other liabilities totaled \$10.933 million. The City's share of the Project's long-term debt amounted to \$1.194 million at that date.

**NCPA Financial Information**

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

**Transmission Agency of Northern California (TANC)**

The City is a member of a joint powers agreement with 14 other entities in the Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City is obligated to pay 4% of TANC's debt-service and operating costs.

According to the 1985 Project Agreement with TANC for the development of the California-Oregon Transmission Project (COTP) and subsequent related project agreements, the City is obligated to pay its share of the project's costs, including debt service and is entitled to the use of a percentage of the project's transmission or transfer capacity. TANC has issued two series of Revenue Bonds and Commercial Paper Notes totaling \$435.887 million as of June 30, 2000. The City's share of this debt is \$17.435 million.

Construction of the COTP was complete as of June 30, 1993. The transmission line was energized March 24, 1993. Because funding of certain project participants' shares in the project was needed pending approval of their applications for participation, TANC issued \$93,781,238 of Commercial Paper debt backed by a Letter of Credit. The City's share of the Commercial Paper was \$2.395 million at June 30, 2000, which is included in the share of debt discussed above. Shares and obligations of the existing participants could increase pending final project subscription.

Because the investor owned utilities that had planned on being participants in the project did not receive Certificates of Public Convenience and Necessity from the California Public Utilities Commission, they were unable to participate. Accordingly, the remaining participants' percentage participation in the project increased substantially.

**TANC Financial Information**

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

**Note 17** .....

**Commitments and Contingencies**

**Palo Alto Unified School District** – The City leases the former Cubberley School site and eleven extended day care sites from the Palo Alto Unified School District (PAUSD). 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 2004 with an option for an additional ten year term. The City’s rent for the facilities is \$4.963 million per year plus insurance, repairs and maintenance work to be completed, which are not to exceed \$250 thousand per year. This lease is cancelable upon 90 days’ written notice in the event funds are not appropriated by the City. In addition, the lease is contingent upon authorization by the Palo Alto electorate if it exceeds the City’s Proposition 4 (Gann) appropriations limitation in any fiscal year. Lease expenditures for the year ended June 30, 2000 amounted to \$5.4 million.

Future minimum annual lease and covenant payments are as follows (in thousands):

<b>Year ending June 30:</b>	
2001	\$5,570
2002	5,764
2003	5,966
2004	<u>6,175</u>
<b>Total</b>	<b><u>\$23,475</u></b>

**Palo Alto Sanitation Company** – In 1999 the City, under the provisions of a new agreement, contracted with the Palo Alto Sanitation Company (PASCO) for services related to residential and commercial refuse collection, curbside recycling, and other operation special programs. The term of the new agreement will have a term of seven years and ten months from the effective date of September 1, 1999. The new contract revised the method by which compensation is paid to PASCO to be more in-line with the industry standard. The method establishes compensation based on the relationship between costs and profits and includes periodic performance reviews. In 1999-00 this resulted in a payment to PASCO of \$6.657 million.

**City of Palo Alto Regional Water Quality Control Plant** – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified

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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, 2000. 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 recovers 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 reimburses its proportionate capacity share of design, construction, and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24,160,000 in revenue bonds to finance the design and construction costs of the SMaRT Station. 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, 2000 is \$4.327 million. During the year ended June 30, 2000, the City paid \$396 thousand as its portion of current debt service.

**Deregulation of Electric Industry** – Effective January 1, 1998, Pacific Gas and Electric (PG&E), Southern California Edison and San Diego Gas & Electric Company turned their transmission systems over to the operational control of an Independent System Operator (ISO). The City currently receives its transmission service from PG&E under an agreement between PG&E and the Northern California Power Agency. Effective January 1, 1998, the City had the option of continuing its transmission service through its existing contracts or converting to transmission service offered by the ISO. This restructuring also introduced a Power Exchange through which the City will have the option of buying and selling electric power and energy.

**Litigation** – The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

**Sales Tax Adjustment** – On April 14, 1999 the State Board of Equalization informed the City that it had been allocated and paid \$594 thousand in sales and use taxes in error and that the City was obligated to refund these taxes from future sales tax revenues. The City is in the process of challenging the Board's finding. However, as of June 30, 1999,2000, the issue had not been settled and the refund had not been returned.





**Unissued but Authorized Obligation** – On April 10, 2000 the City Council authorized the issuance of obligations not to exceed \$12.5 million for the purpose of paying the costs of acquiring and improving a public park, acquisition and improvement of the Roth Building, and other development obligations of the City with respect to the South of Forest Coordinated Area Plan.

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

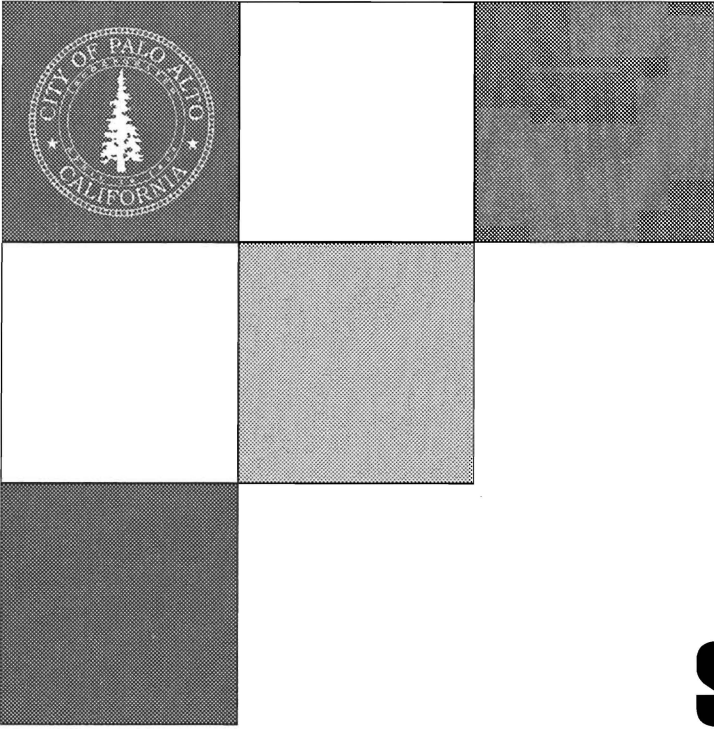
**Note 18** .....

**Subsequent Event**

In April 2000 the City entered into a Development Agreement with the Palo Alto Medical Foundation (PAMF) to acquire land, by dedication and purchase, for below market rate housing, park and public facility purposes. The total cost of the purchase on July 18, 2000 was \$9.683 million. Of the nine City council members two are involved with PAMF. One Council Member is a Transportation Manager of PAMF and another Council member’s spouse is employed by PAMF. The latter did not participate in the vote to approve the development agreement.

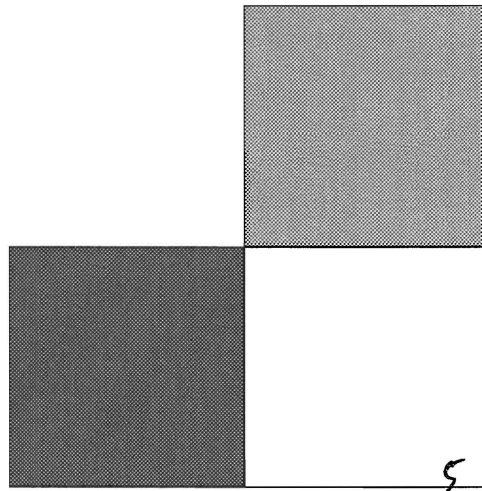
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# Supplemental Statements and Schedules

*Fiscal Year Ended June 30, 2000*



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**General Fund** .....

**Introduction**

The General Fund is used for all general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

**City of Palo Alto – General Fund .....**

**Comparative Balance Sheets – June 30, 2000 and 1999**

*(in thousands of dollars)*

	<u>2000</u>	<u>1999</u>
ASSETS		
Cash and investments available for operations	\$49,621	\$44,477
Receivables, net:		
Accounts	5,576	4,923
Interest	1,414	1,087
Notes	649	479
Interfund receivable	130	98
Inventory of materials and supplies	<u>2,144</u>	<u>1,691</u>
 Total Assets	 <u><u>\$59,534</u></u>	 <u><u>\$52,755</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$1,984	\$2,112
Accrued salaries and benefits	1,705	1,434
Deferred revenue		72
Interfund advances/payables	<u>80</u>	<u></u>
 Total Liabilities	 <u><u>3,769</u></u>	 <u><u>3,618</u></u>
FUND BALANCES		
Reserved for:		
Encumbrances	12,045	5,067
Notes	649	479
Inventory of materials and supplies	2,144	1,691
Unreserved, designated for:		
Unrealized gain on investments		7
Reappropriations	612	670
Budget stabilization	20,957	20,591
Emergencies	6,388	5,966
Infrastructure	<u>12,970</u>	<u>14,666</u>
 Total Fund Balances	 <u><u>55,765</u></u>	 <u><u>49,137</u></u>
 Total Liabilities and Fund Balances	 <u><u>\$59,534</u></u>	 <u><u>\$52,755</u></u>

**City of Palo Alto – General Fund** .....

**Schedule of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	2000		Variance	1999
	Budget	Actual	Favorable (Unfavorable)	Actual
<b>REVENUES</b>				
Taxes:				
Property taxes	\$10,057	\$10,770	\$713	\$9,521
Sales taxes	20,850	22,867	2,017	20,225
Utility users' tax	5,775	5,861	86	6,039
Transient occupancy tax	7,600	8,293	693	6,551
Other taxes and fines	7,522	9,096	1,574	7,255
<b>Total taxes</b>	<b>51,804</b>	<b>56,887</b>	<b>5,083</b>	<b>49,591</b>
Fire protection and emergency communication services	4,991	5,053	62	4,751
From other agencies	575	517	(58)	872
Service fees and permits	10,619	12,408	1,789	8,810
Return on investment	3,575	3,447	(128)	3,167
Rental income	9,917	9,944	27	10,155
Other revenues	3,429	3,341	(88)	2,623
<b>Total Revenues</b>	<b>84,910</b>	<b>91,597</b>	<b>6,687</b>	<b>79,969</b>
<b>EXPENDITURES</b>				
Current:				
City Council	214	216	(2)	197
City Manager	1,639	1,483	156	1,417
City Attorney	2,109	1,671	438	1,535
City Clerk	909	830	79	744
City Auditor	675	526	149	462
Administrative Services	9,695	8,963	732	8,937
Human Resources	2,137	2,083	54	1,774
Public Works	9,863	8,827	1,036	9,202
Planning and Community Environment	7,497	6,639	858	5,674
Public Safety - Police	18,039	17,666	373	16,705
Public Safety - Fire	14,267	14,512	(245)	13,949
Community Services	18,794	17,858	936	16,820
School Site Operations	6,985	6,927	58	6,520
<b>Total Expenditures</b>	<b>92,823</b>	<b>88,201</b>	<b>4,622</b>	<b>83,936</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(7,913)</b>	<b>3,396</b>	<b>11,309</b>	<b>(3,967)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	12,987	12,837	(150)	14,246
Operating transfers (out)	(9,594)	(9,605)	(11)	(7,046)
<b>Total Other Financing Sources (Uses)</b>	<b>3,393</b>	<b>3,232</b>	<b>(161)</b>	<b>7,200</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(\$4,520)</b>	<b>6,628</b>	<b>\$11,148</b>	<b>3,233</b>
Fund balance at beginning of year		49,137		45,904
Fund balance at end of year		<u>\$55,765</u>		<u>\$49,137</u>

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# Special Revenue Funds .....

## **Introduction**

These funds account for the proceeds derived from specific revenue sources that are legally restricted to expenditures for specified purposes.

## **Street Improvement**

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

## **Federal Revenue**

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

## **Housing In-Lieu**

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

## **Special Districts**

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

## **Transportation Mitigation**

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

## **Local Law Enforcement**

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

## **Downtown Planned Community**

This fund accounts for revenues received from contributions and fees that will be used to implement downtown improvements.

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**City of Palo Alto – Special Revenue Funds .....**

**Combining Balance Sheets – June 30, 2000**

**with comparative amounts for June 30, 1999**

*(in thousands of dollars)*

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>
ASSETS			
Cash and investments available for operations	\$1,526	\$19	\$4,451
Receivables, net	66	22	45
Interest receivable	23		66
Notes, net		<u>3,609</u>	<u>5,469</u>
Total Assets	<u>\$1,615</u>	<u>\$3,650</u>	<u>\$10,031</u>
LIABILITIES			
Accounts payable and accrued liabilities		\$22	\$144
Interfund payables		<u>130</u>	
Total Liabilities		<u>152</u>	<u>144</u>
FUND BALANCES			
Reserved for:			
Encumbrances	\$865		3,012
Notes		3,609	5,469
Unreserved, designated for:			
Special revenue projects			1,406
Reappropriations	750		
Undesignated		<u>(111)</u>	
Total Fund Balances	<u>1,615</u>	<u>3,498</u>	<u>9,887</u>
Total Liabilities and Fund Balances	<u>\$1,615</u>	<u>\$3,650</u>	<u>\$10,031</u>



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Special Districts	Transportation Mitigation	Local Law Enforcement	Downtown Planned Community	TOTALS	
				2000	1999
\$933	\$1,921	\$274	\$17	\$9,141	\$7,979
		16		149	227
13	30	5		137	107
				9,078	9,226
<u>\$946</u>	<u>\$1,951</u>	<u>\$295</u>	<u>\$17</u>	<u>\$18,505</u>	<u>\$17,539</u>
\$55		\$1		\$222	\$373
				130	98
<u>55</u>		<u>1</u>		<u>352</u>	<u>471</u>
		290		4,167	2,569
				9,078	9,226
891	\$1,951	4	\$17	4,269	4,680
				750	1,034
				(111)	(441)
<u>891</u>	<u>1,951</u>	<u>294</u>	<u>17</u>	<u>18,153</u>	<u>17,068</u>
<u>\$946</u>	<u>\$1,951</u>	<u>\$295</u>	<u>\$17</u>	<u>\$18,505</u>	<u>\$17,539</u>

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**City of Palo Alto – Special Revenue Funds** .....

**Combining Statements of Revenues, Expenditures and Changes  
in Fund Balances – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>
REVENUES			
Other taxes and fines	\$1,148		
From other agencies:			
Community Development Block Grant		\$985	
County Measure A/B	1,120		
Local Law Enforcement Block Grant			
State of California			
TDA grant	66		
Other revenue from other agencies		31	
Total from other agencies	<u>1,186</u>	<u>1,016</u>	
Return on investment	<u>99</u>	<u>19</u>	<u>170</u>
Other:			
Great Western Bank - loan payoff			
Housing In-Lieu - residential			404
Housing In-Lieu - commercial			576
Traffic Mitigation - transportation			
University Avenue Parking			
California Avenue Parking			
Other fees			405
Total other			<u>1,385</u>
Total Revenues	<u>2,433</u>	<u>1,035</u>	<u>1,555</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS		<u>303</u>	<u>198</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,433</u>	<u>732</u>	<u>1,357</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	700		
Operating transfers (out)	<u>(4,453)</u>	<u>(119)</u>	
Total Other Financing Sources (Uses)	<u>(3,753)</u>	<u>(119)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	(1,320)	613	1,357
Fund balances at beginning of year	<u>2,935</u>	<u>2,885</u>	<u>8,530</u>
Fund balances at end of year	<u><u>\$1,615</u></u>	<u><u>\$3,498</u></u>	<u><u>\$9,887</u></u>

**Supplemental Statements and Schedules – Special Revenue Funds**

Special Districts	Transportation Mitigation	Local Law Enforcement	Planned Community		
				2000	1999
				\$1,148	\$1,149
				985	1,875
				1,120	
		\$136		136	31
				66	236
				31	29
					18
		136		2,338	2,189
\$15	\$84	14	\$1	402	467
					9
				404	243
				576	493
	792			792	337
462				462	434
95				95	92
94				499	144
651	792			2,828	1,752
666	876	150	1	6,716	5,557
		63		564	877
666	876	87	1	6,152	4,680
		3		703	340
(498)	(700)			(5,770)	(3,308)
(498)	(700)	3		(5,067)	(2,968)
168	176	90	1	1,085	1,712
723	1,775	204	16	17,068	15,356
\$891	\$1,951	\$294	\$17	\$18,153	\$17,068

**City of Palo Alto – Special Revenue Funds .....**

**Combining Statements of Revenues, Expenditures and Changes  
in Fund Balances – Budget and Actual – Fiscal Year Ended June 30, 2000**

(in thousands of dollars)

	STREET IMPROVEMENT			FEDERAL REVENUE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Other taxes and fines	\$1,125	\$1,148	\$23			
From other agencies:						
Community Development Block Grant				\$738	\$985	\$247
County Measure A/B	1,252	1,120	(132)			
Local Law Enforcement Block Grant						
State of California						
TDA grant	34	66	32			
Other revenue from other agencies	180		(180)	20	31	11
Total from other agencies	1,466	1,186	(280)	758	1,016	258
Return on investment	165	99	(66)	15	19	4
Other:						
Great Western Bank - loan payoff				10		(10)
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees						
Total other				10		(10)
Total Revenues	2,756	2,433	(323)	783	1,035	252
EXPENDITURES FOR SPECIAL REVENUE PROJECTS				957	303	654
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,756	2,433	(323)	(174)	732	906
OTHER FINANCING SOURCES (USES)						
Operating transfers in	750	700	(50)	25		(25)
Operating transfers (out)	(3,541)	(4,453)	(912)	(159)	(119)	40
Total Other Financing Sources (Uses)	(2,791)	(3,753)	(962)	(134)	(119)	15
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$35)	(1,320)	(\$1,285)	(\$308)	613	\$921
Fund balances at beginning of year		2,935			2,885	
Fund balances at end of year		\$1,615			\$3,498	

**Supplemental Statements and Schedules – Special Revenue Funds**

HOUSING IN-LIEU			SPECIAL DISTRICTS			TRANSPORTATION MITIGATION		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>\$108</u>	<u>\$170</u>	<u>\$62</u>	<u>\$37</u>	<u>\$15</u>	<u>(\$22)</u>	<u>\$71</u>	<u>\$84</u>	<u>\$13</u>
475	404	(71)						
522	576	54						
			428	462	34	150	792	642
			90	95	5			
50	405	355	80	94	14			
<u>1,047</u>	<u>1,385</u>	<u>338</u>	<u>598</u>	<u>651</u>	<u>53</u>	<u>150</u>	<u>792</u>	<u>642</u>
1,155	1,555	400	635	666	31	221	876	655
223	198	25						
<u>932</u>	<u>1,357</u>	<u>425</u>	<u>635</u>	<u>666</u>	<u>31</u>	<u>221</u>	<u>876</u>	<u>655</u>
			<u>(580)</u>	<u>(498)</u>	<u>82</u>	<u>(700)</u>	<u>(700)</u>	
			<u>(580)</u>	<u>(498)</u>	<u>82</u>	<u>(700)</u>	<u>(700)</u>	
<u>\$932</u>	1,357	<u>\$425</u>	<u>\$55</u>	168	<u>\$113</u>	<u>(\$479)</u>	176	<u>\$655</u>
	<u>8,530</u>			<u>723</u>			<u>1,775</u>	
	<u>\$9,887</u>			<u>\$891</u>			<u>\$1,951</u>	

(Continued)

**City of Palo Alto – Special Revenue Funds (continued)** .....

**Combining Statements of Revenues, Expenditures and Changes  
in Fund Balances – Budget and Actual – Fiscal Year Ended June 30, 2000**

(in thousands of dollars)

	LOCAL LAW ENFORCEMENT			DOWNTOWN PLANNED COMMUNITY		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Other taxes and fines						
From other agencies:						
Community Development Block Grant						
County Measure A/B						
Local Law Enforcement Block Grant	\$26		(\$26)			
State of California	136	\$136				
TDA grant						
Other revenue from other agencies						
Total from other agencies	162	136	(26)			
Return on investment		14	14		\$1	\$1
Other:						
Great Western Bank - loan payoff						
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees						
Total other						
Total Revenues	162	150	(12)		1	1
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	356	63	293			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(194)	87	281		1	1
OTHER FINANCING SOURCES (USES)						
Operating transfers in	3	3				
Operating transfers (out)						
Total Other Financing Sources (Uses)	3	3				
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$191)	90	\$281		1	\$1
Fund balances at beginning of year		204			16	
Fund balances at end of year		\$294			\$17	





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TOTALS		
Budget	Actual	Variance Favorable (Unfavorable)
\$1,125	\$1,148	\$23
738	985	247
1,252	1,120	(132)
26		(26)
136	136	
34	66	32
200	31	(169)
<u>2,386</u>	<u>2,338</u>	<u>(48)</u>
396	402	6
10		(10)
475	404	(71)
522	576	54
150	792	642
428	462	34
90	95	5
130	499	369
<u>1,805</u>	<u>2,828</u>	<u>1,023</u>
5,712	6,716	1,004
<u>1,536</u>	<u>564</u>	<u>972</u>
<u>4,176</u>	<u>6,152</u>	<u>1,976</u>
778	703	(75)
(4,980)	(5,770)	(790)
<u>(4,202)</u>	<u>(5,067)</u>	<u>(865)</u>
<u>(\$26)</u>	1,085	<u>\$1,111</u>
	<u>17,068</u>	
	<u>\$18,153</u>	

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**Debt Service Funds** .....

**Introduction**

Debt Service Funds are used to account for the payment of interest and principal on the general long-term debt of the City and its related entities.

**Terman Lease**

This fund accounts for revenues received to provide payment of principal and interest on the long-term lease of the former Terman School with the Palo Alto Unified School District.

**Golf Course**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with general obligation debt issued for the City's golf course.

**Civic Center Certificates of Participation**

This fund accounts for revenues received from the General Fund to provide payment of the Civic Center Certificate of Participation as they become due.

**Special Assessment Debt**

This fund accumulate monies for payments of special assessment improvement bonds which are financed by assessments placed on property owners within the University Avenue and California Avenue Parking districts.

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**City of Palo Alto – Debt Service Funds** .....

**Combining Balance Sheets – June 30, 2000**

with comparative amounts for June 30, 1999 (in thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt
ASSETS				
Cash and investments available for operations	\$184	\$3		\$621
Restricted cash and investments		688	\$788	
Special assessment receivable				4,095
Prepaid items				102
Interest receivable	3		18	
Total Assets	<u>\$187</u>	<u>\$691</u>	<u>\$806</u>	<u>\$4,818</u>
LIABILITIES				
Deferred revenue				\$4,095
Total Liabilities				<u>4,095</u>
FUND BALANCES				
Reserved for debt service	\$187	\$691	\$806	621
Reserved for prepaid item				102
Total Fund Balances	<u>187</u>	<u>691</u>	<u>806</u>	<u>723</u>
Total Liabilities and Fund Balances	<u>\$187</u>	<u>\$691</u>	<u>\$806</u>	<u>\$4,818</u>



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TOTALS	
2000	1999
\$808	\$1,023
1,476	1,578
4,095	4,670
102	
<u>21</u>	<u>23</u>
<u>\$6,502</u>	<u>\$7,294</u>
<u>\$4,095</u>	<u>\$4,670</u>
<u>4,095</u>	<u>4,670</u>
2,305	2,624
<u>102</u>	<u>          </u>
<u>2,407</u>	<u>2,624</u>
<u>\$6,502</u>	<u>\$7,294</u>

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**City of Palo Alto – Debt Service Funds .....**

**Combining Statements of Revenues and Expenditures  
and Changes in Fund Balances – Fiscal Year Ended June 30, 2000**

**with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)**

	<u>Terman Lease</u>	<u>Golf Course</u>	<u>Civic Center</u>	<u>Special Assessment Debt</u>
REVENUES				
Special assessments				\$887
From other agencies	\$288			
Return on investment	8		\$41	
	<u>296</u>		<u>41</u>	<u>887</u>
Total Revenues				
EXPENDITURES				
Debt service:				
Principal retirement	395	\$345	510	525
Interest and fiscal charges	44	343	302	337
	<u>439</u>	<u>688</u>	<u>812</u>	<u>862</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(143)</u>	<u>(688)</u>	<u>(771)</u>	<u>25</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds				
Payment to bond escrow agent				
Operating transfers in		640	720	
		<u>640</u>	<u>720</u>	
Total Other Financing Sources (Uses)				
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	(143)	(48)	(51)	25
Fund balances at beginning of year	<u>330</u>	<u>739</u>	<u>857</u>	<u>698</u>
Fund balances at end of year	<u>\$187</u>	<u>\$691</u>	<u>\$806</u>	<u>\$723</u>



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<u>TOTALS</u>	
<u>2000</u>	<u>1999</u>
\$887	\$874
288	253
<u>49</u>	<u>94</u>
<u>1,224</u>	<u>1,221</u>
1,775	1,553
<u>1,026</u>	<u>956</u>
<u>2,801</u>	<u>2,509</u>
<u>(1,577)</u>	<u>(1,288)</u>
	1,376
	(649)
<u>1,360</u>	<u>993</u>
<u>1,360</u>	<u>1,720</u>
(217)	432
<u>2,624</u>	<u>2,192</u>
<u>\$2,407</u>	<u>\$2,624</u>

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**City of Palo Alto – Debt Service Funds .....**

**Combining Statements of Revenues and Expenditures  
and Changes in Fund Balances – Budget and Actual –  
Fiscal Year Ended June 30, 2000**

*(in thousands of dollars)*

	TERMAN LEASE			GOLF COURSE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Special assessments						
From other agencies	\$259	\$288	\$29			
Return on investment	10	8	(2)	\$75		(\$75)
Total Revenues	<u>269</u>	<u>296</u>	<u>27</u>	<u>75</u>		<u>(75)</u>
EXPENDITURES						
Debt Service						
Principal retirement	395	395		345	\$345	
Interest and fiscal charges	43	44	(1)	343	343	
Total Expenditures	<u>438</u>	<u>439</u>	<u>(1)</u>	<u>688</u>	<u>688</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(169)</u>	<u>(143)</u>	<u>26</u>	<u>(613)</u>	<u>(688)</u>	<u>(75)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in				613	640	27
Total Other Financing Sources (Uses)				<u>613</u>	<u>640</u>	<u>27</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$169)</u>	<u>(143)</u>	<u>\$26</u>		<u>(48)</u>	<u>(\$48)</u>
Fund balances at beginning of year		330			739	
Fund balances at end of year		<u>\$187</u>			<u>\$691</u>	



**Supplemental Statements and Schedules – Debt Service Funds**

CIVIC CENTER			SPECIAL ASSESSMENT DEBT			TOTALS		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$875	\$887	\$12	\$875	\$887	\$12
\$48	\$41	(\$7)				259	288	29
						133	49	(84)
48	41	(7)	875	887	12	1,267	1,224	(43)
510	510		525	525		1,775	1,775	
302	302		337	337		1,025	1,026	(1)
812	812		862	862		2,800	2,801	(1)
(764)	(771)	(7)	13	25	12	(1,533)	(1,577)	(44)
765	720	(45)				1,378	1,360	(18)
765	720	(45)				1,378	1,360	(18)
\$1	(51)	(\$52)	\$13	25	\$12	(\$155)	(217)	(\$62)
	857			698			2,624	
	\$806			\$723			\$2,407	

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**Capital Projects Funds** .....

**Introduction**

The Capital Projects Fund is utilized to account for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

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**City of Palo Alto – Capital Projects Fund .....**

**Comparative Balance Sheets – June 30, 2000 and 1999**

*(in thousands of dollars)*

	<u>2000</u>	<u>1999</u>
ASSETS		
Cash and investments available for operations	\$13,916	\$12,730
Restricted cash and investments	492	639
Receivable, net	65	
Interest receivable	<u>3</u>	<u>2</u>
Total Assets	<u>\$14,476</u>	<u>\$13,371</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$1,424</u>	<u>\$799</u>
Total Liabilities	<u>1,424</u>	<u>799</u>
FUND BALANCE		
Reserved for:		
Encumbrances	4,873	3,205
Debt proceeds	192	172
Unreserved:		
Designated for reappropriations	<u>7,987</u>	<u>9,195</u>
Total Fund Balance	<u>13,052</u>	<u>12,572</u>
Total Liabilities and Fund Balance	<u>\$14,476</u>	<u>\$13,371</u>

**City of Palo Alto – Capital Projects Fund** .....

**Comparative Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Fiscal Year Ended June 30, 2000 and 1999**

(in thousands of dollars)

	<u>2000</u>	<u>1999</u>
REVENUES		
From other agencies:		
State of California	\$77	
Hewlett Packard Foundation	4	\$50
Pacific Gas & Electric	10	
Palo Alto Unified	23	
Santa Clara County	25	
Stanford University		10
	<u>139</u>	<u>60</u>
Total from other agencies		
Return on investment	32	109
Other revenues	44	1
	<u>215</u>	<u>170</u>
Total Revenues		
EXPENDITURES		
Capital outlay	<u>12,587</u>	<u>15,728</u>
Total Expenditures	<u>12,587</u>	<u>15,728</u>
DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES		
	<u>(12,372)</u>	<u>(15,558)</u>
OTHER FINANCING SOURCES (USES)		
Bond proceeds		6,374
Operating transfers in	12,895	9,136
Operating transfers (out)	(43)	(2,015)
	<u>12,852</u>	<u>13,495</u>
Total Other Financing Sources (Uses)		
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		
	480	(2,063)
Fund balance at beginning of year	<u>12,572</u>	<u>14,635</u>
Fund balance at end of year	<u>\$13,052</u>	<u>\$12,572</u>

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# Enterprise Funds .....

## **Introduction**

Enterprise funds account for City operations which are financed and operated in a manner similar to private enterprise. Costs of providing service to the public are covered by user charges, grant funds, and impact fees.

## **Water Services**

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Palo Alto.

## **Electric Services**

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Palo Alto.

## **Gas Services**

This fund accounts for all financial transactions relating to the City's Gas service. Services are on a user charge basis to residents and business owners located in Palo Alto.

## **Wastewater Collection**

This fund accounts for all financial transactions relating to the City's Wastewater Collection. Collections are on a user charge basis to residents and business owners located in Palo Alto.

## **Wastewater Treatment**

This fund accounts for all financial transactions relating to the City's Wastewater Treatment. Services are on a user charge basis to residents and business owners located in Palo Alto.

## **Refuse Services**

This fund accounts for all financial transactions relating to the City's Refuse service. Services are on a user charge basis to residents and business owners located in Palo Alto.

## **Storm Drainage Services**

This fund accounts for all financial transactions relating to the City's Storm Drain service. Services are on a user charge basis to residents and business owners located in Palo Alto.

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**City of Palo Alto – Enterprise Funds** .....

**Combining Balance Sheets – June 30, 2000**

with comparative amounts for June 30, 1999 (in thousands of dollars)

ASSETS	Water	Electric	Gas
Current Assets:			
Cash and investments:			
Available for operations	\$10,556	\$106,314	\$13,209
Restricted			
Accounts receivable, net	2,191	7,618	1,560
Interest receivable	166	1,458	190
Prepaid items		5,014	
	12,913	120,404	14,959
Total Current Assets			
Noncurrent Assets:			
Property, plant and equipment, net	34,284	106,040	36,722
	34,284	106,040	36,722
Total Noncurrent Assets			
	\$47,197	\$226,444	\$51,681
	\$47,197	\$226,444	\$51,681
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$820	\$4,354	\$1,052
Accrued salaries and benefits	84	251	84
Current portion of revenue bonds			
Accrued landfill closure liability			
	904	4,605	1,136
Total Current Liabilities			
Long-term liabilities:			
Revenue bonds, net of unamortized discount and issuance costs			
	904	4,605	1,136
Total Liabilities			
	904	4,605	1,136
FUND EQUITY			
Contributed capital	8,615	17,138	3,333
Retained earnings	37,678	204,701	47,212
	46,293	221,839	50,545
Total Fund Equity			
	46,293	221,839	50,545
Total Liabilities and Fund Equity	\$47,197	\$226,444	\$51,681
	\$47,197	\$226,444	\$51,681



Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
				2000	1999
\$15,161	\$7,318	\$17,341	\$57	\$169,956	\$175,117
	2,812		953	3,765	9,003
1,646	1,109	2,054	180	16,358	13,982
225	127	252		2,418	2,398
188				5,202	130
<u>17,220</u>	<u>11,366</u>	<u>19,647</u>	<u>1,190</u>	<u>197,699</u>	<u>200,630</u>
<u>34,227</u>	<u>31,851</u>	<u>4,688</u>	<u>14,809</u>	<u>262,621</u>	<u>237,788</u>
<u>34,227</u>	<u>31,851</u>	<u>4,688</u>	<u>14,809</u>	<u>262,621</u>	<u>237,788</u>
<u>\$51,447</u>	<u>\$43,217</u>	<u>\$24,335</u>	<u>\$15,999</u>	<u>\$460,320</u>	<u>\$438,418</u>
\$573	\$1,101	\$153	\$169	\$8,222	\$8,004
43	114	50	16	642	531
42	262		250	554	545
		7,136		7,136	6,871
<u>658</u>	<u>1,477</u>	<u>7,339</u>	<u>435</u>	<u>16,554</u>	<u>15,951</u>
<u>1,606</u>	<u>10,427</u>		<u>11,348</u>	<u>23,381</u>	<u>23,823</u>
<u>2,264</u>	<u>11,904</u>	<u>7,339</u>	<u>11,783</u>	<u>39,935</u>	<u>39,774</u>
10,039	21,382			60,507	59,288
39,144	9,931	16,996	4,216	359,878	339,356
<u>49,183</u>	<u>31,313</u>	<u>16,996</u>	<u>4,216</u>	<u>420,385</u>	<u>398,644</u>
<u>\$51,447</u>	<u>\$43,217</u>	<u>\$24,335</u>	<u>\$15,999</u>	<u>\$460,320</u>	<u>\$438,418</u>

**City of Palo Alto – Enterprise Funds** .....

**Combining Statements of Revenues, Expenses and Changes  
in Retained Earnings – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	Water	Electric	Gas
<b>OPERATING REVENUES</b>			
Sales of utilities:			
Customers	\$13,923	\$55,344	\$16,076
City departments	630	1,427	366
Wholesale		4,582	
Wastewater treatment			
Service connection charges and miscellaneous	436	1,239	580
Other operating revenues	180	3,999	84
	<u>15,169</u>	<u>66,591</u>	<u>17,106</u>
<b>OPERATING EXPENSES</b>			
Purchase of utilities	5,712	18,261	11,519
Administration and general	1,601	4,199	1,960
Engineering (operating)	134	705	160
Resource management	236	3,197	546
Operations and maintenance	1,669	6,488	1,873
Rent	825	2,174	162
Depreciation and amortization	823	4,266	1,132
	<u>11,000</u>	<u>39,290</u>	<u>17,352</u>
Operating Income	<u>4,169</u>	<u>27,301</u>	<u>(246)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Return on investment	545	4,920	709
Interest (expense)			
Joint venture debt service		(11,026)	
Loss on disposal of fixed assets	(35)	(9)	(6)
	<u>510</u>	<u>(6,115)</u>	<u>703</u>
Net Nonoperating Revenues (Expenses)	<u>510</u>	<u>(6,115)</u>	<u>703</u>
Income (Loss) Before Operating Transfers	4,679	21,186	457
Operating transfers in		684	
Operating transfers (out)	(2,341)	(7,415)	(2,878)
	<u>2,338</u>	<u>14,455</u>	<u>(2,421)</u>
Net Income (Loss)	<u>2,338</u>	<u>14,455</u>	<u>(2,421)</u>
Retained earnings at beginning of year	<u>35,340</u>	<u>190,246</u>	<u>49,633</u>
Retained earnings at end of year	<u>\$37,678</u>	<u>\$204,701</u>	<u>\$47,212</u>

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Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
				2000	1999
\$9,208		\$18,137	\$1,885	\$114,573	\$123,083
145	\$4,444	769	114	7,895	7,912
				4,582	5,641
	7,405			7,405	7,403
237				2,492	1,511
752	204	3,302	1	8,522	9,953
<u>10,342</u>	<u>12,053</u>	<u>22,208</u>	<u>2,000</u>	<u>145,469</u>	<u>155,503</u>
4,390		6,957		46,839	51,262
407	1,145	1,158	464	10,934	10,065
78	888	370	405	2,740	3,006
				3,979	2,722
1,143	7,886	8,136	565	27,760	26,322
88		4,288		7,537	7,364
1,048	1,821	187	363	9,640	9,191
<u>7,154</u>	<u>11,740</u>	<u>21,096</u>	<u>1,797</u>	<u>109,429</u>	<u>109,932</u>
<u>3,188</u>	<u>313</u>	<u>1,112</u>	<u>203</u>	<u>36,040</u>	<u>45,571</u>
804	311	769		8,058	8,555
(88)	(214)	(396)	(235)	(933)	(1,084)
				(11,026)	(10,940)
				(50)	(123)
<u>716</u>	<u>97</u>	<u>373</u>	<u>(235)</u>	<u>(3,951)</u>	<u>(3,592)</u>
3,904	410	1,485	(32)	32,089	41,979
160		64	458	1,366	547
(153)	(21)	(110)	(15)	(12,933)	(12,917)
3,911	389	1,439	411	20,522	29,609
<u>35,233</u>	<u>9,542</u>	<u>15,557</u>	<u>3,805</u>	<u>339,356</u>	<u>309,747</u>
<u>\$39,144</u>	<u>\$9,931</u>	<u>\$16,996</u>	<u>\$4,216</u>	<u>\$359,878</u>	<u>\$339,356</u>

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**City of Palo Alto – Enterprise Funds** .....

**Combining Statements of Cash Flows – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	<u>Water</u>	<u>Electric</u>	<u>Gas</u>	<u>Wastewater Collection</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$4,169	\$27,301	(\$246)	\$3,188
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization	823	4,266	1,132	1,048
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(530)	(412)	(320)	(427)
(Increase) decrease in interest receivable	(21)	(23)	61	7
(Increase) decrease in prepaid items		(5,014)		(58)
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(41)	252	293	489
Increase in accrued landfill closure				
Net Cash From Operating Activities	<u>4,400</u>	<u>26,370</u>	<u>920</u>	<u>4,247</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in		684		160
Operating transfers (out)	<u>(2,341)</u>	<u>(7,415)</u>	<u>(2,878)</u>	<u>(153)</u>
Net Cash From Noncapital Financing Activities	<u>(2,341)</u>	<u>(6,731)</u>	<u>(2,878)</u>	<u>7</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(2,609)	(12,090)	(3,689)	(6,714)
Proceeds from bond issuance				
Bond issuance costs and underwriter's discount				
Payment to bond escrow agent				(47)
Principal paid on long term debt				(74)
Interest paid on long term debt		(11,026)		
Cash Flows From Capital Financing Activities	<u>(2,609)</u>	<u>(23,116)</u>	<u>(3,689)</u>	<u>(6,835)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on pooled investments	545	4,920	709	804
Net Cash From Investing Activities	<u>545</u>	<u>4,920</u>	<u>709</u>	<u>804</u>
Net Cash Flows	(5)	1,443	(4,938)	(1,777)
Cash and cash equivalents at beginning of year	<u>10,561</u>	<u>104,871</u>	<u>18,147</u>	<u>16,938</u>
Cash and cash equivalents at end of year	<u>\$10,556</u>	<u>\$106,314</u>	<u>\$13,209</u>	<u>\$15,161</u>
<b>FINANCIAL STATEMENT PRESENTATION:</b>				
Cash and investments available for operations	<u>\$10,556</u>	<u>\$106,314</u>	<u>\$13,209</u>	<u>\$15,161</u>
Restricted cash and investments				
Cash and cash equivalents at end of year	<u>\$10,556</u>	<u>\$106,314</u>	<u>\$13,209</u>	<u>\$15,161</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Increase in contributed capital	<u>\$15</u>			<u>\$610</u>

Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
			2000	1999
\$313	\$1,112	\$203	\$36,040	\$45,571
1,821	187	363	9,640	9,191
(465)	(239)	17	(2,376)	369
(14)	(30)		(20)	(204)
			(5,072)	(88)
294	(1,058)	100	329	602
	265		265	(367)
<u>1,949</u>	<u>237</u>	<u>683</u>	<u>38,806</u>	<u>55,074</u>
	64	458	1,366	547
(21)	(110)	(15)	(12,933)	(12,917)
(21)	(46)	443	(11,567)	(12,370)
(6,577)	(94)	(1,531)	(33,304)	(19,709)
24		4	28	17,735
				(542)
(298)		(200)	(545)	(9,929)
(176)	(396)	(203)	(11,875)	(895)
(7,027)	(490)	(1,930)	(45,696)	(11,971)
(7,027)	(490)	(1,930)	(45,696)	(25,311)
311	769		8,058	8,555
311	769		8,058	8,555
(4,788)	470	(804)	(10,399)	25,948
14,918	16,871	1,814	184,120	158,172
<u>\$10,130</u>	<u>\$17,341</u>	<u>\$1,010</u>	<u>\$173,721</u>	<u>\$184,120</u>
\$7,318	\$17,341	\$57	\$169,956	\$175,117
2,812		953	3,765	9,003
<u>\$10,130</u>	<u>\$17,341</u>	<u>\$1,010</u>	<u>\$173,721</u>	<u>\$184,120</u>
			<u>\$625</u>	

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## ***Internal Service Funds*** .....

### **Introduction**

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

### **Vehicle Replacement and Maintenance**

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is an accumulation of resources.

### **Computer Equipment Replacement**

This fund accounts for the maintenance and replacement of computer equipment used by all City departments. The source of revenue is an accumulation of resources.

### **Printing and Mailing Services**

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

### **General Benefits and Insurance**

This fund accounts for the administration of compensated absences and health benefits, and the City's self-insured workers' compensation and general liability programs.

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**City of Palo Alto – Internal Service Funds** .....

**Combining Balance Sheets – June 30, 2000**

with comparative amounts for June 30, 1999 (in thousands of dollars)

	<u>Vehicle Replacement and Maintenance</u>	<u>Computer Equipment Replacement</u>	<u>Printing and Mailing Services</u>	<u>General Benefits and Insurance</u>
ASSETS				
Current Assets				
Cash and investments available for operations	\$2,968	\$3,213	\$456	\$24,915
Accounts receivable, net	14			3
Interest receivable	46	50	7	328
Interfund receivable	80			
Prepaid items				
Inventory of materials and supplies	289			
Total Current Assets	<u>3,397</u>	<u>3,263</u>	<u>463</u>	<u>25,246</u>
Property, plant and equipment, net	<u>10,858</u>	<u>371</u>	<u>24</u>	
Total Assets	<u><u>\$14,255</u></u>	<u><u>\$3,634</u></u>	<u><u>\$487</u></u>	<u><u>\$25,246</u></u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$149	\$59	\$5	\$71
Accrued salaries and benefits	25		7	1,424
Accrued compensated absences - current				6,882
Accrued self insurance - current				3,325
Total Current Liabilities	<u>174</u>	<u>59</u>	<u>12</u>	<u>11,702</u>
Long-term Liabilities				
Accrued compensated absences				3,105
Accrued self insurance				4,918
Capital lease obligation		141		
Total Long-term Liabilities		<u>141</u>		<u>8,023</u>
Total Liabilities	<u>174</u>	<u>200</u>	<u>12</u>	<u>19,725</u>
FUND EQUITY				
Contributed capital	4,834	2,000	196	
Retained earnings	9,247	1,434	279	5,521
Total Fund Equity	<u>14,081</u>	<u>3,434</u>	<u>475</u>	<u>5,521</u>
Total Liabilities and Fund Equity	<u><u>\$14,255</u></u>	<u><u>\$3,634</u></u>	<u><u>\$487</u></u>	<u><u>\$25,246</u></u>



**City of Palo Alto – Internal Service Funds** .....

**Combining Statements of Revenues, Expenses and Changes  
in Retained Earnings – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					2000	1999
<b>OPERATING REVENUES</b>						
Charges for services	\$4,260	\$1,137	\$809	\$29,043	\$35,249	\$36,547
<b>OPERATING EXPENSES</b>						
Administration and general	459	548	795	972	2,774	2,919
Operations and maintenance	2,113				2,113	1,747
Depreciation and amortization	1,759	91	12		1,862	1,873
Claim payments and change in estimated self-insured liability				3,763	3,763	3,764
Compensated absences and other benefits				25,579	25,579	27,020
<b>Total Operating Expenses</b>	<b>4,331</b>	<b>639</b>	<b>807</b>	<b>30,314</b>	<b>36,091</b>	<b>37,323</b>
<b>Total Operating Income (Loss)</b>	<b>(71)</b>	<b>498</b>	<b>2</b>	<b>(1,271)</b>	<b>(842)</b>	<b>(776)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Return on investment	159	143	19	969	1,290	1,321
Interest (expense)		(13)			(13)	
Gain on disposal of fixed assets	170				170	79
Other nonoperating revenues	224		6	396	626	357
<b>Total Nonoperating Revenues</b>	<b>553</b>	<b>130</b>	<b>25</b>	<b>1,365</b>	<b>2,073</b>	<b>1,757</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>482</b>	<b>628</b>	<b>27</b>	<b>94</b>	<b>1,231</b>	<b>981</b>
Operating transfers in	28				28	65
Operating transfers (out)	(788)	(50)			(838)	
<b>Net Income (Loss)</b>	<b>(278)</b>	<b>578</b>	<b>27</b>	<b>94</b>	<b>421</b>	<b>1,046</b>
Retained earnings at beginning of year	9,525	856	252	5,427	16,060	15,014
<b>Retained earnings at end of year</b>	<b>\$9,247</b>	<b>\$1,434</b>	<b>\$279</b>	<b>\$5,521</b>	<b>\$16,481</b>	<b>\$16,060</b>

**City of Palo Alto – Internal Service Funds** .....

**Combining Statements of Cash Flows – Fiscal Year Ended June 30, 2000**

with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	(\$71)	\$498	\$2
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation and amortization	1,759	91	12
Other	224		6
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(14)		
Decrease (increase) in interest receivable	14	(13)	(1)
Decrease (increase) in interfund receivable	(80)		
Decrease (increase) in prepaid items			
Increase in inventory	(63)		
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(196)	(16)	(8)
Decrease in accrued compensated absences			
Increase in accrued self-insurance			
	<u>1,573</u>	<u>560</u>	<u>11</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfer in	28		
Operating transfer (out)	(788)	(50)	
	<u>(760)</u>	<u>(50)</u>	
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>			
Acquisition and construction of fixed assets	(2,563)	(163)	
Proceeds from capital lease obligation		163	
Principal paid on long term obligation		(22)	
Interest paid on long term obligation		(13)	
	<u>(2,563)</u>	<u>(35)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends on pooled investments	159	143	19
	<u>159</u>	<u>143</u>	<u>19</u>
Net Cash Flows	(1,591)	618	30
Cash, cash equivalents and investments at beginning of year	4,559	2,595	426
Cash, cash equivalents and investments at end of year	<u>\$2,968</u>	<u>\$3,213</u>	<u>\$456</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Increase in contributed capital	<u>\$551</u>		



General Benefits and Insurance	TOTALS	
	2000	1999
(\$1,271)	(\$842)	(\$776)
	1,862	1,873
396	626	357
(1)	(15)	24
(70)	(70)	17
	(80)	
8	8	172
	(63)	(9)
(57)	(277)	253
(51)	(51)	361
590	590	3
<u>(456)</u>	<u>1,688</u>	<u>2,275</u>
	28	65
	<u>(838)</u>	
	<u>(810)</u>	<u>65</u>
	(2,726)	(3,449)
	163	
	(22)	
	<u>(13)</u>	
	<u>(2,598)</u>	<u>(3,449)</u>
969	1,290	1,321
969	1,290	1,321
513	(430)	212
24,402	31,982	31,770
<u>\$24,915</u>	<u>\$31,552</u>	<u>\$31,982</u>
	<u>\$551</u>	<u>\$339</u>

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# Fiduciary Funds .....

## **Introduction**

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

## **Expendable Trust Funds**

Expendable Trust Funds account for assets held by the City in a trustee capacity under formal trust agreements, as follows:

### **Community Projects Donations**

This fund accounts for community projects on behalf of the City residents. The source of revenues are donations.

### **Assets Seizure**

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

### **Human Service Projects**

This fund, formerly called the Child Care Fund, accounts for Child Care and Family Resource projects benefiting the community.

### **Retiree Health Benefit**

This fund accounts for retiree health benefits up to the amount that actual benefits exceed one and one-half of the City's gross payroll costs in any fiscal period.

## **Agency Funds**

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

### **California Avenue Parking Assessment District**

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

### **Developer Deposits**

This fund accounts for receipts and disbursements associated with performance deposits received from various developers.

.....

**City of Palo Alto – Trust and Agency Funds .....**

**Combining Balance Sheets – June 30, 2000**

**with comparative amounts for June 30, 1999 (in thousands of dollars)**

	EXPENDABLE TRUST FUNDS			
	Community Projects Donation	Assets Seizure	Human Services Projects	Retiree Health Benefit
ASSETS				
Cash and investments available for operations	\$311	\$53	\$252	\$10,797
Interest receivable	5	1	4	147
Total Assets	<u>\$316</u>	<u>\$54</u>	<u>\$256</u>	<u>\$10,944</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$1			
Due to bondholders				
Due to developers				
Total Liabilities	<u>\$1</u>			
FUND BALANCE				
Unreserved, designated for unrealized gain on investment				
Unreserved, undesignated	315	\$54	\$256	\$10,944
Total Fund Balances	<u>315</u>	<u>54</u>	<u>256</u>	<u>10,944</u>
Total Liabilities and Equity	<u>\$316</u>	<u>\$54</u>	<u>\$256</u>	<u>\$10,944</u>



.....

AGENCY FUNDS		TOTALS	
California Avenue Parking Assessment District	Developer's Deposits	2000	1999
\$374	\$617	\$12,404	\$9,271
		157	116
<u>\$374</u>	<u>\$617</u>	<u>\$12,561</u>	<u>\$9,387</u>
		\$1	\$15
\$374		374	388
	\$617	617	443
<u>374</u>	<u>617</u>	<u>992</u>	<u>846</u>
			1
		11,569	8,540
		11,569	8,541
<u>\$374</u>	<u>\$617</u>	<u>\$12,561</u>	<u>\$9,387</u>

.....

**City of Palo Alto – Expendable Trust Funds .....**

**Combining Statements of Revenues, Expenditures  
and Changes in Fund Balances – Fiscal Year Ended June 30, 2000**

**with comparative amounts for fiscal year ended June 30, 1999 (in thousands of dollars)**

	Community Projects Donations	Assets Seizure	Human Services Projects	Retiree Health Benefit	TOTALS	
					2000	1999
<b>REVENUES</b>						
Return on Investment	\$13	\$3	\$12	\$398	\$426	\$425
Other	104		10	2,561	2,675	92
Total Revenues	117	3	22	2,959	3,101	517
<b>EXPENDITURES</b>						
Public Safety - Police	5	22			27	33
Community Services	33		13		46	24
Human Resources - Benefits						43
Total Expenditures	38	22	13		73	100
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	79	(19)	9	2,959	3,028	417
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers (out)	50		(50)			(41)
Total Other Financing Sources (Uses)	50		(50)			(41)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	129	(19)	(41)	2,959	3,028	376
Fund balance at beginning of year	186	73	297	7,985	8,541	8,165
Fund balance at end of year	\$315	\$54	\$256	\$10,944	\$11,569	\$8,541



**City of Palo Alto – Agency Funds .....**

**Statement of Changes in Assets and Liabilities –  
Fiscal Year Ended June 30, 2000**

*(in thousands of dollars)*

	<u>Balance June 30, 1999</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2000</u>
<hr/> <u>California Avenue Parking Assessment District</u> <hr/>				
ASSETS				
Cash and investments available for operations	<u>\$388</u>	<u>\$144</u>	<u>\$158</u>	<u>\$374</u>
LIABILITIES				
Due to bondholders	<u>\$388</u>	<u>\$144</u>	<u>\$158</u>	<u>\$374</u>
<hr/> <u>Developer's Deposits</u> <hr/>				
ASSETS				
Cash and investments available for operations	<u>\$443</u>	<u>\$1,166</u>	<u>\$992</u>	<u>\$617</u>
LIABILITIES				
Due to developers	<u>\$443</u>	<u>\$1,166</u>	<u>\$992</u>	<u>\$617</u>
<hr/> <u>Total Agency Funds</u> <hr/>				
ASSETS				
Cash and investments available for operations	<u>\$831</u>	<u>\$1,310</u>	<u>\$1,150</u>	<u>\$991</u>
Total assets	<u>\$831</u>	<u>\$1,310</u>	<u>\$1,150</u>	<u>\$991</u>
LIABILITIES				
Due to bondholders	\$388	\$144	\$158	\$374
Due to developers	<u>443</u>	<u>1,166</u>	<u>992</u>	<u>617</u>
Total liabilities	<u>\$831</u>	<u>\$1,310</u>	<u>\$1,150</u>	<u>\$991</u>

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# *General Fixed Assets Account Group* .....

## **Introduction**

The General Fixed Assets Account Group is used to record and account for all City property and equipment which is not accounted for in an enterprise or internal service fund.

.....

**City of Palo Alto – Schedule of Changes .....  
in General Fixed Assets by Source**

**Fiscal Year Ended June 30, 2000**

*(in thousands of dollars)*

	<u>Balance June 30, 1999</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30,2000</u>
General Fixed Assets:				
Land and improvements	\$56,722	\$284		\$57,006
Buildings and structures	51,457	1,113	(\$163)	52,407
Equipment	<u>5,369</u>	<u>1,160</u>	<u>(53)</u>	<u>6,476</u>
Total General Fixed Assets	<u>\$113,548</u>	<u>\$2,557</u>	<u>(\$216)</u>	<u>\$115,889</u>
Investments in General Fixed Assets by Source:				
Balances prior to July 1, 1994	\$97,626			\$97,626
General Fund	36	\$198	(\$53)	181
Capital Projects Fund	<u>15,886</u>	<u>2,359</u>	<u>(163)</u>	<u>18,082</u>
Total Investment in General Fixed Assets	<u>\$113,548</u>	<u>\$2,557</u>	<u>(\$216)</u>	<u>\$115,889</u>

**City of Palo Alto – Schedule of General Fixed Assets .....  
by Function and Activity**

**as of June 30, 2000**

**with comparative amounts for June 30, 1999 (in thousands of dollars)**

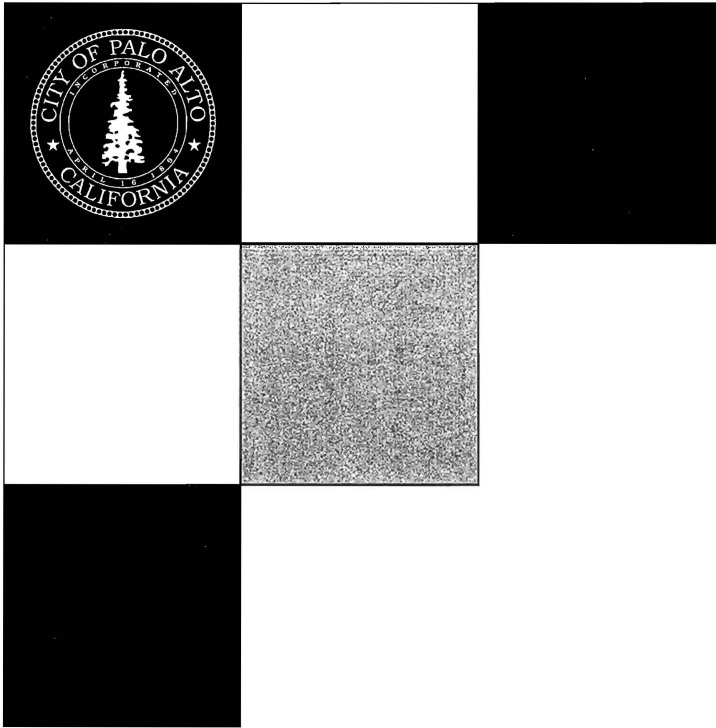
<u>FUNCTION AND ACTIVITY</u>	<u>Balance June 30, 1999</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2000</u>
<b>ADMINISTRATION:</b>				
City Clerk and Council	\$55		(\$9)	\$46
City Manager	11		(6)	5
Administrative Services	1,297	\$438		1,735
General Government	18,185	219	(14)	18,390
<b>Total administration</b>	<b>19,548</b>	<b>657</b>	<b>(29)</b>	<b>20,176</b>
<b>PUBLIC SAFETY:</b>				
Police	58	292		350
Fire	5,787	167		5,954
Communications	629			629
Animal Services	400			400
<b>Total public safety</b>	<b>6,874</b>	<b>459</b>		<b>7,333</b>
<b>LIBRARIES</b>	<b>3,360</b>	<b>32</b>		<b>3,392</b>
<b>PARKS, RECREATION AND CULTURE</b>	<b>53,837</b>	<b>1,409</b>	<b>(187)</b>	<b>55,059</b>
<b>PARKING FACILITIES</b>	<b>11,687</b>			<b>11,687</b>
<b>OPEN SPACE</b>	<b>18,242</b>			<b>18,242</b>
<b>Total General Fixed Assets</b>	<b>\$113,548</b>	<b>\$2,557</b>	<b>(\$216)</b>	<b>\$115,889</b>

**City of Palo Alto – Schedule of Changes .....  
in General Fixed Assets by Function and Activity**

**Fiscal Year Ended June 30, 2000**

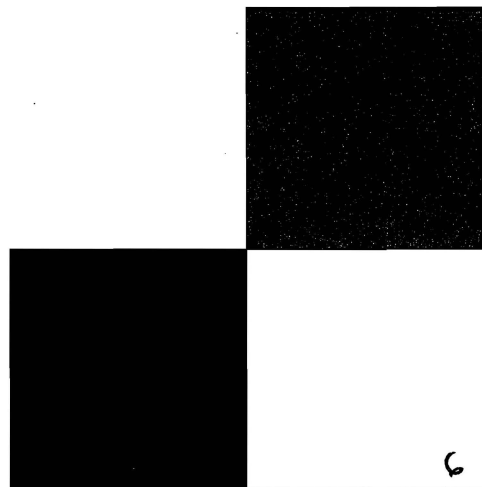
*(in thousands of dollars)*

FUNCTION AND ACTIVITY	Land and Improvements	Buildings and Structures	Equipment	TOTALS	
				2000	1999
<b>ADMINISTRATION:</b>					
City Clerk and Council			\$46	\$46	\$55
City Manager			5	5	11
Administrative Services			1,735	1,735	1,297
General Government	\$1,782	\$14,935	1,673	18,390	18,185
<b>Total administration</b>	<b>1,782</b>	<b>14,935</b>	<b>3,459</b>	<b>20,176</b>	<b>19,548</b>
<b>PUBLIC SAFETY:</b>					
Police			350	350	58
Fire	392	5,281	281	5,954	5,787
Communications			629	629	629
Animal Services	37	330	33	400	400
<b>Total public safety</b>	<b>429</b>	<b>5,611</b>	<b>1,293</b>	<b>7,333</b>	<b>6,874</b>
<b>LIBRARIES</b>	<b>245</b>	<b>2,881</b>	<b>266</b>	<b>3,392</b>	<b>3,360</b>
<b>PARKS, RECREATION AND CULTURE</b>	<b>33,296</b>	<b>20,305</b>	<b>1,458</b>	<b>55,059</b>	<b>53,837</b>
<b>PARKING FACILITIES</b>	<b>3,012</b>	<b>8,675</b>		<b>11,687</b>	<b>11,687</b>
<b>OPEN SPACE</b>	<b>18,242</b>			<b>18,242</b>	<b>18,242</b>
<b>Total General Fixed Assets</b>	<b>\$57,006</b>	<b>\$52,407</b>	<b>\$6,476</b>	<b>\$115,889</b>	<b>\$113,548</b>



# Statistical

*Fiscal Year Ended June 30, 2000*



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# Statistical Section .....

## Introduction

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

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

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

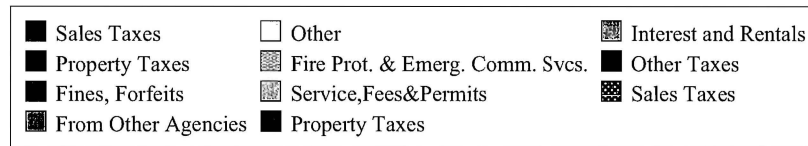
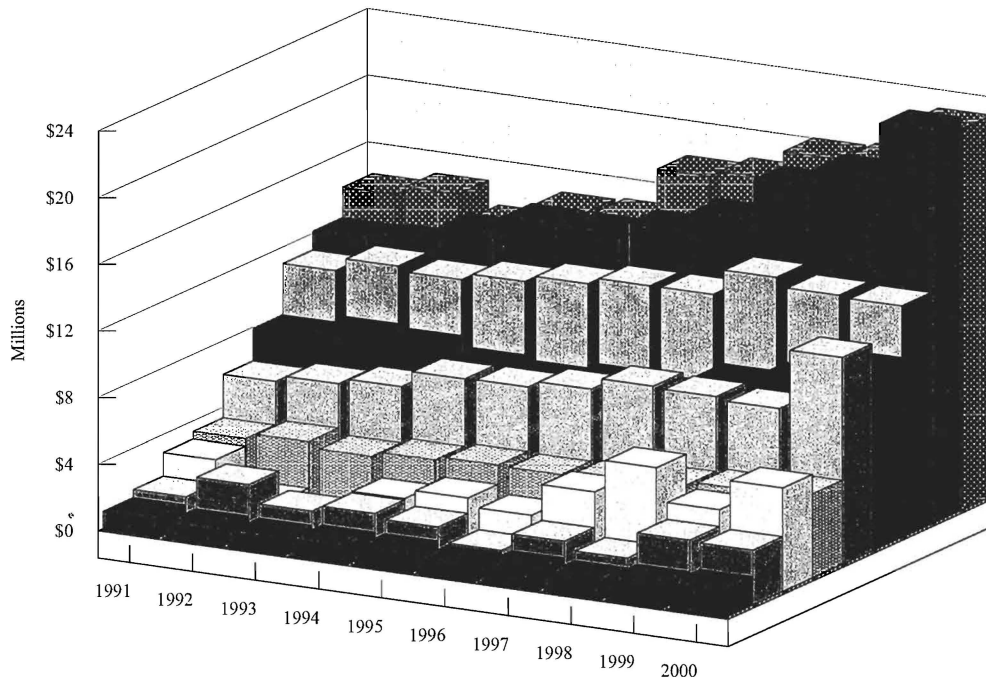
In contrast to the financial section, the statistical section information is not usually subject to independent audit.

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# City of Palo Alto – General Governmental Revenues by Source .....

## All Governmental Fund Types

Last Ten Fiscal Years (in thousands of dollars)

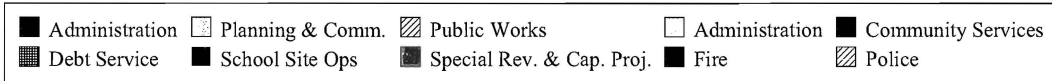
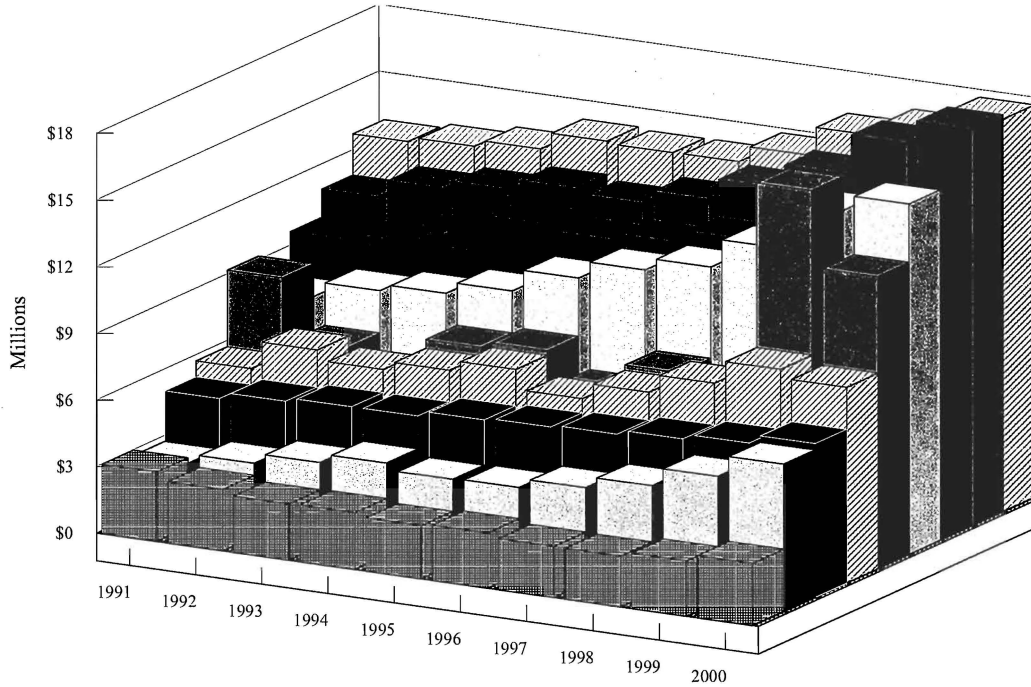


Fiscal Year	Sales Taxes	Property Taxes	Other Taxes	Service Fees & Permits	Fines, Forfeits & Penalties	Interest & Rentals	Fire Protection & Emergency Communication Services	From Other Agencies	Other	Total
1991	\$14,140	\$8,109	\$12,317	\$6,168	\$1,222	\$11,190	\$3,561	\$1,711	\$3,110	\$61,528
1992	14,692	8,555	12,493	6,570	1,097	12,001	3,908	2,982	1,127	63,425
1993	13,322	8,367	13,663	6,923	1,068	11,725	3,565	1,910	750	61,293
1994 (1)	14,635	7,737	14,763	7,915	1,180	12,132	3,884	2,295	2,381	66,922
1995	14,765	7,485	14,682	7,955	1,179	12,528	4,097	2,007	2,938	67,636
1996	17,895	7,854	15,469	8,380	1,032	12,953	4,073	1,144	2,445	71,245
1997	18,277	7,735	16,654	9,087	1,219	12,966	4,193	2,239	4,380	76,750
1998	20,011	8,903	19,150	8,984	1,161	14,525	4,507	1,732	6,354	85,327
1999	20,225	9,521	20,393	8,810	1,475	13,992	4,751	3,374	4,376	86,917
2000	22,867	10,770	23,582	12,408	1,703	13,874	5,053	3,282	6,213	99,752

# City of Palo Alto – General Governmental Expenditures ..... by Function

## All Governmental Fund Types

Last Ten Fiscal Years (in thousands of dollars)



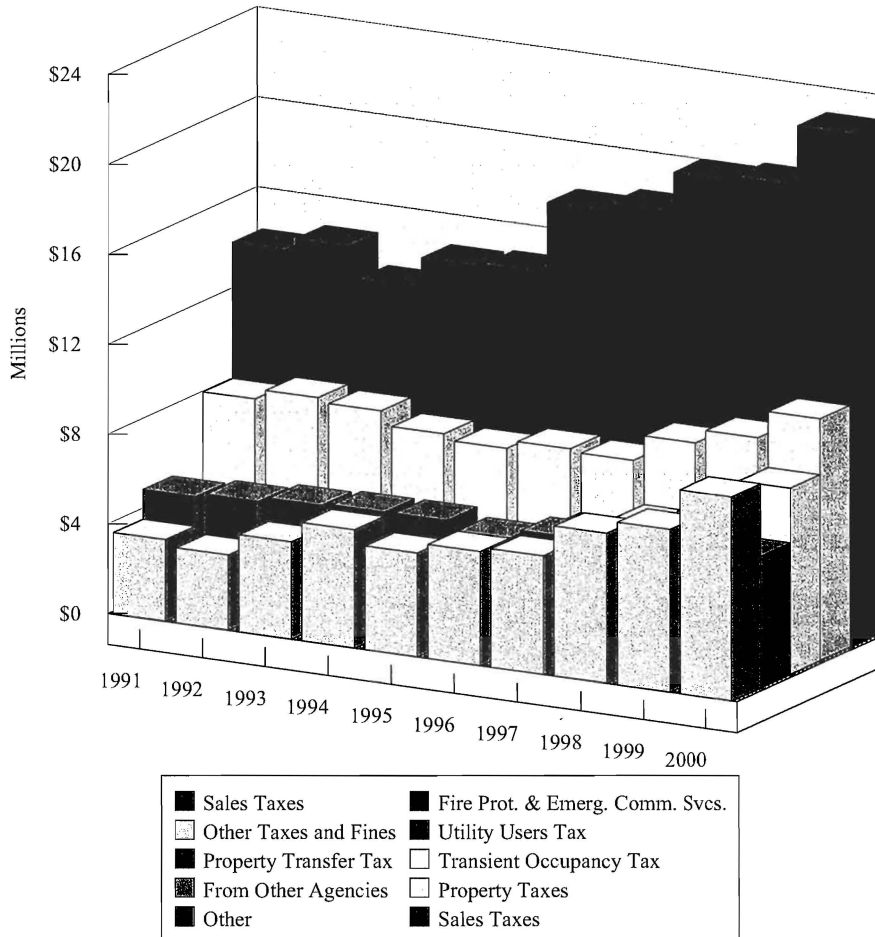
Fiscal Year	Admin- istration (1)	Public Works	Planning & Community Environment	Police	Fire	Community Services	School Site Operations	Special Revenue & Capital Projects	Debt Service	Total
<b>1991</b>	\$7,830	\$5,871	\$2,881	\$12,867	\$9,762	\$11,025	\$5,164	\$9,303	\$3,139	<b>\$67,842</b>
<b>1992</b>	8,519	7,129	3,313	13,076	10,027	11,816	5,469	6,609	2,765	<b>68,723</b>
<b>1993</b>	8,809	6,673	3,757	13,380	10,040	12,183	5,632	5,342	2,541	<b>68,357</b>
<b>1994 (2)</b>	9,343	7,058	4,160	14,150	11,718	12,651	5,645	7,450	2,569	<b>74,744</b>
<b>1995</b>	10,340	7,517	3,842	14,058	11,437	12,435	5,884	7,722	2,415	<b>75,650</b>
<b>1996</b>	11,133	6,614	3,901	14,066	11,739	13,019	5,992	6,296	2,490	<b>75,250</b>
<b>1997</b>	11,689	7,339	4,320	14,804	12,292	13,972	6,086	7,581	2,319	<b>80,402</b>
<b>1998</b>	12,987	8,172	4,832	16,093	13,100	15,050	6,298	6,749	2,293	<b>85,574</b>
<b>1999</b>	15,066	9,202	5,674	16,705	13,949	16,820	6,520	16,605	2,509	<b>103,050</b>
<b>2000</b>	15,772	8,827	6,639	17,666	14,512	17,858	6,927	13,151	2,801	<b>104,153</b>

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

(2) 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.

## City of Palo Alto – General Fund Tax Revenues by Source .....

Last Ten Fiscal Years (in thousands of dollars)

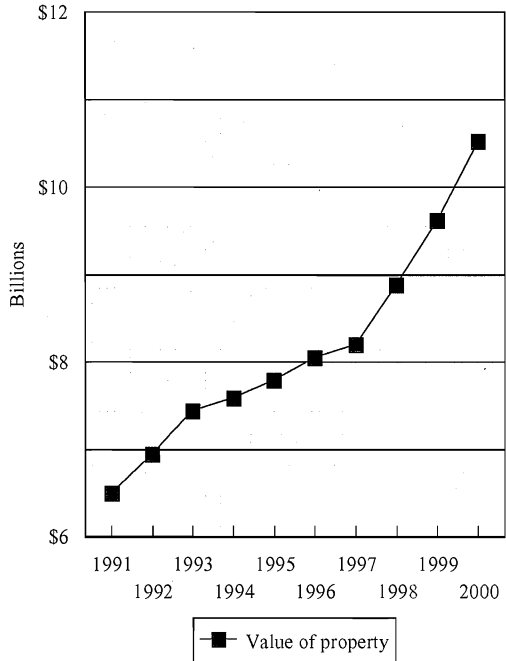
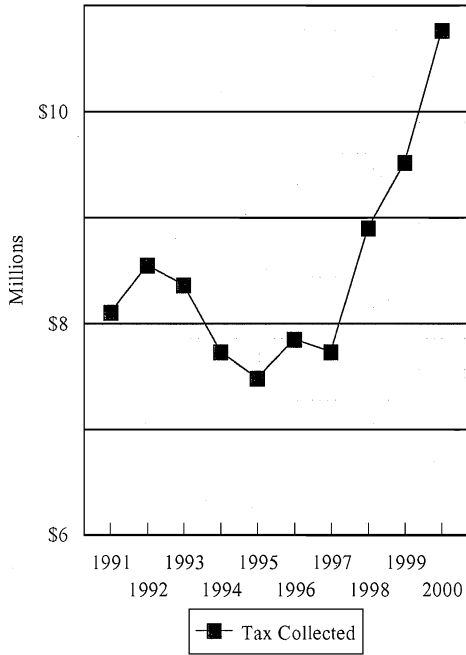


Fiscal Year	Sales Taxes	Property Taxes	Transient Occupancy Tax	Utility Users Tax	Other Taxes and Fines	Total
1991	\$14,140	\$8,109	\$2,969	\$4,967	\$3,637	<b>\$33,822</b>
1992	14,692	8,555	3,104	5,149	3,358	<b>34,858</b>
1993	13,322	8,367	3,109	5,362	4,333	<b>34,493</b>
1994	14,635	7,737	3,301	5,455	5,277	<b>36,405</b>
1995	14,765	7,485	3,643	5,482	4,633	<b>36,008</b>
1996	17,895	7,854	4,279	5,098	5,092	<b>40,218</b>
1997	18,277	7,735	5,107	5,509	5,299	<b>41,927</b>
1998	20,011	8,903	5,846	5,780	6,694	<b>47,234</b>
1999	20,225	9,521	6,551	6,039	7,255	<b>49,591</b>
2000	22,867	10,770	8,293	5,861	9,096	<b>56,887</b>

SOURCE: City of Palo Alto: Administrative Services Department, Comprehensive Annual Financial Reports.

## City of Palo Alto – Property Tax Levies and Collections .....

Last Ten Fiscal Years (in thousands of dollars)



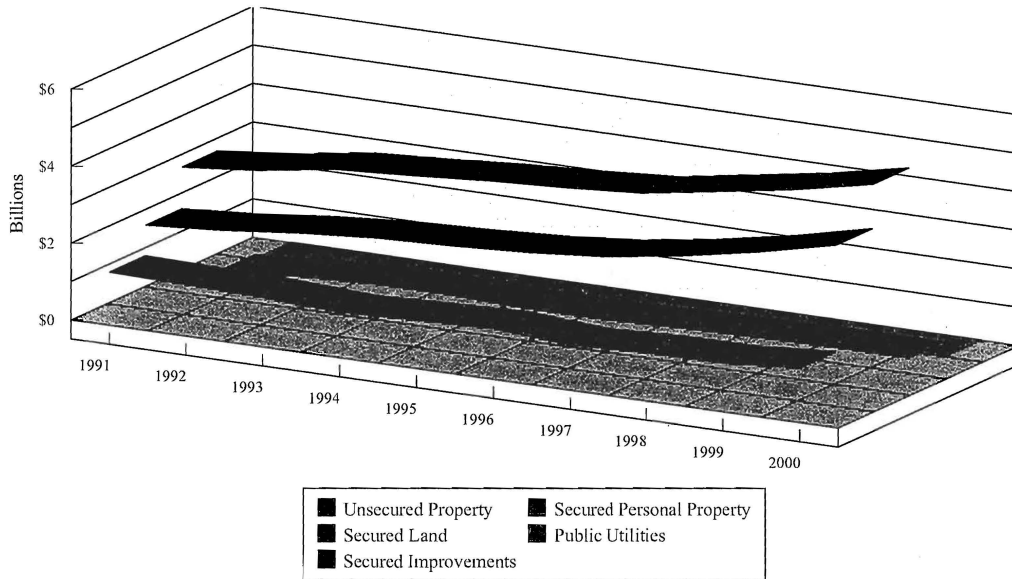
Fiscal Year	Total Tax Levy	Current Tax Collections	Delinquent Tax Collections	Total Property Tax Collected	Assessed Value of Property Subject to Basic County Wide Tax Rate
1991	\$8,192	\$7,970	\$139	\$8,109	\$6,501,973
1992	8,617	8,372	183	8,555	6,949,429
1993	8,373	8,148	219	8,367	7,443,688
1994	7,310	7,310	427	7,737	7,592,131
1995	7,485	7,485	(A)	7,485	7,795,396
1996	7,854	7,854	(A)	7,854	8,058,927
1997	7,735	7,735	(A)	7,735	8,206,532
1998	8,903	8,903	(A)	8,903	8,885,623
1999	9,521	9,521	(A)	9,521	9,623,868
2000	10,770	10,770	(A)	10,770	10,533,778

SOURCE: County of Santa Clara Assessor's Office

NOTES: (A) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. All prior delinquent taxes were also received in this fiscal year. Assessed value of property is considered to be an estimate of full market value.

# City of Palo Alto – Assessed Value of Taxable Property .....

Last Ten Fiscal Years (in thousands of dollars)



Fiscal Year	Net Local Secured Roll			Subtotal Net Local Secured Roll	Public Utilities	Unsecured Property	Less Exemptions Net of State Aid	Total Assessed Value
	Land	Improvements	Personal Property					
1991	\$2,168,956	\$3,253,018	\$107,494	\$5,529,468	\$10,139	\$1,384,622	\$422,256	\$6,501,973
1992	2,324,109	3,446,205	275,237	6,045,551	13,666	1,340,081	449,869	6,949,429
1993	2,533,275	3,758,000	356,415	6,647,690	3,200	1,290,140	497,342	7,443,688
1994	2,687,134	3,876,127	353,803	6,917,064	1,425	1,188,354	514,712	7,592,131
1995	2,764,558	4,018,251	281,479	7,064,288	1,508	1,262,254	532,654	7,795,396
1996	2,865,710	4,129,805	277,037	7,272,552	2,508	1,325,835	541,968	8,058,927
1997	3,045,477	4,259,209	340,073	7,644,759	2,410	1,173,563	614,200	8,206,532
1998	3,353,027	4,585,725	381,091	8,319,843	2,652	1,265,100	701,972	8,885,623
1999	3,729,475	4,920,111	394,610	9,044,196	2,842	1,279,315	702,485	9,623,868
2000	4,187,357	5,335,026	394,198	9,916,581	3,362	1,415,999	802,164	10,533,778

SOURCE: County of Santa Clara Assessor's Office

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.

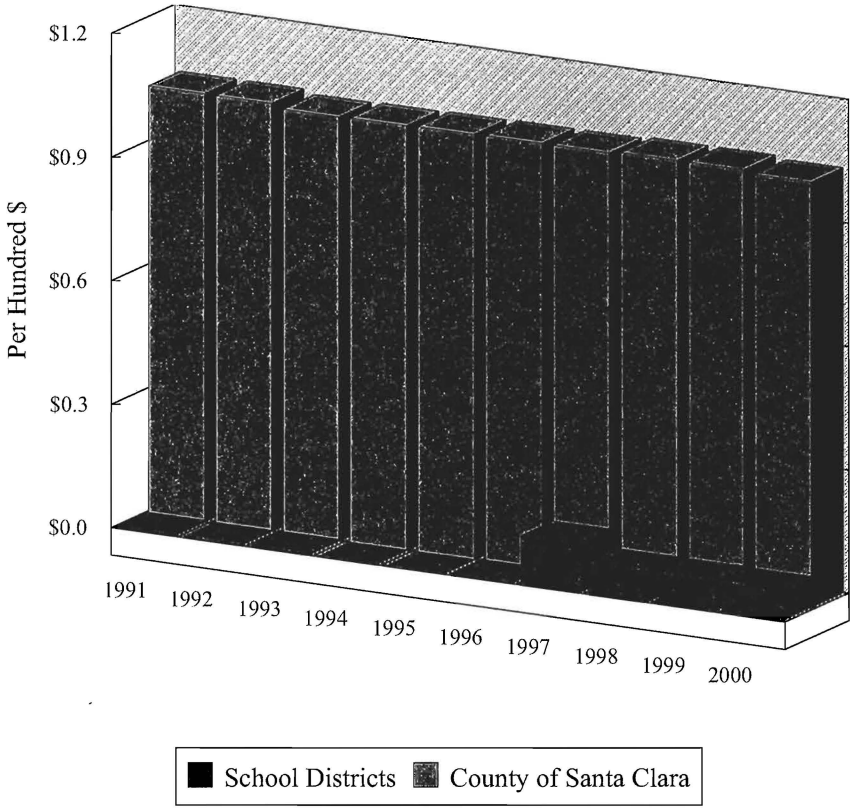
\* The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.



# City of Palo Alto – Property Tax Rates .....

## All Overlapping Governments

Per \$100 of Assessed Value – Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>County of Santa Clara</u>	<u>School Districts</u>	<u>Total</u>
1991	\$1.0390	\$0.0040	<b>\$1.0430</b>
1992	1.0390	0.0020	<b>1.0410</b>
1993	1.0290	0.0030	<b>1.0320</b>
1994	1.0310	0.0000	<b>1.0310</b>
1995	1.0330	0.0000	<b>1.0330</b>
1996	1.0340	0.0030	<b>1.0370</b>
1997	1.0340	0.1210	<b>1.1550</b>
1998	1.0388	0.0764	<b>1.1152</b>
1999	1.0388	0.0757	<b>1.1145</b>
2000	1.0319	0.0740	<b>1.1059</b>

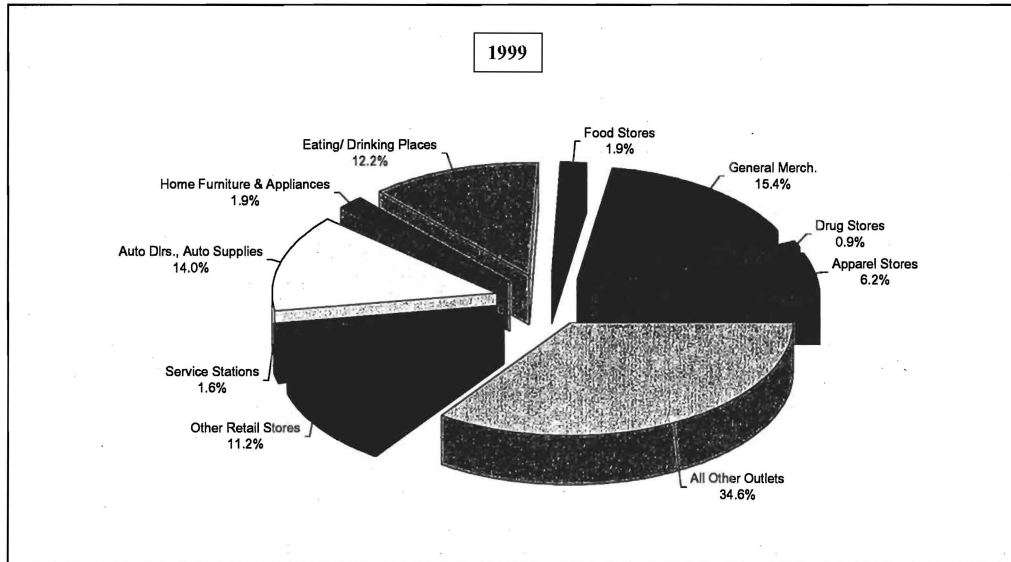
SOURCE: County of Santa Clara, Tax Rates and Information

15



# City of Palo Alto – Taxable Transactions by Type of Business .....

Last Eight Calendar Years – (in thousands of dollars)



### RETAIL STORES

Calendar Year	Apparel Stores	Drug Stores	General Merch.	Food Stores	Packaged Liquor Stores(*)	Eating/Drinking Places	Home Furniture & Appliances	Bldg. Mtrl. & Farm Implmt.(*)	Auto Dirs., Auto Supplies	Service Stations	Other Retail Stores	Retail Stores Total(*)	All Other Outlets	Total All Outlets(*)
1992	\$790	\$120	\$2,010	\$340	\$30	\$1,250	\$340	\$80	\$790	\$270	\$1,470	\$7,490	\$5,030	\$12,520
1993	900	110	2,030	280	30	1,310	360	70	790	280	1,570	7,730	4,860	12,590
1994	980	110	2,110	270	30	1,340	360	80	940	270	1,630	8,120	4,820	12,940
1995	890	110	2,290	270	40	1,510	400	120	1,290	280	1,780	8,980	5,570	14,550
1996	970	110	2,450	290	40	1,650	430	160	1,570	320	1,860	9,850	5,420	15,270
1997	990	210	2,820	340	40	1,960	330	80	1,930	280	1,690	10,670	5,880	16,550
1998	1,010	140	2,760	350	50	2,060	320	60	2,260	240	1,870	11,120	5,540	16,660
1999	1,150	170	2,870	350	60	2,280	360	60	2,610	300	2,080	12,290	6,450	18,740

\* Amounts represent totals or categories less than one tenth of one percent and are not displayed in the charts above

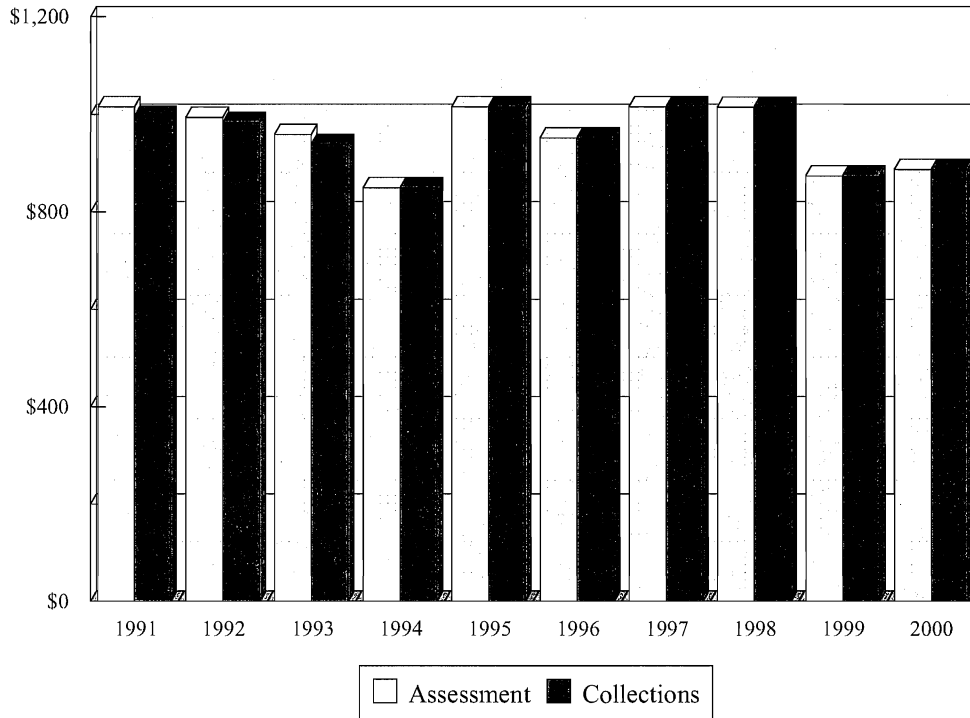
### SALES TAX RATES FOR THE CALENDAR YEAR ENDED DECEMBER 31, 1999

State General Fund	6.00%
County Transportation Fund (Transportation Development Act)	0.25%
County Transportation Fund	1.00%
City	1.00%
<b>Total</b>	<b>8.25%</b>

SOURCE: California State Board of Equalization

## City of Palo Alto – Special Assessment Billings and Collections

Last Ten Fiscal Years (in thousands of dollars)



Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent & Penalties Collected	Special Assessment Billings and Collections
1991	\$1,016	\$997	\$23	\$1,020
1992	994	984	14	998
1993	959	939	11	950
1994	850	850	14	864
1995	1,016	1,016	(A)	1,016
1996	952	952	(A)	952
1997	1,016	1,016	(A)	1,016
1998	1,015	1,015	(A)	1,015
1999	874	874	(A)	874
2000	887	887	(A)	887

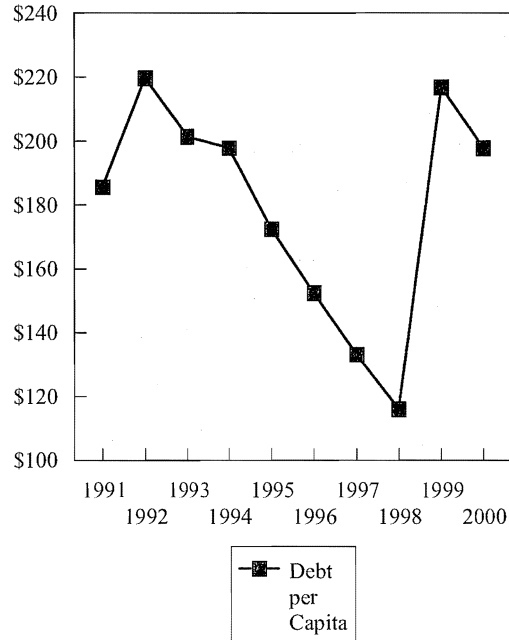
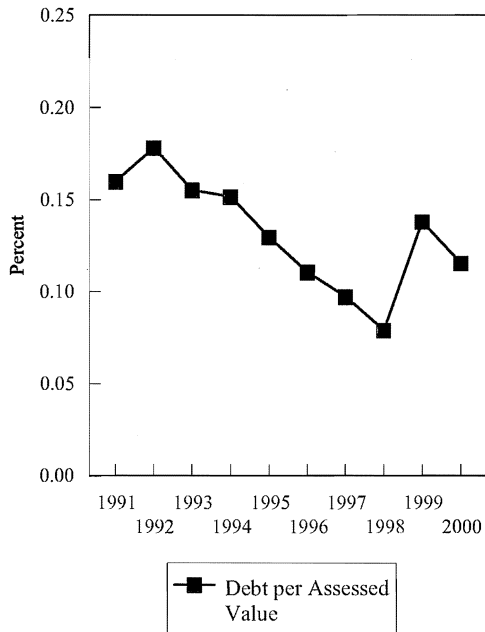
SOURCE: City of Palo Alto: Administrative Services Department, Accounting Division

NOTE: (A) 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 – Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation

### Bonded Debt per Capita

Last Ten Fiscal Years



Fiscal Year	Population	Assessed Value (in Thousands)	Bonded Debt (in Thousands)	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
1991	56,000	\$6,501,973	\$10,397	0.160%	\$185.66
1992	56,330	6,949,429	12,376	0.178%	219.71
1993	57,300	7,443,688	11,541	0.155%	201.41
1994	58,100	7,592,131	11,498	0.151%	197.90
1995	58,580	7,795,396	10,103	0.130%	172.47
1996	58,500	8,058,927	8,916	0.111%	152.41
1997	59,900	8,206,532	7,981	0.097%	133.24
1998	60,500	8,885,623	7,026	0.079%	116.13
1999	61,200	9,623,868	13,271	0.138%	216.85
2000	61,500	10,533,778	12,162	0.115%	197.76



**City of Palo Alto – Computation of Legal Debt Margin .....**

**June 30, 2000**

*(in thousands of dollars)*

1999-00 ASSESSED VALUATION:		<u>\$10,533,778</u>
Debt limit - 15% of assessed value		\$1,580,067
Amount of debt applicable to debt limit:		
Certificates of participation	11,625	
Capital lease obligations	537	
Special assessment debt with governmental commitment	<u>4,670</u>	
Total	16,832	
Less amount of debt not applicable to debt limit	<u>0</u>	
Total amount of debt applicable to debt limit		<u>16,832</u>
Legal debt margin		<u><u>\$1,563,235</u></u>

- NOTE: (1) The above does not include debt recorded in the Enterprise Funds because such debt is not subject to the legal debt margin.
- (2) Special assessments debt excludes Cambridge Ave. parking debt because there is no government commitment. (\$1,760)

# City of Palo Alto – Computation of Direct and Overlapping ..... Bonded Debt

**June 30, 2000**

*(in thousands of dollars)*

1999-2000 Assessed Valuation	<u>\$10,533,778</u>		
		Percentage Applicable To City of Palo Alto	June 30, 2000 Bonded Debt
<b>Direct and Overlapping Bonded Debt</b>			
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Santa Clara County Flood Control and Water Conservation District, Zone W-1		0.590	\$69
Foothill-De Anza Community College District		22.405	22,404
Palo Alto Unified School District		89.792	105,614
Fremont Union High School District		0.009	3
Mountain View-Los Altos Union High School District		1.276	656
Cupertino Union School District		0.005	3
Los Altos School District		0.985	394
Whisman School District		5.242	1,673
City of Palo Alto Special Assessment Bonds		100.000	6,430
Midpeninsula Regional Open Space Park District		13.353	5,297
Total overlapping tax and assessment debt			<u>142,543</u>
<b>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</b>			
Santa Clara County General Fund Obligations		7.588	39,080
Santa Clara County Board of Education Certificates of Participation		7.588	1,490
Foothill-DeAnza Community College District Certificates of Participation		22.405	7,698
Mountain View-Los Altos Union High School District Certificates of Participation		1.276	67
Cupertino Union School District Certificates of Participation		0.005	1
City of Palo Alto General Fund Obligations		100.000	12,021 (1)
Midpeninsula Regional Open Space Park District Certificates of Participation		13.353	9,925
Santa Clara Valley Water District Certificates of Participation		7.588	9,591
El Camino Hospital District Authority		0.078	2
Total gross direct and overlapping General Fund obligation debt			<u>79,875</u>
Less: El Camino Hospital Authority (100% self-supporting)			<u>2</u>
Total net direct and overlapping General Fund obligation debt			<u>79,873</u>
<b>GROSS COMBINED TOTAL DEBT</b>			<u><b>222,418 (2)</b></u>
<b>NET COMBINED TOTAL DEBT</b>			<u><b>222,416</b></u>

- (1) Includes Terman School lease purchase obligations.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

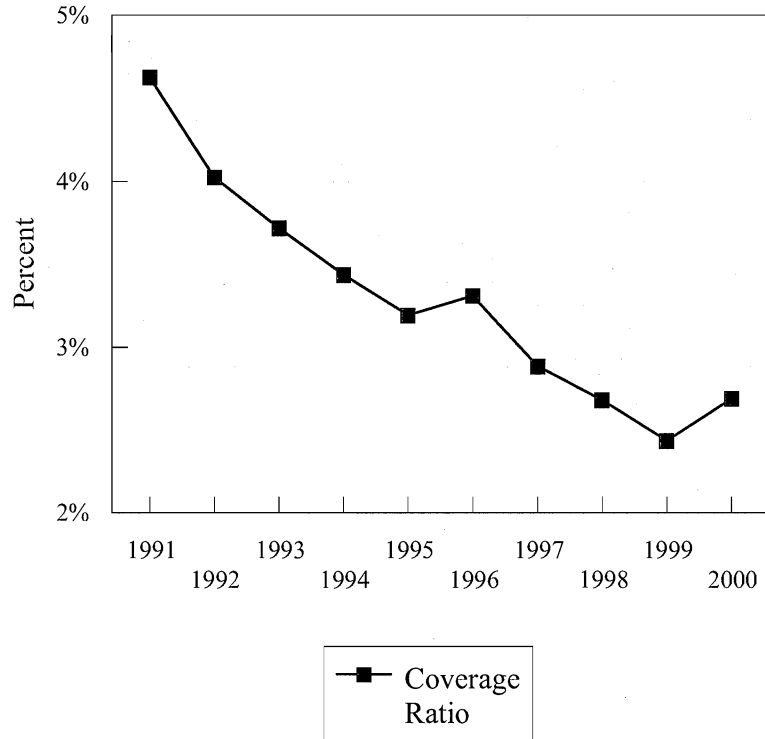
<b>Ratios to Assessed Valuation:</b>	
Gross Direct Debt (\$12,021)	0.11%
Total Overlapping Tax and Assessment Debt	1.35%
Gross Combined Total Debt	2.11%
Net Combined Total Debt	2.11%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/00: \$0

SOURCE: California Municipal Statistics, Inc.

## City of Palo Alto – Ratio of Annual Debt Service Expenditures ..... for General Bonded Debt to Total General Expenditures

Last Ten Fiscal Years (in thousands of dollars)



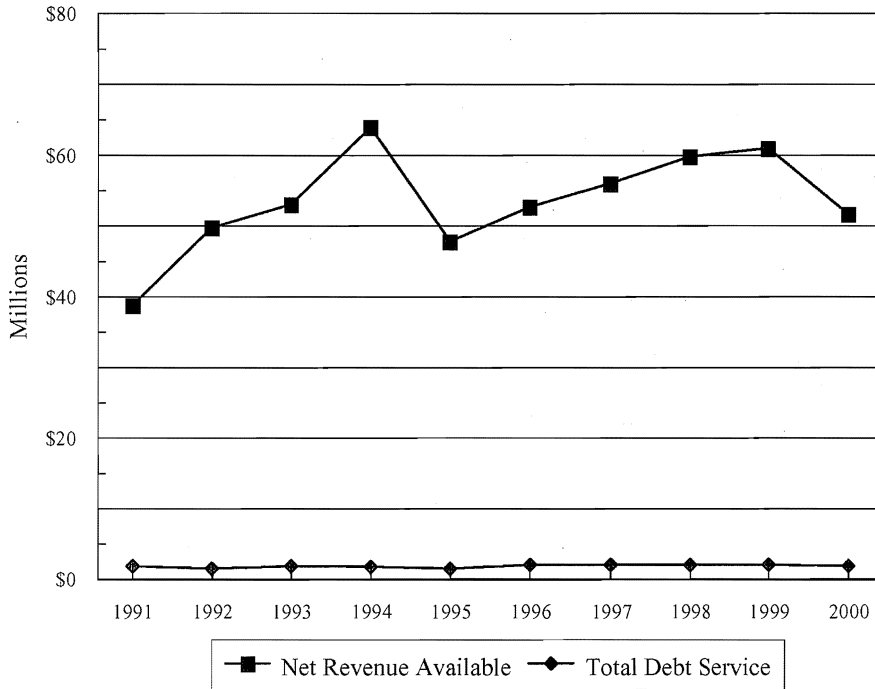
Fiscal Year	Total General Expenditures (1)	Debt Service			Coverage Ratio
		Principal	Interest	Total	
1991	\$67,842	\$1,289	\$1,850	\$3,139	4.63%
1992	68,723	1,151	1,614	2,765	4.02%
1993	68,357	1,274	1,267	2,541	3.72%
1994	74,744	1,305	1,264	2,569	3.44%
1995	75,650	1,245	1,170	2,415	3.19%
1996	75,250	1,365	1,125	2,490	3.31%
1997	80,402	1,355	964	2,319	2.88%
1998	85,574	1,405	888	2,293	2.68%
1999	103,050	1,553	956	2,509	2.43%
2000	104,153	1,775	1,026	2,801	2.69%

NOTE: (1) Includes general, special revenue, debt services and capital project funds.

**City of Palo Alto – Revenue Bond Coverage .....**

**Water, Electric, Gas, Wastewater Collection,  
Wastewater Treatment and Storm Drainage Funds**

**Last Ten Fiscal Years (in thousands of dollars)**



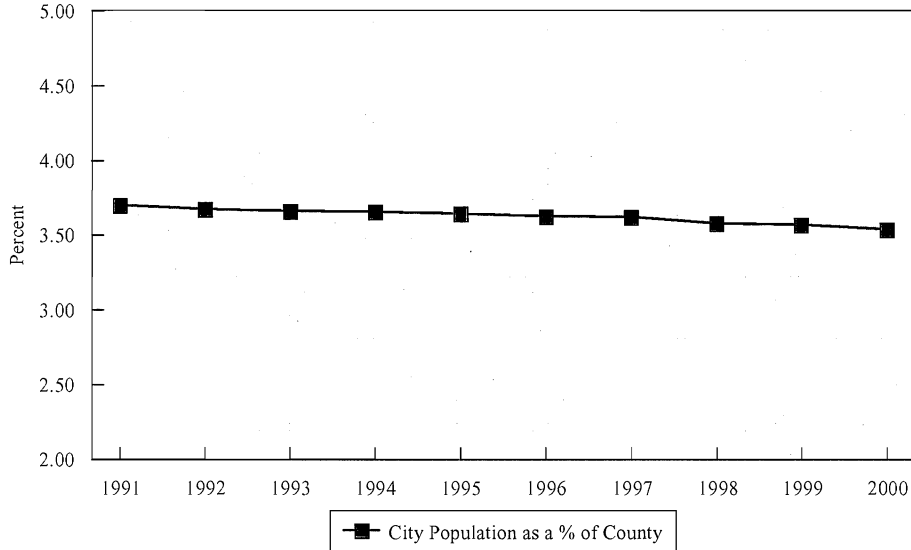
Fiscal Year	Gross Revenue	Direct Operating Expenditures (1)	Net Revenue Available for Debt Service (2)	Debt Service			Coverage
				Principal	Interest	Total	
1991	\$109,115	\$70,302	\$38,813	\$950	\$922	\$1,872	20.73
1992	115,659	65,861	49,798	690	829	1,519	32.78
1993	119,274	66,212	53,062	735	1,159	1,894	28.02
1994	132,317	68,371	63,946	875	945	1,820	35.14
1995	124,537	76,693	47,844	555	997	1,552	30.83
1996	120,828	68,096	52,732	755	1,308	2,063	25.56
1997	133,081	77,107	55,974	801	1,263	2,064	27.12
1998	144,195	84,415	59,780	840	1,214	2,054	29.10
1999	141,696	80,748	60,948	895	1,163	2,058	29.62
2000	130,550	78,880	51,670	545	1,363	1,908	27.08

NOTES: (1) 1993-94 excludes electric rebate.  
(2) Excludes depreciation and amortization expense.



# City of Palo Alto – Demographic Statistics .....

## Last Ten Fiscal Years



Fiscal Year	City Size		City Population	County Population (1)	City Population % of County (2)	School Population (3)	Unemployment Rate
	Square Miles	Street Miles					
1991	25.98	193.12	56,000	1,513,100	3.70%	7,496	3.90%
1992	25.98	193.12	56,330	1,531,700	3.68%	7,756	4.50%
1993	25.98	193.12	57,300	1,563,800	3.66%	7,970	3.80%
1994	25.98	193.12	58,100	1,587,800	3.66%	8,334	3.30%
1995	25.98	193.12	58,580	1,607,700	3.64%	8,419	2.80%
1996	25.98	193.12	58,500	1,612,300	3.63%	9,122	1.90%
1997	25.98	193.12	59,900	1,653,100	3.62%	9,407	1.50%
1998	25.98	193.12	60,500	1,689,900	3.58%	9,719	1.50%
1999	25.98	193.12	61,200	1,715,400	3.57%	9,946	1.70%
2000	25.98	193.12	61,500	1,736,700	3.54%	9,881	1.50%

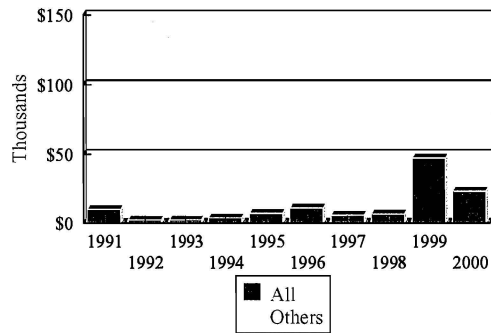
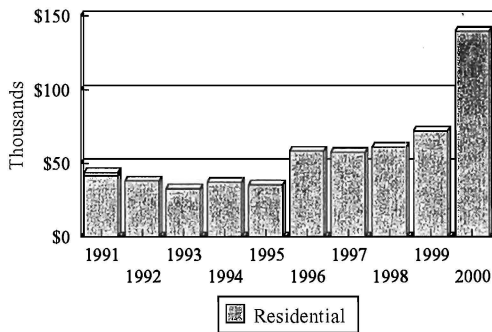
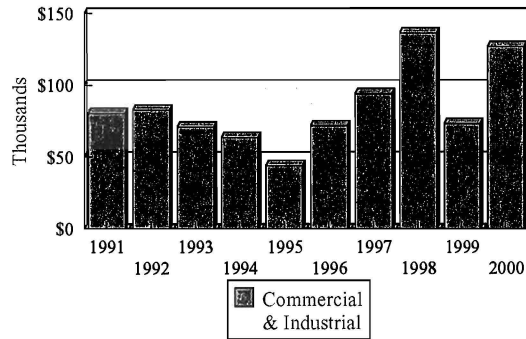
Sources: (1) State Department of Finance  
 (2) Palo Alto Unified School District  
 (3) State Employment Development Office





# City of Palo Alto – Construction Activity .....

Last Ten Fiscal Years (in thousands of dollars)



Fiscal Year	Property Values	Commercial & Industrial		Residential		All Others	
		# of Permits	Valuation	# of Permits	Valuation	# of Permits	Valuation
1991	\$6,501,973	348	\$80,468	1,088	\$41,862	70	\$9,935
1992	6,949,429	366	82,902	1,087	38,101	63	2,692
1993	7,443,688	395	71,167	1,079	33,065	65	2,506
1994	7,592,131	400	64,001	1,081	37,284	96	3,823
1995	7,795,396	384	44,471	1,032	35,563	72	7,055
1996	8,058,927	410	72,271	1,194	58,262	89	11,052
1997	8,206,532	377	94,485	1,095	57,617	106	5,874
1998	8,885,623	374	136,761	1,154	61,316	80	6,704
1999	9,623,868	330	73,462	1,167	71,989	106	47,325
2000	10,533,778	428	127,107	1,113	139,674	371	23,113

SOURCE: City of Palo Alto: Planning and Community Environment Department



# City of Palo Alto – Insurance Coverage .....

June 30, 2000

TYPE	COVERAGE (Deductible)	LIMITS	COMPANY	EXPIRATION DATE
PROPERTY LOSS Blanket	All real & personal property (\$10,000 deductible)	\$195,071,485	Federal Insurance Company	7/01/2000
Boiler & Machinery	All real & personal property: (Deductibles are: \$50,000 - all distribution transformers \$10,000 - all other objects)			
Flood Insurance	All real property 1305 Middlefield Road (\$1,000 deductible)	\$500,000	American Reliable Insurance Company	02/04/2001
FINANCIAL LOSS Employee Blanket	Position bond - faithful performance per loss (\$5,000 deductible)	\$1,000,000 \$4,000,000 x \$1,000,000 for City Mgr. & Director of ASD	Fidelity & Deposit Co.	3/22/2001
Trustees Errors and Omissions	Trustees errors and omissions (\$15,000 deductible)	\$1,000,000	National Union Fire Insurance	07/01/2000
UMBRELLA EXCESS	City is a member of an insurance pool participating with a number of other California cities. (\$500,000 self insured retention)	\$19,000,000	Insurance Company of Pennsylvania	07/01/2000
SPECIAL LIABILITY Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)	\$20,000	American National Insurance Company	01/01/2001
Special Events	Bodily Injury	\$1,000,000 per occurrence	General Star Indemnity Co.	01/01/2001
EMPLOYEE BENEFIT Travel Accident	Indemnity, based on salary	\$1,500,000 per accident	Life Insurance Co. of North America	06/01/2000
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 \$250,000 of liability			
EXCESS WORKERS' COMPENSATION	Excess Workers' Compensation Employers Liability	\$2,000,000	Employers' Reinsurance Corporation	07/01/2000

SOURCE: City of Palo Alto, Human Resources Department

**City of Palo Alto – Top Ten Property Taxpayers .....**

**June 30, 2000**

*(in thousands of dollars)*

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Leland Stanford Jr. University	University and Ancillary	\$1,795,791	19.91%
Space Systems/Loral, Inc.	Research and Development	194,548	2.16%
Sun Microsystems, Inc.	Computers and Electronics	69,529	0.77%
Embarcadero Place Associates	Offices, Banks and Clinics	62,000	0.69%
Harbor Investment Partners	Offices, Banks and Clinics	54,700	0.61%
Cowper-Hamilton Associates	Offices, Banks and Clinics	38,397	0.43%
Embarcadero Bayshore Invtrs. Et Al	Offices, Banks and Clinics	29,464	0.33%
Digital Equipment Corporation	Offices, Banks and Clinics	25,782	0.29%
Hyatt Equities, L.L.C.	Offices, Banks and Clinics	23,529	0.26%
Seabiscuit LLC Et Al	Offices, Banks and Clinics	<u>22,611</u>	<u>0.25%</u>
Totals		<u>\$2,316,351</u>	<u>25.70%</u>
1999/2000 Local Secured Assessed Valuation:		<u>\$9,020,672</u>	

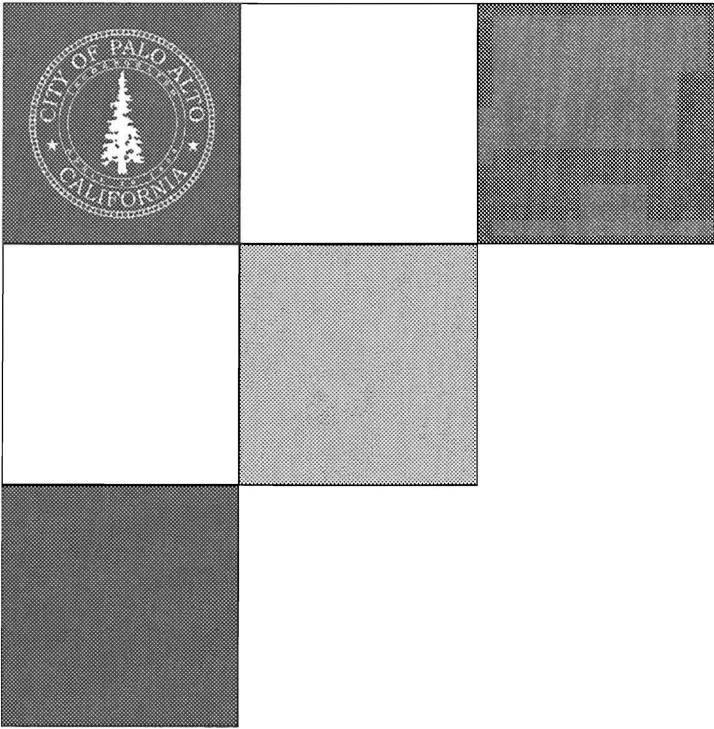
SOURCE: County of Santa Clara, Center for Urban Analysis



City of Palo Alto – Miscellaneous Statistics .....

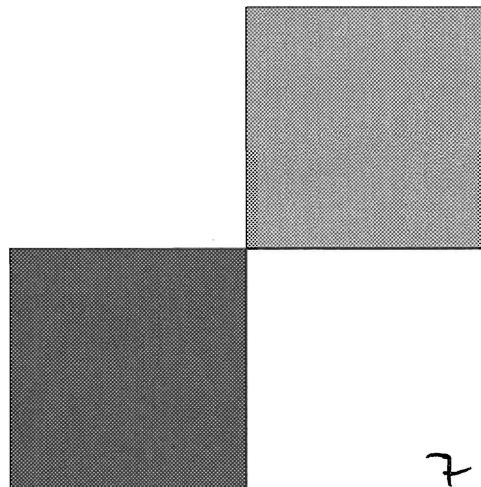
June 30, 2000

DISCOVERED	1769	NUMBER OF HOUSING UNITS	25,732
DATE OF INCORPORATION	April 16, 1894	COMMERCIAL AND INDUSTRIAL SPACE	27.3 Million Square Feet
INCORPORATED AS CHARTER CITY	July 1, 1909	MUNICIPAL UTILITY PLANTS:	
FORM OF GOVERNMENT	Council-Manager	WATER	
POPULATION	61,500	Millions of CCF Sold	6.6
LAND AREA	25.98 Square Miles	Accounts	18,921
CITY MAINTAINED TREES	39,923	Miles of Water Mains	221
<u>POLICE PROTECTION:</u>		WASTEWATER	
NUMBER OF STATION(S)	1	Millions of Gallons Processed	9,834
NUMBER OF FULL TIME POSITIONS	173	Accounts	21,975
NUMBER OF POLICE PATROL VEHICLES	29	Miles of Sanitary Sewer Lines	219
<u>FIRE PROTECTION:</u>		ELECTRIC	
NUMBER OF STATION(S)	8	Millions of KWH Sold	1,134
NUMBER OF FULL TIME POSITIONS	133	Accounts	27,533
NUMBER OF FIRE APPARATUS	23	Pole Miles of Overhead Lines	228
NUMBER OF FIRE HYDRANTS	1,708	Trench Miles of Underground Lines	209
<u>COMMUNITY SERVICES</u>		GAS	
ACRES- DOWNTOWN PARKS	170	Millions of Therms Sold	37
ACRES- OPEN SPACE	3,731	Accounts	23,154
PARKS	35	Miles of Gas Mains	170
GOLF COURSE	1		
TENNIS COURTS	52		
ATHLETIC CENTER	1		
COMMUNITY CENTERS	4		
THEATERS	3		
CULTURAL CENTER	1		
JUNIOR MUSEUM AND ZOO	1		
SWIMMING POOLS	1		
NATURE CENTERS	2		
LIBRARIES	6		



# Single Audit

*Fiscal Year Ended June 30, 2000*



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# *Single Audit Section* .....

## **Introduction**

The single audit section provides the independent auditor's opinion and financial statements for federally funded programs.

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## Summary Of Findings And Questioned Costs

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

We have audited the general purpose financial statements of the City of Palo Alto, California, for the year ended June 30, 2000 and have issued our unqualified report thereon dated October 13, 2000. These general purpose financial statements are the responsibility of the City's management. 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; Government Auditing Standards, issued by the Comptroller General of the United States and the Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non profit Organizations. We performed a Single Audit as requested by the City to comply with the provisions of the Single Audit Act Amendments of 1996 and OMB A-133 and are required to present the following summary:

### Schedule Of Findings And Questioned Costs

#### Audit of General Purpose Financial Statements

Our audit did not disclose any reportable conditions, or material weaknesses or instances of noncompliance material to the general purpose financial statements. However we did communicate matters to the City Council in our separate Memorandum on Internal Controls dated October 13, 2000.

#### Audit of Major Programs

Our audit did not disclose any reportable conditions or material weaknesses in internal controls over major programs. We have issued an unqualified opinion on compliance with the requirements applicable to major programs.

#### Identification of Major Programs

The Department of Housing and Urban Development Community Development Block Grant (CFDA #14.218) is a major program.

#### Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The threshold for Type A programs was \$300,000.

#### Organizational Risk Evaluation

The City was assessed as a low risk auditee based on prior years reporting results, our overall knowledge of the City and other criteria specified by the Office of Management and Budget.

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**Findings Related To Financial Statements**

There were no findings required to be reported under Generally Accepted Government Auditing Standards.

**Findings And Questioned Costs For Federal Awards**

There were no findings or questioned costs required to be reportable under OMB Circular A-133 section .510(a).

## City of Palo Alto – Schedule of Expenditures of Federal Awards .....

### Fiscal Year Ended June 30, 2000

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
Department of Housing and Urban Development			
Community Development Block Grant Program			
Program Expenditures	B-98-MC-06-0020	14.218	\$123,214
Subgrants:			
Mid Peninsula Citizens for Fair Housing			18,000
Emergency Housing Consortium			8,000
Catholic Charities- OMBUDSMAN			8,000
Stevenson House- Roofing			48,000
YMCA - Women Enterprise Loan			35,000
Palo Alto Housing Corporation:			
Information & Referral			25,000
Arastradero Park			141,912
Barker Counseling			16,450
Outreach and Escort Inc.			
Loan Receivable			<u>2,953,550</u>
		14.218	<u>3,377,126</u>
Federal Emergency Management Administration			
Federal Public Assistance Program	DR#1203 FIPS#085-55282	83.544	<u>47,744</u>
U.S. Department of Transportation			
Highway Planning and Construction Grant (Passed through California Dept. of Transportation)			
Intermodal Surface Transportation Efficiency Act	STPLN-5100 (2)	20.205	762,449
State and Community Highway Safety		20.600	<u>14,375</u>
			<u>776,824</u>
Department of Justice			
Local Law Enforcement Block Grant		16.592	24,704
COPS		16.710	<u>20,191</u>
			<u>44,895</u>
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>			<u><u>\$4,246,589</u></u>

See Notes to Schedule of Expenditures of Federal Awards



## Notes To The Schedule Of Expenditures Of Federal Awards

October 13, 2000

### Note 1 .....

#### Reporting Entity

The financial statements of the City of Palo Alto and the Schedule of Expenditure of Federal Awards include the financial activities of the City as well the separate legal entities described below, since they are governed by the City Council sitting in a separate capacity or they provide services exclusively to the City.

The City's general purpose financial statements include the financial activities of the City, the Palo Alto Regional Quality Control Plant, the Palo Alto Golf Course Corporation, and the Palo Alto Public Improvement Corporation, all of which are controlled by and dependent on the City. While these are separate legal entities, City Council serves in separate session as their governing body and their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements.

Financial statements for the above component units can be obtained from the City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301.

The financial statements exclude the Palo Alto Cable Cooperative Franchise, as it is administered by a board separate from and independent of the City.

### Note 2 .....

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting.

Expenditures of Federal Awards reported on the Schedule are recognized when incurred. An exception to this rule is expenditures of federal awards for loan programs. The City operates the Community Development Block Grant loan program under which it must insure participants maintain compliance with program requirements on an on going basis. OMB Circular A-133 section .205(b) requires that expenditures for the above program include the balance of loans outstanding plus cash received from the program.

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**Note 3** .....

**Direct and Pass-Through Federal Awards**

Federal awards may be granted directly to the City by the federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types Federal award programs.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council  
City of Palo Alto, California

We have audited the general purpose financial statements of City of Palo Alto as of and for the year ended June 30, 2000, and have issued our report thereon dated October 13, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

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

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting and its operation that we consider to be material weaknesses. However we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated October 13, 2000.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

October 13, 2000

*Maze + Associates*





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## REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

Honorable Mayor and City Council  
City of Palo Alto, California

### *Compliance*

We have audited the compliance of the City of Palo Alto with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Palo Alto complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

### *Internal Control Over Compliance*

City management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance and its operation that we consider to be material weaknesses.

***Report on Schedule of Expenditures of Federal Awards***

We have audited the general purpose financial statements of City of Palo Alto as of and for the year ended June 30, 2000, and have issued our report thereon dated October 13, 2000. Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Palo Alto taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 stated 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 City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Mage + Associates*

October 13, 2000

