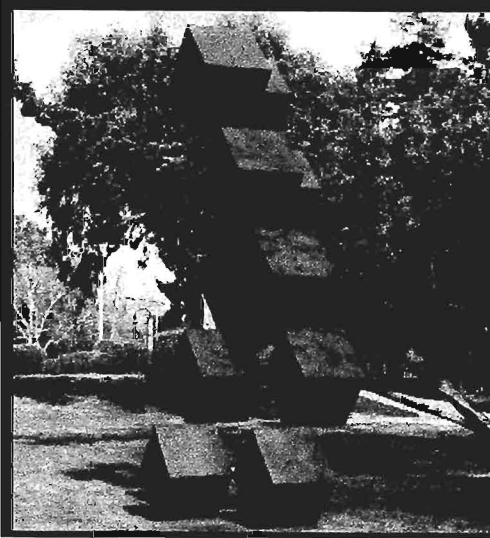
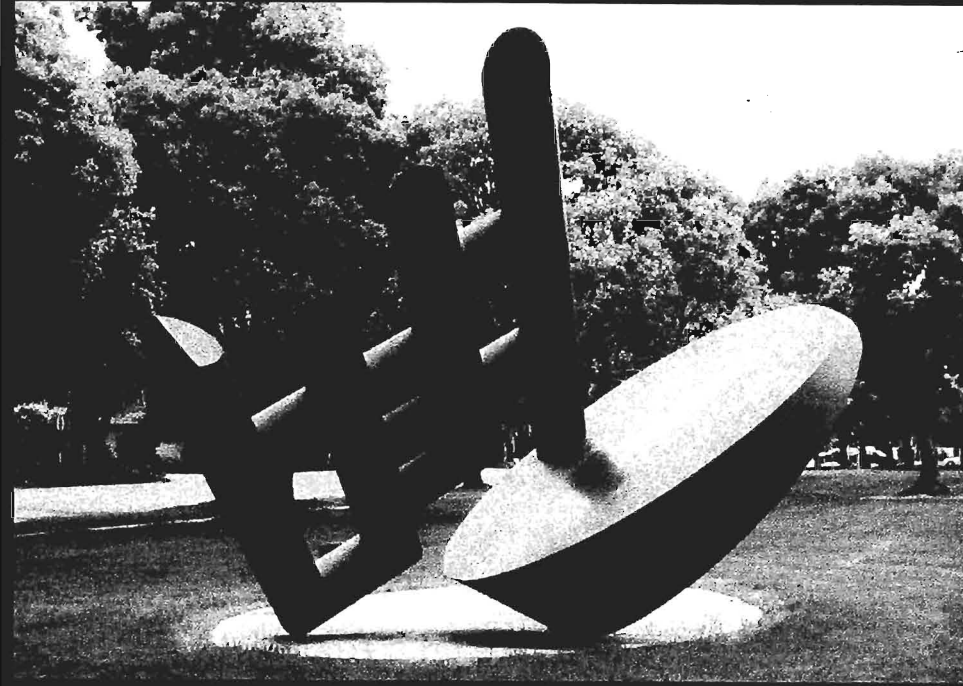


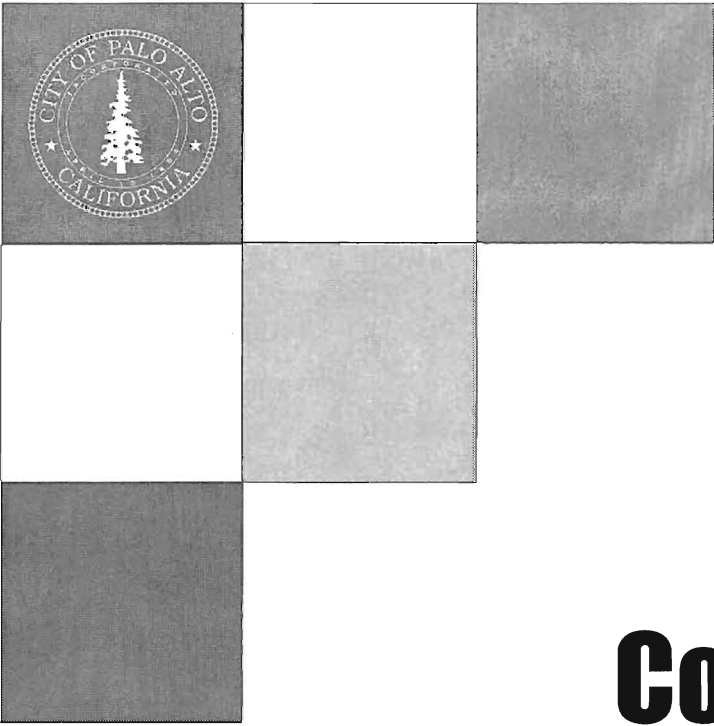
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City of Palo Alto



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2001

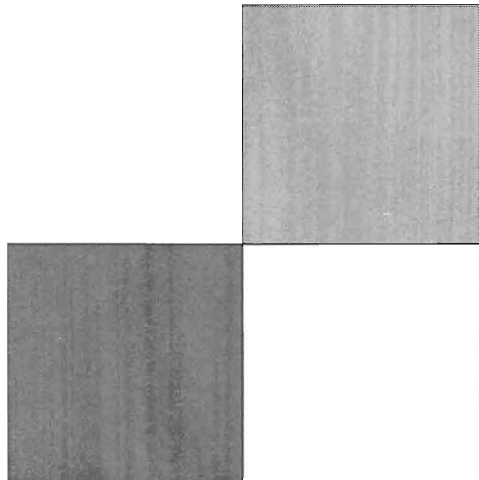


City of Palo Alto

Comprehensive Annual Financial Report

*Prepared by the Administrative
Services Department*

Fiscal Year Ended June 30, 2001



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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.

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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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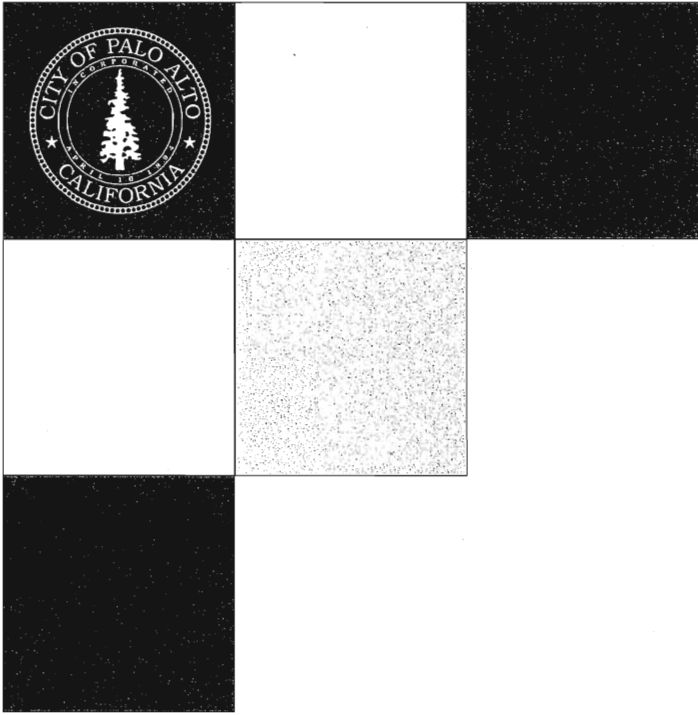
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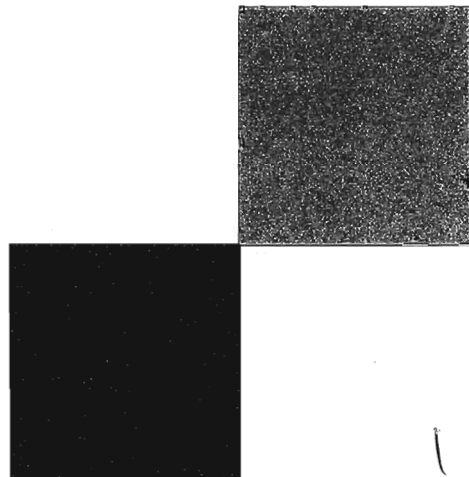
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Introduction

Fiscal Year Ended June 30, 2001



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Transmittal Letter

December 17, 2001

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

Attention: Finance Committee

**Comprehensive Annual Financial Report
Year Ended June 30, 2001**

Members of the Council and Citizens of Palo Alto:

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2001 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 understandable 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. The single audit section provides the independent auditor's opinion and financial statements for federally funded programs.

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

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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 60,835, is a 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 in several industries and a diverse revenue base, Palo Alto has enjoyed an economic stability lacking in other cities.

In the year 2000 the nation was in the midst of the longest economic expansion in history. This year the economic climate has sharply reversed itself, with drops in corporate profits, a sagging stock market, significant layoffs, curtailed consumer spending, and a standstill in venture capital funding. As Silicon Valley cities led the way into expansion, they have also led the way into contraction. Although Palo Alto's revenues remained strong this fiscal year, the changing economy poses challenges for sources of revenue vital to the financial health of the City. Palo Alto continues to carefully monitor economically sensitive revenue sources, such as sales and hotel occupancy taxes, and prepare for the fiscal challenges that lie ahead.

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. Since the beginning of 2001, many Internet companies with a local presence have ceased operation. In addition to these business casualties, larger, more mature technology companies have announced lower earnings leading to forced vacations, salary reductions and layoffs.

Workforce: During the past year, the number of jobs in Palo Alto totaled approximately 100,000. With a local workforce of only 38,000, commuters hold almost two-thirds of Palo Alto jobs. The local unemployment rate rose steadily during this fiscal year. During the last six months of 2000-01, the unemployment rate in Santa Clara County rose from 1.7 to 4.2 percent. The high number of dot-com closures and job cuts in the Bay Area drove these increases.

Real Estate Market: Assessed property valuation, which increased 8 percent in 1998-99 and 9 percent in 1999-00, jumped another 10 percent in the past year to \$11.6 billion. The economic downturn is anticipated to curb growth in assessed property values, particularly in the commercial market. By the end of the fiscal year, citywide retail and office vacancy rates rose to 4 percent from a low of 1 percent earlier in the fiscal year. Information for the last half of 2000-01 indicates a 10 percent vacancy rate in the



Stanford Research Park. This trend will exert downward pressure on commercial property values. Although home sales have slowed and home prices are nearly stagnant, future demographic trends and the demand for housing in Palo Alto are likely to sustain residential property values.

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 PAUSD has achieved state and national recognition for the excellence of its programs. The City has dedicated nearly 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’s theaters, a junior museum 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.

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 and community environment, public safety, and community services departments and also the municipal electric, water, gas, wastewater collection, wastewater treatment, storm drainage, and refuse utilities that represent almost two-thirds of the City’s revenues.

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, and to record transactions reliably for preparation of financial statements. The City recognizes that controls cannot be absolute, that the cost of internal controls should not exceed the benefits likely to be derived, and that 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 plan, long-range financial plan, infrastructure master plan and information systems strategic plan. Plan development is a thorough collaborative effort between



Introduction

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, establishing performance 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.

The Council establishes two-year budgets for all operating funds, except for the Capital Projects Fund, which has a five-year plan. Trust and 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 2000-01, staff complied with all aspects of the investment policy.

As of June 30, 2001, the market value of the City’s portfolio totaled \$342.0, compared to a value of \$293.1 last fiscal year. The portfolio consists of \$30.2 million in liquid accounts and \$311.8 million in U.S. government securities. Forty-two percent of the City’s investments will mature in less than two years with an average life to maturity of 2.37 years. The City continues to maintain more than one month’s cash needs in short term investments.

The City earned \$17.9 million in interest income for a yield of 5.92 percent on its portfolio for the year. At year-end, the City adjusted its portfolio for an “unrealized” \$8.7 million gain due to the accounting requirement to restate the portfolio at fair market values. The current fair market value of the portfolio is 101.6 percent of the book value. However, because the City’s practice is to hold securities until they mature, changes in market price do not affect the City’s investment principal.

Debt Administration: Debt recorded in the General Long-Term Debt Group at June 30, 2001 totaled \$11.4 million, a \$5.3 million reduction compared to the \$16.7 million at the close of the prior fiscal year. During the fiscal year the City issued \$5.9 million in special assessment debt to finance two new parking structures in downtown Palo Alto. The City also refinanced \$3.2 million of its special assessment debt. The new and refinanced special assessment debt was issued without City commitment. As a result, this debt is not part of the City's financial statements. At year-end, the City's General debt obligations consist of:

| <i>Type</i> | <i>Principal Outstanding</i> |
|---|------------------------------|
| Golf Course Certificates of Participation (COPs) | \$7.0 million |
| Civic Center Certificates of Participation (COPs) | \$3.7 million |
| Special Assessment Debt with City Commitment | \$0.7 million |

Debt recorded in Enterprise Funds totaled \$23.5 million at June 30, 2001, a \$.4 million reduction compared to the \$23.9 million at the close of the prior fiscal year. Debt in the Internal Service Funds for an Information Systems Capital Lease totaled \$.1 million.

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 \$9.1 million, which is a \$.9 million increase from last year's reserve level. This change is due primarily due to increases in projected workers' compensation liabilities.

The City handles general 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.

Postemployment Health Care Benefits: The City participates in the California Public Employees Medical and Health Care Act program to provide health care benefits for retired employees. Palo Alto employees become eligible for these benefits if they reach retirement age while working for the City. To date, these benefits have been funded on a pay-as-you-go basis. However, the City has begun to set aside funds to defer future costs of retiree health care coverage. In total the City has set aside \$14.2 million of the estimated \$65 million in unfunded retiree health benefits. The City plans to complete an actuarial study in 2001-02 to obtain an updated valuation of Palo Alto's unfunded retiree health liability.

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Spotlight On Priorities

In November 2000, the Council reaffirmed its commitment to five top priorities:

Long-Range Financial Planning: This year Palo Alto completed an update of its Long-Range Financial Plan. The plan provides an overview of the economy, an analysis of the City's current revenue and expenditure picture, and forecasts the City's future financial condition. The update reflects the dramatic shift in the local and national economy. The update also incorporates a Council-approved plan for funding General Fund infrastructure rehabilitation needs amounting to \$100 million over the next ten years. The update indicates that Palo Alto is facing potential budget constraints and new revenues will be required to meet any new projects or programs. Accordingly, the City's long-term planning process considers a number of future revenue enhancements including development impact fees, business license fees, a parcel tax, a hotel transient occupancy tax increase, and the establishment of a redevelopment agency. As part of this effort, the City Manager continues to engage the community in dialogues about how to prioritize and pay for new projects and initiatives.

Joint Planning with the School District: Recognizing overlap in both services provided and communities served, the 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. This year an agreement was reached between the City, PAUSD, and Stanford, enabling the School District to reclaim the Terman site, while providing an alternative venue for the Jewish Community Center, the site's long-time lessor, at Stanford's Mayfield site. In addition, this year the City and PAUSD developed an agreement for jointly funding the expansion of the City shuttle system and initiated efforts on a proposal for joint library services.

Zoning Ordinance Update: 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. Since its adoption, aspects of the plan have been incorporated in the annual budget. A critical implementation task is updating City's zoning ordinance, which currently is inconsistent with over fifty policies established by the new plan. In 2000-01, Palo Alto completed a work plan for the zoning ordinance update. The work plan targets the completion of a draft zoning ordinance document in 2002.

Infrastructure Rehabilitation Plan: Several years ago the City inventoried, assessed and prioritized work on its buildings, facilities, streets, sidewalks, medians, bikeways, parks, open space, bridges and parking lots. This effort resulted in a long-term plan to rehabilitate Palo Alto's General Fund infrastructure. In total, the City faces an infrastructure rehabilitation bill of \$100 million over the next ten years. In 2000-01, the Council approved the final component of a plan to fund the necessary infrastructure work. It includes the



use of the City’s emergency reserve and lowering of the budget stabilization reserve from 20 to 18.5 percent of General Fund expenditures beginning in 2001-02. With a funding plan in place, the Council and the City Manager are closely monitoring the City’s progress in completing the infrastructure maintenance and rehabilitation projects.

Traffic Calming and Alternative Transportation: The City has developed a detailed work plan to address concerns about increased vehicular traffic that has been generated, in part, by the City’s success as a regional employment center. Among other things the plan includes expansion of the community-based shuttle service, implementing single street “low-impact” traffic calming measures, and completing neighborhood-wide traffic calming studies and projects.

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.

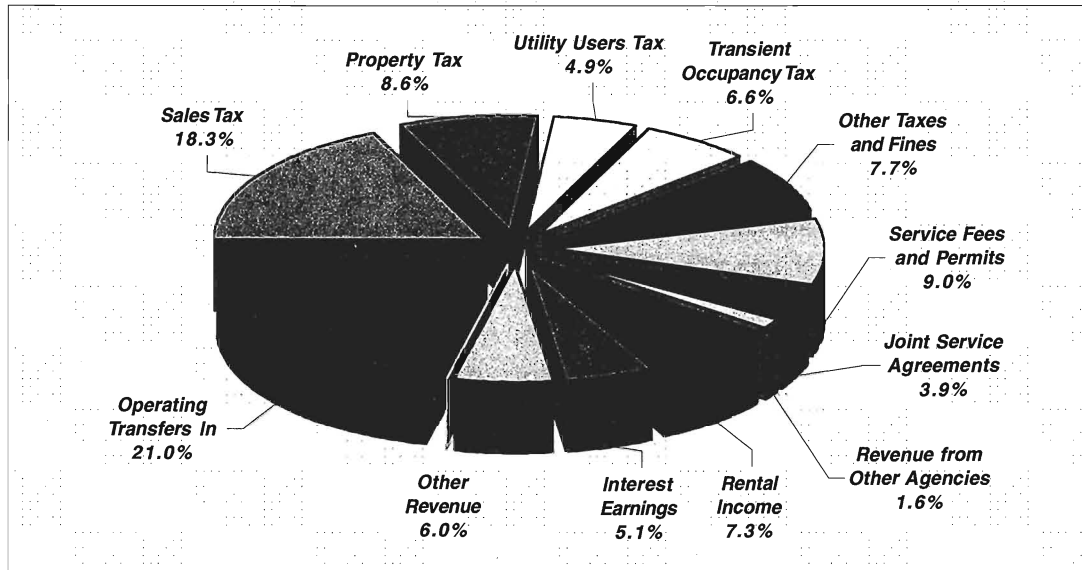
Fund Balances: In 2000-01 combined Governmental Fund revenues and other financing sources totaled \$141.6 million and expenditures and other financing uses totaled \$131.0 million. The \$10.6 million net of revenues over expenditures resulted in a combined fund balance for all Governmental Funds of \$99.9 million at June 30, 2001. The General Fund ended the year with a \$4.6 million addition to fund balance, compared to \$6.6 million in the prior year. The June 30, 2001 fund balance of \$60.4 million for the General Fund alone represents 59.2 percent of direct 2000-01 General Fund expenditures, providing a generous buffer against unexpected financial events.

Revenues & Other Sources: Direct revenues for combined Governmental Funds rose \$11.6 million or 11.6 percent in 2000-01 from 1999-00 levels. This compares to last year’s increase of almost 15 percent. General Fund direct revenues totaled \$102.7 million, an increase of \$11.1 million or 12.1 percent from the prior year. Although revenue sources sensitive to the economy began to show weakness in the last half of the year, Palo Alto is fortunate in having a diverse and balanced revenue base. As the pie chart on the next page shows, sources of funds for the City are well distributed among several areas. Revenue diversity benefits the City in that periodic revenue declines in one category are typically balanced by growth in another.

Sales tax, the City’s largest revenue source, grew by \$2.9 million or 12.8 percent in 2000-01. The business segments most responsible for the sales tax performance are retail sales, new auto sales, business-to-business services, restaurants, office equipment, and luxury items. The significant appreciation in home and commercial property values in the last several years led to a \$1.3 million, or 12.4 percent increase in property tax from the prior year. Several other key revenue sources, transient occupancy tax, utility users tax, and interest income, contributed to the positive revenue results in 2000-01.

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

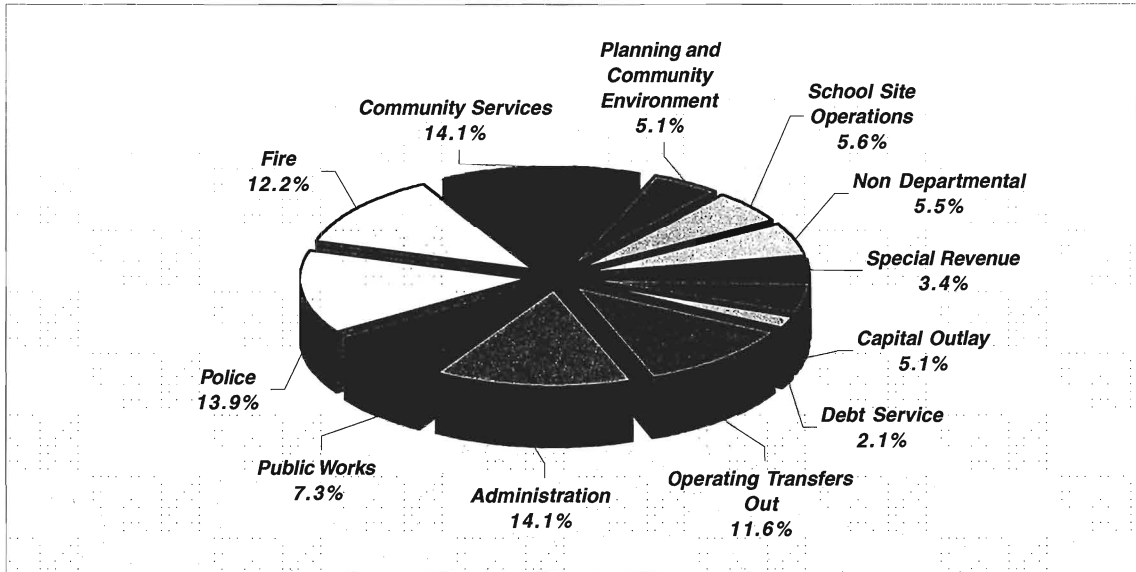
City of Palo Alto – for the Year Ended June 30, 2001



| <u>Revenues By Source (\$000)</u> | <u>2001 Actual</u> | <u>% of Total</u> | <u>Increase (Decrease) from 2000</u> |
|---|------------------------|-----------------------|--|
| Sales Tax | \$ 25,786 | 18.3 | \$ 2,919 |
| Property Tax | 12,110 | 8.6 | 1,340 |
| Utility Users Tax | 6,895 | 4.9 | 1,034 |
| Transient Occupancy Tax | 9,359 | 6.6 | 1,066 |
| Other Taxes and Fines | 10,907 | 7.7 | 663 |
| Service Fees and Permits | 12,743 | 9.0 | 335 |
| Joint Service Agreements | 5,466 | 3.9 | 413 |
| Revenue from Other Agencies | 2,208 | 1.6 | (1,074) |
| Rental Income | 10,270 | 7.3 | 326 |
| Interest Earnings | 7,172 | 5.1 | 3,242 |
| Other Revenue | 8,462 | 6.0 | 1,362 |
| Total Direct Revenues | 111,378 | 79.0 | 11,626 |
| Operating Transfers In & Other Sources | 30,262 | 21.0 | 2,467 |
| Total Revenues | \$ 141,640 | 100.0 | \$ 14,093 |

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

City of Palo Alto – for the Year Ended June 30, 2001



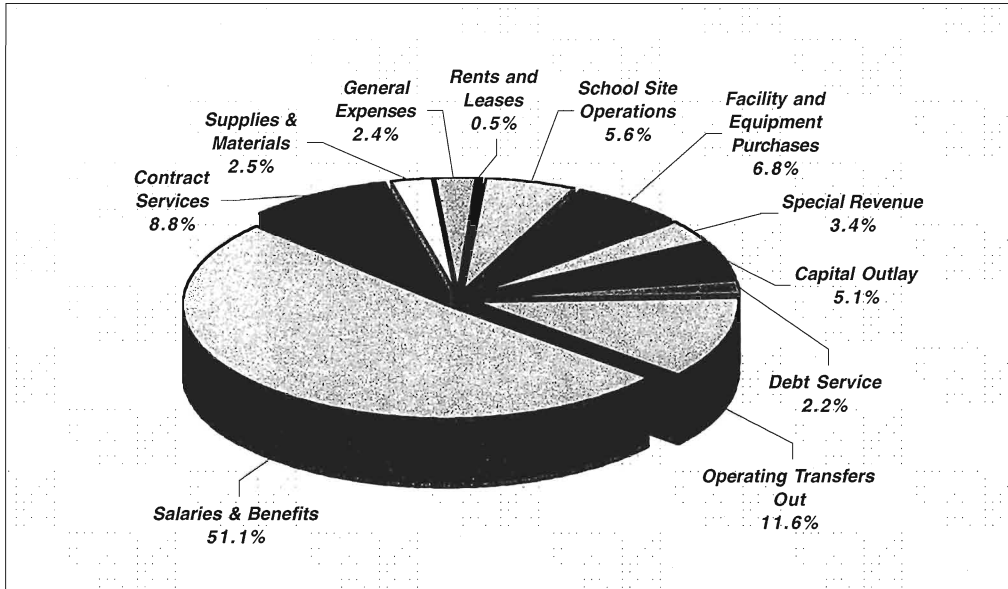
| <u>Expenditure Cost Centers (\$000)</u> | <u>2001 Actual</u> | <u>% of Total</u> | <u>Increase (Decrease) from 2000</u> |
|---|------------------------|-----------------------|--|
| * Administration | \$ 18,557 | 14.1 | \$ 2,785 |
| Public Works | 9,522 | 7.3 | 695 |
| Police | 18,306 | 13.9 | 640 |
| Fire | 15,973 | 12.2 | 1,461 |
| Community Services | 18,469 | 14.1 | 611 |
| Planning and Community Environment | 6,652 | 5.1 | 13 |
| School Site Operations | 7,301 | 5.6 | 374 |
| Non Departmental | 7,186 | 5.5 | 7,186 |
| Special Revenue | 4,388 | 3.4 | 3,824 |
| Capital Outlay | 6,701 | 5.1 | (5,886) |
| Debt Service | 2,817 | 2.1 | 16 |
| Total Direct Expenditures | 115,872 | 88.4 | 11,719 |
| Operating Transfers Out & Other Uses | 15,192 | 11.6 | (226) |
| Total Expenditures and Other Uses | \$ 131,064 | 100.0 | \$ 11,493 |

* Administration is comprised of the following departments:

| | |
|-------------------------|--------|
| City Council | \$269 |
| City Manager | 1,624 |
| City Attorney | 2,124 |
| City Clerk | 755 |
| City Auditor | 463 |
| Administrative Services | 11,204 |
| Human Resources | 2,118 |

Governmental Funds Expenditures and Other Uses by Type

City of Palo Alto – for the Year Ended June 30, 2001



| <u>Expenditures By Type (\$000)</u> | <u>2001 Actual</u> | <u>% of Total</u> | <u>Increase (Decrease) from 2000</u> |
|---|------------------------|-----------------------|--|
| Salaries and Benefits | \$ 67,011 | 51.1 | \$ 3,888 |
| Contract Services | 11,561 | 8.8 | 2,818 |
| Supplies and Materials | 3,323 | 2.5 | (1,416) |
| General Expenses | 3,115 | 2.4 | 230 |
| Rents and Leases | 701 | 0.5 | (136) |
| School Site Operations | 7,301 | 5.6 | 374 |
| Facility and Equipment Purchases | 8,954 | 6.8 | 8,007 |
| Special Revenue | 4,388 | 3.4 | 3,824 |
| Capital Outlay | 6,701 | 5.1 | (5,886) |
| Debt Service | 2,817 | 2.2 | 16 |
| Total Direct Expenditures | 115,872 | 88.4 | 11,719 |
| Operating Transfers Out & Other Uses | 15,192 | 11.6 | (226) |
| Total Expenditures & Other Uses | \$ 131,064 | 100.0 | \$ 11,493 |



Governmental Funds transfers in increased by 8.9 percent in 2000-01 primarily resulting from a transfer of bond proceeds in the amount of \$4.1 million from the Parking Assessment District Agency Fund to the Capital Projects Fund.

Expenditures & Other Uses: Direct expenditures for combined Governmental Funds increased to \$115.9 million in 2000-01, 11.3 percent more than the prior year amount of \$104.2 million. This results from direct expenditure increases of \$13.8 million in the General Fund and \$3.8 million in the Special Revenue Fund offset by a decline of \$5.9 million in actual capital outlay expenditures within the Capital Projects Fund. A major portion of the direct expenditure increase is related to development efforts in the South of Forest Avenue area and includes: the General Fund purchase of the historic Roth building (\$2.1 million); the General Fund purchase of the Pinkerton Property (\$.4 million); the General Fund purchase of park land (\$4.7 million); the Special Revenue Fund purchase of land for below market rate housing (\$3.0 million); and Special Revenue Fund costs for building demolition and relocation of a historic house (\$.5 million). The decline in capital project expenditures is due to unforeseen project design and approval delays and a significant decrease in street maintenance project expenditures. Expenditures for street projects will increase in 2001-02 as projects move from the design to the construction phase. Operating transfers out of Governmental Funds decreased by \$.2 million or 1.0 percent compared to 1999-00. Grand total expenditures and transfers out increased 9.6 percent between 2000-01 and 1999-00.

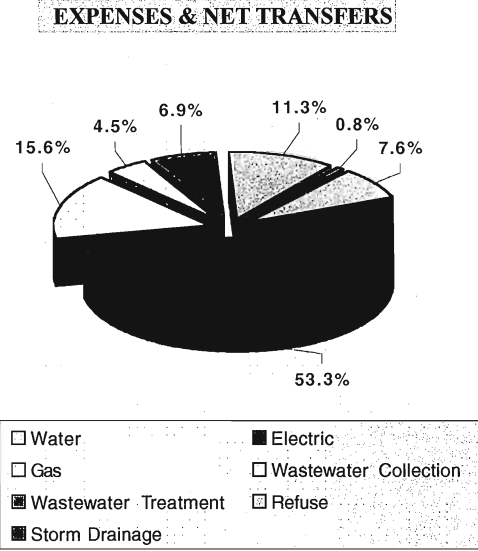
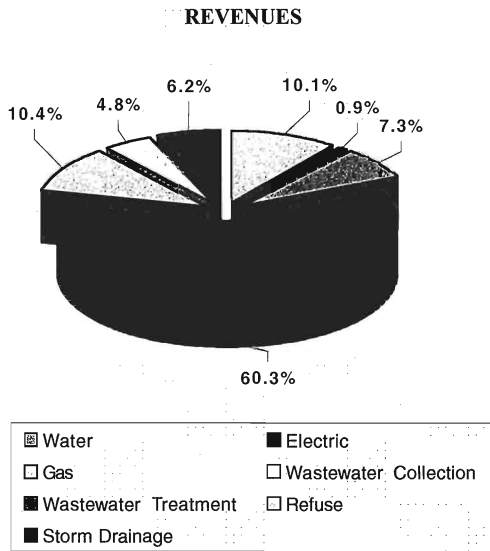
Financial Highlights: Proprietary Funds

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. It is important to note that General and Enterprise Funds cannot be intermixed with the exception of return on investment and reimbursements.

Financial Results: Enterprise Funds provided \$235.6 million or 62.4 percent of the City’s revenues in 2000-01. Compared to the prior year, combined Enterprise revenues increased \$82.0 million or 53.4 percent while expenditures increased \$53.2 million or 40 percent. The Enterprise Funds ended the year with net income of \$49.3 million, an increase of \$28.8 million over prior year performance. The Electric Fund alone contributed net income of \$42.7 million, accounting for 86.6 percent of total Enterprise Fund net income this fiscal year. Significant gains due to selling surplus electricity drove its positive results in 2000-01. Despite intense volatility in California’s electric markets over the past 18 months, the City’s Electric Fund remains strong. The Gas Fund ended the year with a \$4.5 million draw on its rate stabilization reserve. Although the Gas Fund instituted several gas

Enterprise Funds Net Income by Fund

City of Palo Alto – for the Year Ended June 30, 2001

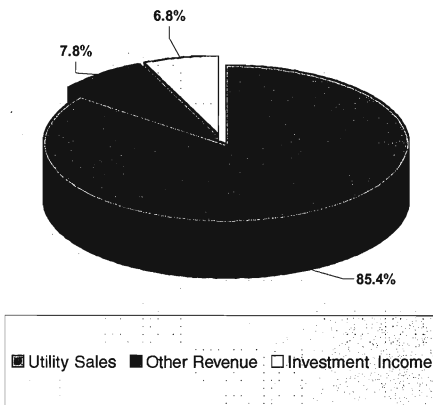


| Enterprise Funds (\$000) | Revenues | Expenses & Net Transfers | Net Income |
|--------------------------|-------------------|--------------------------|------------------|
| Water | \$ 17,161 | \$ 14,286 | 2,875 |
| Electric | 141,967 | 99,237 | 42,730 |
| Gas | 24,500 | 29,005 | (4,505) |
| Wastewater Collection | 11,416 | 8,385 | 3,031 |
| Wastewater Treatment | 14,640 | 12,872 | 1,768 |
| Refuse | 23,723 | 20,983 | 2,740 |
| Storm Drainage | 2,144 | 1,435 | 709 |
| Total | \$ 235,551 | \$ 186,203 | \$ 49,348 |

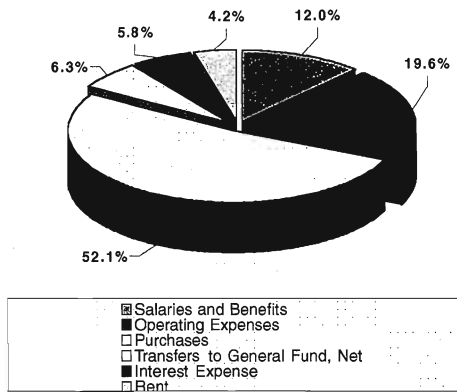
**Enterprise Funds Net Income
by Revenue and Expense Type**

City of Palo Alto – for the Year Ended June 30, 2001

REVENUES BY TYPE



EXPENSES & NET TRANSFERS BY TYPE



Revenues (\$000)

| | |
|-------------------|------------|
| Utility Sales | \$ 201,153 |
| Other Revenue | 18,476 |
| Investment Income | 15,922 |

Total Revenues

| 2001 Actual | % of Total | Increase (Decrease) from 2000 |
|-------------------|--------------|-------------------------------|
| \$ 201,153 | 85.4 | \$ 74,103 |
| 18,476 | 7.8 | 57 |
| 15,922 | 6.8 | 7,864 |
| \$ 235,551 | 100.0 | \$ 82,024 |

Expenses & Net Transfers (\$000)

| | |
|--------------------------------|-----------|
| Salaries and Benefits | \$ 22,268 |
| Operating Expenses | 36,459 |
| Purchases | 96,969 |
| Transfers to General Fund, Net | 11,693 |
| Interest Expense | 10,902 |
| Rent | 7,912 |

Total Expenses

Net Income

| | | |
|-------------------|--------------|------------------|
| \$ 22,268 | 12.0 | \$ 885 |
| 36,459 | 19.6 | (8,287) |
| 96,969 | 52.1 | 50,130 |
| 11,693 | 6.3 | 126 |
| 10,902 | 5.8 | 9,969 |
| 7,912 | 4.2 | 375 |
| \$ 186,203 | 100.0 | \$ 53,198 |
| \$ 49,348 | 100.0 | \$ 28,826 |



rate increases during the year, it wasn't able to recover its costs related to skyrocketing natural gas prices. Combined retained earnings rose to \$409.2 million, a 13.7 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 \$98.1 million represent 41.7 percent of 2000-01 revenues, providing generous protection from unexpected revenue and expense fluctuations.

Energy Crisis: In May 2000, the State began to face electricity supply shortages resulting in rolling blackouts and rapid increases in market prices. Skyrocketing wholesale electricity prices and the inability to recover the cost of energy from retail customers drove Pacific Gas and Electric (PG&E) to seek bankruptcy protection. PG&E's bankruptcy and its filing with the Federal Energy Regulatory Commission (FERC) to increase the rate it charges to Western Area Power Administration (WAPA) threatens to impact Palo Alto's future costs. The City purchases about 85 percent of its power from WAPA at cost-based rates that are significantly below current market rates. The City has taken a number of actions to protect against the threat of increased power purchases costs and to avoid rolling blackouts. The City installed a Cooperatively Owned Backup Generator (COBUG) to minimize the need for rolling blackouts and implemented an Accelerated Energy Efficiency Program (AEEP) to reduce electricity consumption with the City. In addition, successful interventions were made at FERC to protest the PG&E filing to increase WAPA rates. The City was also successful in obtaining representation at the PG&E Bankruptcy Official Creditors Committee to protect its interests in the bankruptcy proceedings. Finally, the City entered into a long-term electricity purchase contract to hedge its exposure to high market prices. These actions combined with an overall calming of the energy markets in California have substantially reduced uncertainties faced by the City. Aggressive customer conservation efforts, new generation plant additions, the economic slow-down, and interventions by the Governor and FERC are expected to continue to ease the energy crisis and its impact in Palo Alto.

Summary

Palo Alto's financial performance was solid in 2000-01. Although the economic downturn began to affect General Fund revenues in the second half of the fiscal year, the City continues to benefit from the diversity and strength of its revenue base. The City is well positioned to withstand current economic conditions, with adequate reserves to buffer economic downturns and unexpected events. Staff is making the necessary adjustments to the current budget to ensure that it meets its targets and avoids using reserves.

Awards: During the past year, the City received two awards for the prior fiscal year CAFR, 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 seventh consecutive year the City has received both of these awards and the current certificates appear immediately after the end of this transmittal letter. The 2000-01 CAFR has also been submitted to the GFOA and CSMFO award programs and management believes that, once again, it will



meet the criteria for these distinguished financial reporting awards. Last year, the City prepared its first “popular” report, designed to provide a less detailed overview of the City’s financial activities. The City received GFOA’s Popular Annual Financial Reporting award for this new report.

Acknowledgment: This CAFR 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 Trudy Eikenberry, Accounting Manager, and the Senior Accountants, Staff Accountants, and Accounting Specialists for 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

Sandy Eakins, *Mayor*

Victor Ojakian, *Vice Mayor*

Bern Beecham

Jim Burch

Gary Fazzino

Judy Kleinberg

Nancy Lytle

Dena Mossar

Lanie Wheeler

Finance Committee

Bern Beecham, *Chair*

Judy Kleinberg

Victor Ojakian

Lanie Wheeler

Policy and Services Committee

Dena Mossar, *Chair*

Jim Burch

Gary Fazzino

Nancy Lytle

Council-Appointed Officers

City Manager

Frank Benest

City Attorney

Ariel Pierre Calonne

City Clerk

Donna Rogers

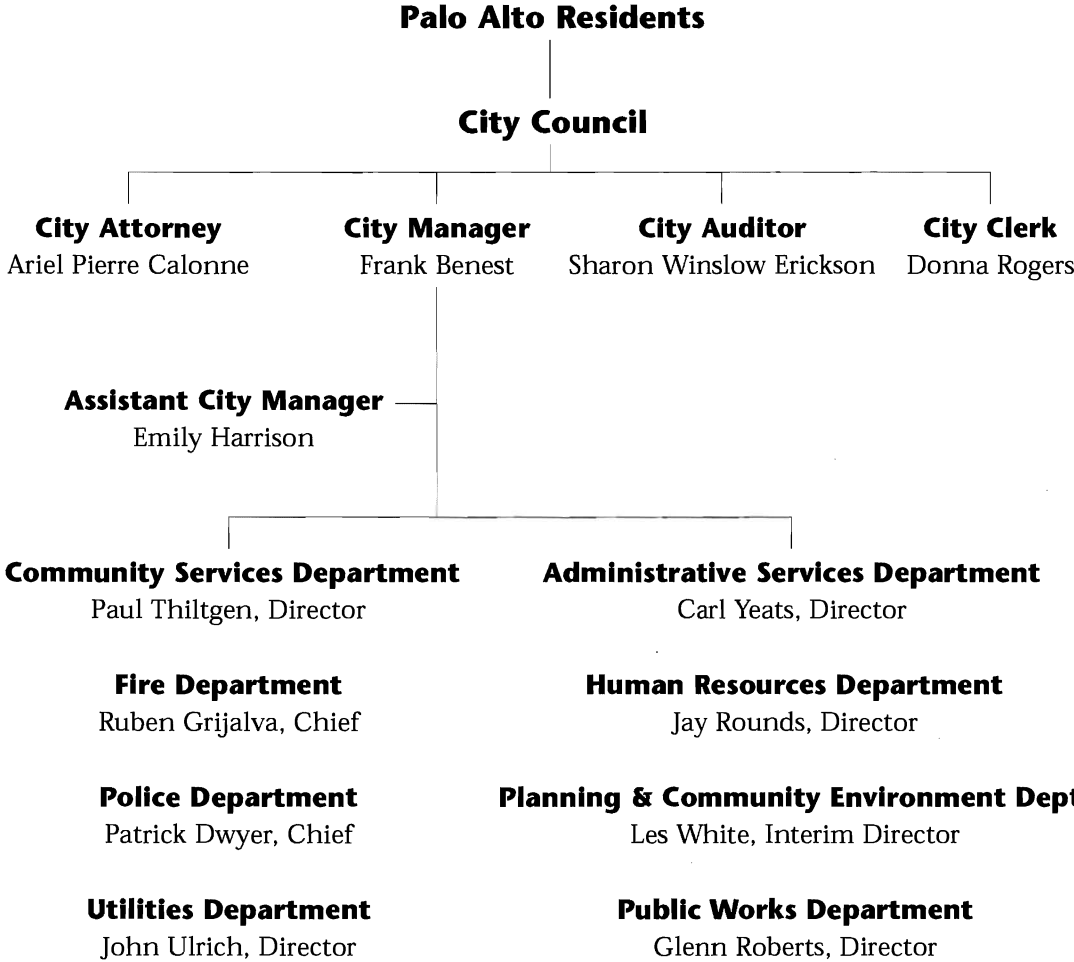
City Auditor

Sharon Winslow Erickson





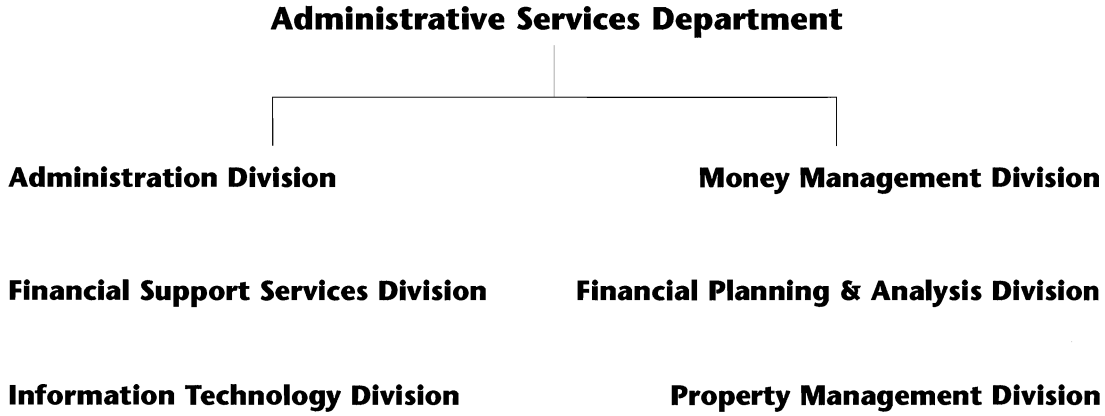
City of Palo Alto Organization



.....



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, 2000

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 Kinsey
President

Jeffrey L. Essler
Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 1999-2000

Presented to the

City of Palo Alto

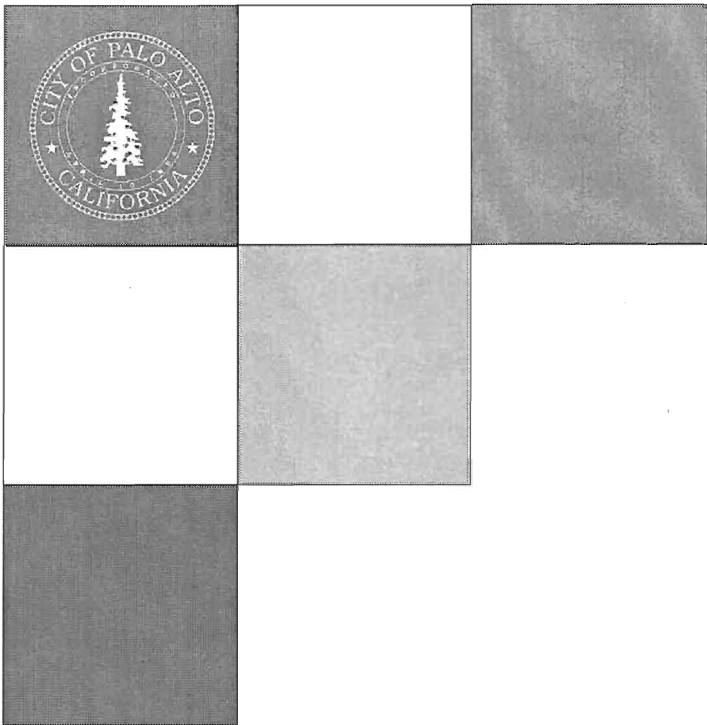
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 26, 2001


Chair, Professional & Technical Standards Committee

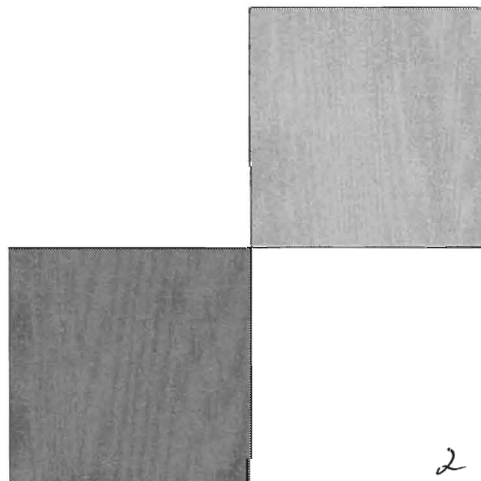


Dedicated to Excellence in Municipal Financial Management



Financial Statements

Fiscal Year Ended June 30, 2001



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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 encompasses 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 to the Financial Statements

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
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: 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, 2001 and 2000 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, 2001 and 2000 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.

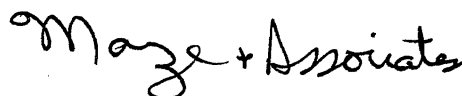
In accordance with Government Auditing Standards, we have also issued reports dated October 25, 2001, on our consideration of the City of Palo Alto's internal control structure and on its compliance with laws and regulations.

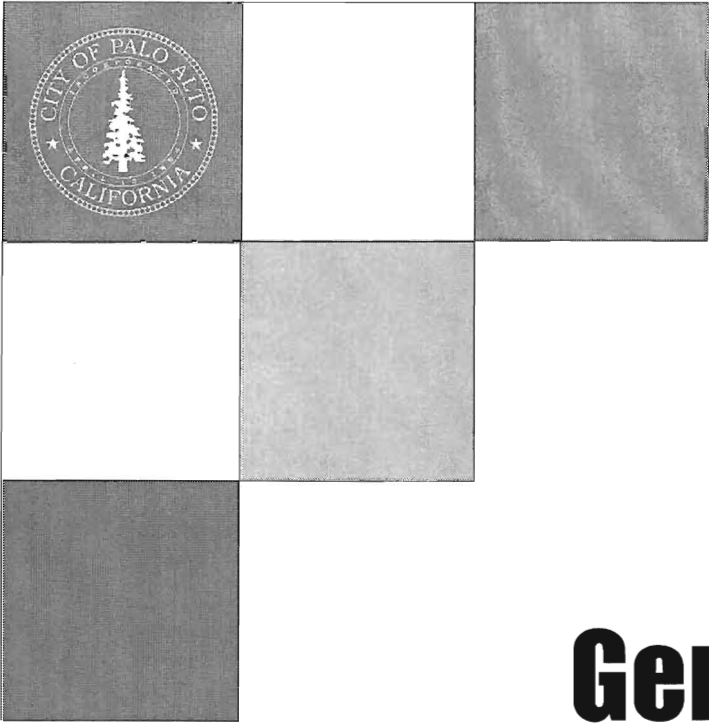
The basic financial statements referred to above follow the requirements of the Government Accounting Standards Board's Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was implemented for the year ended June 30, 2001.

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.

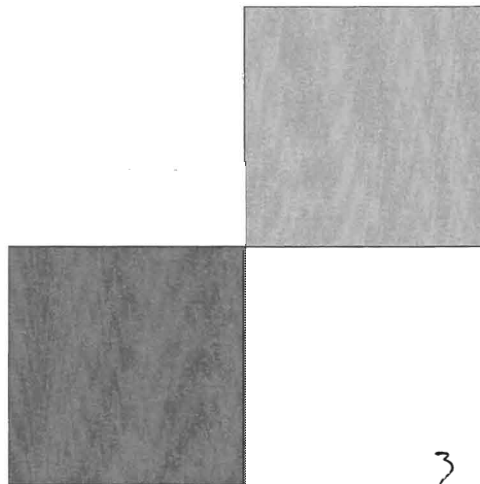
October 25, 2001





General Purpose Financial Statements

Fiscal Year Ended June 30, 2001



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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, 2001 and 2000

with comparative amounts for the fiscal year ended June 30, 2000 (in thousands of dollars)

| ASSETS | GOVERNMENTAL FUND TYPES | | | |
|--|-------------------------|-----------------|----------------|------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Cash and investments (Note 3): | | | | |
| Available for operations | \$56,255 | \$8,678 | \$182 | \$21,230 |
| Cash and investments with fiscal agent | | | 1,505 | 515 |
| Receivables, net: | | | | |
| Accounts | 4,230 | 166 | | |
| Special assessments | | | 670 | |
| Interest | 1,671 | 105 | 4 | 2 |
| Notes (Note 5) | 1,140 | 8,717 | | |
| Interfund receivable (Note 4) | 69 | | | |
| Inventory of materials and supplies | 2,226 | | | |
| Prepaid items | | | | |
| Property, plant and equipment, net (Note 6) | | | | |
| Amount available in debt service funds | | | | |
| Amount to be provided for retirement of general long-term debt | | | | |
| Total Assets | \$65,591 | \$17,666 | \$2,361 | \$21,747 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$3,020 | \$816 | | \$662 |
| Accrued salaries and benefits | 2,020 | | | |
| Deferred revenue | | | \$670 | |
| Accrued compensated absences (Note 1F) | | | | |
| Accrued claims payable (Note 15) | | | | |
| Landfill closure and postclosure care (Note 9) | | | | |
| Interfund payable and advances (Note 4) | 155 | 69 | | |
| Due to bondholders | | | | |
| Due to developers | | | | |
| Long term debt (Note 7): | | | | |
| Certificates of participation | | | | |
| Capital lease obligations | | | | |
| Utility revenue bonds, net of unamortized issuance costs and discounts | | | | |
| Special assessment debt with city commitment (Note 8) | | | | |
| Total Liabilities | 5,195 | 885 | 670 | 662 |
| FUND EQUITY AND OTHER CREDITS | | | | |
| Investment in general fixed assets | | | | |
| Contributed capital (Note 1G) | | | | |
| Retained earnings (Note 10) | | | | |
| Fund balances (Note 10): | | | | |
| Reserved | 8,282 | 9,315 | 1,691 | 3,080 |
| Unreserved: | | | | |
| Designated | 52,114 | 7,568 | | 18,005 |
| Undesignated | | (102) | | |
| Total Fund Equity | 60,396 | 16,781 | 1,691 | 21,085 |
| Total Equity and Other Credits | 60,396 | 16,781 | 1,691 | 21,085 |
| Total Liabilities, Equity and Other Credits | \$65,591 | \$17,666 | \$2,361 | \$21,747 |

See accompanying notes to financial statements

| PROPRIETARY FUND TYPES | | FIDUCIARY FUND TYPES | ACCOUNT GROUPS | | TOTALS (Memorandum Only) | |
|---------------------------|---------------------|-------------------------|-------------------------|-----------------------------------|-----------------------------|------------------|
| Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long- Term Obligations | 2001 | 2000 |
| \$197,621 | \$36,091 | \$18,068 | | | \$338,125 | \$287,398 |
| 1,025 | | | | | 3,045 | 5,733 |
| 34,484 | 4 | | | | 38,884 | 27,179 |
| | | | | | 670 | 4,095 |
| 2,814 | 439 | 221 | | | 5,256 | 4,581 |
| | 155 | | | | 9,857 | 9,727 |
| | 261 | | | | 224 | 210 |
| 443 | | | | | 2,487 | 2,433 |
| 281,315 | 11,584 | | \$127,413 | | 443 | 290 |
| | | | | \$1,691 | 420,312 | 389,763 |
| | | | | | 1,691 | 2,305 |
| | | | | 9,679 | 9,679 | 14,386 |
| <u>\$517,702</u> | <u>\$48,534</u> | <u>\$18,289</u> | <u>\$127,413</u> | <u>\$11,370</u> | <u>\$830,673</u> | <u>\$748,100</u> |
| \$17,376 | \$456 | \$47 | | | \$22,377 | \$12,137 |
| 890 | 1,681 | | | | 4,591 | 3,803 |
| | 11,418 | | | | 670 | 4,095 |
| | 9,113 | | | | 11,418 | 9,987 |
| 6,238 | | | | | 9,113 | 8,243 |
| | | 2,157 | | | 6,238 | 7,136 |
| | | 1,188 | | | 224 | 210 |
| | | | | | 2,157 | 374 |
| | | | | | 1,188 | 617 |
| | 113 | | | \$10,700 | 10,700 | 11,625 |
| | | | | | 113 | 537 |
| 23,465 | | | | | 23,465 | 23,935 |
| | | | | 670 | 670 | 4,670 |
| <u>47,969</u> | <u>22,781</u> | <u>3,392</u> | | <u>11,370</u> | <u>92,924</u> | <u>87,369</u> |
| | | | \$127,413 | | 127,413 | 115,889 |
| 60,507 | 7,030 | | | | 67,537 | 67,537 |
| 409,226 | 18,723 | | | | 427,949 | 376,359 |
| | | | | | 22,368 | 35,555 |
| | | | | | 77,687 | 53,933 |
| | | 14,897 | | | 14,795 | 11,458 |
| <u>469,733</u> | <u>25,753</u> | <u>14,897</u> | | | <u>610,336</u> | <u>544,842</u> |
| <u>469,733</u> | <u>25,753</u> | <u>14,897</u> | <u>127,413</u> | | <u>737,749</u> | <u>660,731</u> |
| <u>\$517,702</u> | <u>\$48,534</u> | <u>\$18,289</u> | <u>\$127,413</u> | <u>\$11,370</u> | <u>\$830,673</u> | <u>\$748,100</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, 2001

with comparative amounts for the fiscal year ended June 30, 2000 (in thousands of dollars)

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY |
|---|-------------------------|-----------------|----------------|------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | FUND TYPE Expendable Trust |
| REVENUES | | | | | |
| Property taxes | \$12,110 | | | | |
| Special assessments | | | \$872 | | |
| Sales taxes | 25,786 | | | | |
| Utility users' tax | 6,895 | | | | |
| Transient occupancy tax | 9,359 | | | | |
| Other taxes and fines | 8,887 | \$2,020 | | | |
| Fire protection and emergency communication services | 5,466 | | | | |
| From other agencies | 818 | 307 | 318 | \$765 | |
| Service fees and permits | 12,743 | | | | |
| Return on investment | 6,308 | 697 | 139 | 28 | \$1,096 |
| Rental income | 10,270 | | | | |
| Other | 4,019 | 3,386 | | 185 | 2,328 |
| Total Revenues | 102,661 | 6,410 | 1,329 | 978 | 3,424 |
| EXPENDITURES | | | | | |
| Current operations: | | | | | |
| City Council | 269 | | | | |
| City Manager | 1,624 | | | | |
| City Attorney | 2,124 | | | | |
| City Clerk | 755 | | | | |
| City Auditor | 463 | | | | |
| Administrative Services | 11,204 | | | | |
| Human Resources | 2,118 | | | | |
| Public Works | 9,522 | | | | |
| Planning and Community Environment | 6,652 | | | | |
| Public Safety - Police | 18,306 | | | | 59 |
| Public Safety - Fire | 15,973 | | | | |
| Community Services | 18,469 | | | | 37 |
| Non Departmental | 7,186 | | | | |
| School site operations | 7,301 | | | | |
| Capital outlay | | 4,388 | | 6,701 | |
| Debt service: | | | | | |
| Principal retirement | | | 1,895 | | |
| Interest and fiscal charges | | | 922 | | |
| Total Expenditures | 101,966 | 4,388 | 2,817 | 6,701 | 96 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 695 | 2,022 | (1,488) | (5,723) | 3,328 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Contribution from Assessment District (Note 7) | | | 72 | 4,040 | |
| Payment to bond escrow agent (Note 7) | | | (705) | | |
| Operating transfers in (Note 4) | 14,157 | 13 | 1,405 | 10,575 | |
| Operating transfers (out) (Note 4) | (10,221) | (3,407) | | (859) | |
| Total Other Financing Sources (Uses) | 3,936 | (3,394) | 772 | 13,756 | |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | 4,631 | (1,372) | (716) | 8,033 | 3,328 |
| Fund balances at beginning of year | 55,765 | 18,153 | 2,407 | 13,052 | 11,569 |
| Fund balances at end of year | \$60,396 | \$16,781 | \$1,691 | \$21,085 | \$14,897 |

See accompanying notes to financial statements



.....

| TOTALS | |
|-------------------|------------------|
| (Memorandum Only) | |
| 2001 | 2000 |
| \$12,110 | \$10,770 |
| 872 | 887 |
| 25,786 | 22,867 |
| 6,895 | 5,861 |
| 9,359 | 8,293 |
| 10,907 | 10,244 |
| 5,466 | 5,053 |
| 2,208 | 3,282 |
| 12,743 | 12,408 |
| 8,268 | 4,356 |
| 10,270 | 9,944 |
| 9,918 | 8,888 |
| <u>114,802</u> | <u>102,853</u> |
| 269 | 216 |
| 1,624 | 1,483 |
| 2,124 | 1,671 |
| 755 | 830 |
| 463 | 526 |
| 11,204 | 8,963 |
| 2,118 | 2,083 |
| 9,522 | 8,827 |
| 6,652 | 6,639 |
| 18,365 | 17,693 |
| 15,973 | 14,512 |
| 18,506 | 17,904 |
| 7,186 | |
| 7,301 | 6,927 |
| 11,089 | 13,151 |
| 1,895 | 1,775 |
| 922 | 1,026 |
| <u>115,968</u> | <u>104,226</u> |
| <u>(1,166)</u> | <u>(1,373)</u> |
| 4,112 | |
| (705) | |
| 26,150 | 27,795 |
| <u>(14,487)</u> | <u>(15,418)</u> |
| <u>15,070</u> | <u>12,377</u> |
| 13,904 | 11,004 |
| <u>100,946</u> | <u>89,942</u> |
| <u>\$114,850</u> | <u>\$100,946</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, 2001**

(in thousands of dollars)

| | GENERAL | | | SPECIAL REVENUE | | |
|--|-------------------|-----------------|--|------------------|-----------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Property taxes | \$11,335 | \$12,110 | \$775 | | | |
| Special assessments | | | | | | |
| Sales taxes | 24,200 | 25,786 | 1,586 | | | |
| Utility users' tax | 6,163 | 6,895 | 732 | | | |
| Transient occupancy tax | 9,400 | 9,359 | (41) | | | |
| Other taxes and fines | 8,272 | 8,887 | 615 | \$1,126 | \$2,020 | \$894 |
| Fire protection and emergency communication services | 5,290 | 5,466 | 176 | | | |
| From other agencies | 623 | 818 | 195 | 3,380 | 307 | (3,073) |
| Service fees and permits | 11,310 | 12,743 | 1,433 | | | |
| Return on investment | 3,815 | 6,308 | 2,493 | 467 | 697 | 230 |
| Rental income | 10,282 | 10,270 | (12) | | | |
| Other | 4,705 | 4,019 | (686) | 2,138 | 3,386 | 1,248 |
| Total Revenues | 95,395 | 102,661 | 7,266 | 7,111 | 6,410 | (701) |
| EXPENDITURES | | | | | | |
| Current operations: | | | | | | |
| City Council | 276 | 269 | 7 | | | |
| City Manager | 1,849 | 1,624 | 225 | | | |
| City Attorney | 2,928 | 2,124 | 804 | | | |
| City Clerk | 854 | 755 | 99 | | | |
| City Auditor | 680 | 463 | 217 | | | |
| Administrative Services | 11,882 | 11,204 | 678 | | | |
| Human Resources | 2,308 | 2,118 | 190 | | | |
| Public Works | 10,109 | 9,522 | 587 | | | |
| Planning and Community Environment | 7,879 | 6,652 | 1,227 | | | |
| Public Safety - Police | 18,849 | 18,306 | 543 | | | |
| Public Safety - Fire | 16,080 | 15,973 | 107 | | | |
| Community Services | 19,835 | 18,469 | 1,366 | | | |
| Non Departmental | 8,921 | 7,186 | 1,735 | | | |
| School site operations | 7,285 | 7,301 | (16) | | | |
| Capital outlay | | | | 5,430 | 4,388 | 1,042 |
| Debt Service | | | | | | |
| Principal retirement | | | | | | |
| Interest and fiscal charges | | | | | | |
| Total Expenditures | 109,735 | 101,966 | 7,769 | 5,430 | 4,388 | 1,042 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (14,340) | 695 | 15,035 | 1,681 | 2,022 | 341 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Contribution from Assessment District | | | | | | |
| Payment to bond escrow agent | | | | | | |
| Operating transfers in | 13,872 | 14,157 | 285 | 12 | 13 | 1 |
| Operating transfers (out) | (9,939) | (10,221) | (282) | (5,586) | (3,407) | 2,179 |
| Total Other Financing Sources (Uses) | 3,933 | 3,936 | 3 | (5,574) | (3,394) | 2,180 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | <u>(\$10,407)</u> | 4,631 | <u>\$15,038</u> | <u>(\$3,893)</u> | (1,372) | <u>\$2,521</u> |
| Fund balances at beginning of year | | 55,765 | | | 18,153 | |
| Fund balances at end of year | | <u>\$60,396</u> | | | <u>\$16,781</u> | |

See accompanying notes to financial statements



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| DEBT SERVICE | | |
|--------------|--------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) |
| \$852 | \$872 | \$20 |
| 267 | 318 | 51 |
| 134 | 139 | 5 |
| <u>1,253</u> | <u>1,329</u> | <u>76</u> |

| | | |
|----------------------|-----------------------|-----------------------|
| 1,895 | 1,895 | |
| <u>924</u> | <u>922</u> | <u>2</u> |
| <u>2,819</u> | <u>2,817</u> | <u>2</u> |
| <u>(1,566)</u> | <u>(1,488)</u> | <u>78</u> |
| 72 | 72 | |
| 1,403 | (705) | (705) |
| | 1,405 | 2 |
| <u>1,475</u> | <u>772</u> | <u>(703)</u> |
| <u><u>(\$91)</u></u> | (716) | <u><u>(\$625)</u></u> |
| | <u>2,407</u> | |
| | <u><u>\$1,691</u></u> | |

.....

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

All Proprietary Fund Types – Fiscal Year Ended June 30, 2001

with comparative amounts for the fiscal year ended June 30, 2000 (in thousands of dollars)

| | Enterprise | Internal Service | TOTALS (Memorandum Only) | |
|---|------------------|------------------|-----------------------------|------------------|
| | | | 2001 | 2000 |
| OPERATING REVENUES | | | | |
| Sales of utilities: | | | | |
| Customers | \$118,115 | | \$118,115 | \$114,573 |
| City departments | 8,801 | | 8,801 | 7,895 |
| Wholesale | 4,065 | | 4,065 | 4,582 |
| Excess capacity | 67,530 | | 67,530 | 15,652 |
| Wastewater treatment | 8,691 | | 8,691 | 7,405 |
| Service connection charges and miscellaneous | 1,984 | | 1,984 | 2,492 |
| Charges for services | | \$37,898 | 37,898 | 35,249 |
| Other revenues | 9,999 | | 9,999 | 8,522 |
| Total Operating Revenues | 219,185 | 37,898 | 257,083 | 196,370 |
| OPERATING EXPENSES | | | | |
| Purchase of utilities: | | | | |
| Retail | 72,179 | | 72,179 | 55,058 |
| Excess capacity | 24,790 | | 24,790 | 7,433 |
| Administration and general | 11,884 | 2,618 | 14,502 | 13,708 |
| Engineering (operating) | 2,863 | | 2,863 | 2,740 |
| Resource management | 5,812 | | 5,812 | 3,979 |
| Operations and maintenance | 27,894 | 2,319 | 30,213 | 29,873 |
| Rent | 7,912 | | 7,912 | 7,537 |
| Depreciation and amortization | 10,179 | 2,150 | 12,329 | 11,502 |
| Claim payments and change in estimated self-insured liability | | 5,100 | 5,100 | 3,763 |
| Compensated absences and other benefits | | 27,345 | 27,345 | 25,579 |
| Total Operating Expenses | 163,513 | 39,532 | 203,045 | 161,172 |
| Operating Income (Loss) | 55,672 | (1,634) | 54,038 | 35,198 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Return on investment | 15,922 | 2,529 | 18,451 | 9,348 |
| Interest (expense) | (903) | (15) | (918) | (946) |
| Joint venture debt service | (9,999) | | (9,999) | (11,026) |
| Gain (loss) on disposal of fixed assets | (95) | 225 | 130 | 120 |
| Other non-operating revenues | 444 | 1,107 | 1,551 | 626 |
| Net Nonoperating Revenues (Expenses) | 5,369 | 3,846 | 9,215 | (1,878) |
| Income Before Operating Transfers | 61,041 | 2,212 | 63,253 | 33,320 |
| Operating transfers in (Note 4) | 1,831 | 237 | 2,068 | 1,394 |
| Operating transfers (out) (Note 4) | (13,524) | (207) | (13,731) | (13,771) |
| Net Income | 49,348 | 2,242 | 51,590 | 20,943 |
| Retained earnings at beginning of year | 359,878 | 16,481 | 376,359 | 355,416 |
| Retained earnings at end of year | \$409,226 | \$18,723 | \$427,949 | \$376,359 |

See accompanying notes to financial statements

City of Palo Alto – Combined Statements of Cash Flows

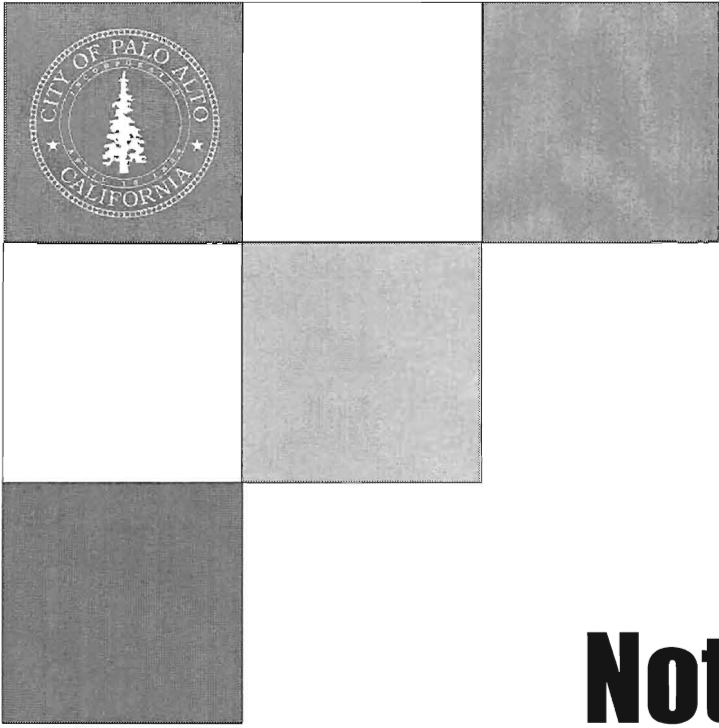
All Proprietary Fund Types – Fiscal Year Ended June 30, 2001

with comparative amounts for the fiscal year ended June 30, 2000 (in thousands of dollars)

| | | | TOTALS (Memorandum Only) | |
|---|------------------|---------------------|-----------------------------|------------------|
| | Enterprise | Internal Service | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$55,672 | (\$1,634) | \$54,038 | \$35,198 |
| Adjustments to reconcile operating income (loss) to cash flows from operating activities: | | | | |
| Depreciation and amortization | 10,179 | 2,150 | 12,329 | 11,502 |
| Other | | 378 | 378 | 626 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | (13,112) | 13 | (13,099) | (7,405) |
| Increase in interest receivable | (396) | (8) | (404) | (90) |
| Increase in interfund receivable | | (75) | (75) | (80) |
| Increase in inventory of materials and supplies | | 28 | 28 | (63) |
| Increase in prepaid items | (255) | | (255) | (50) |
| Decrease in accounts payable, accrued liabilities and accrued salaries and benefits | 9,402 | 397 | 9,799 | 52 |
| Increase (decrease) in accrued compensated absences | | 1,431 | 1,431 | (51) |
| Increase in accrued claims payable | | 870 | 870 | 590 |
| Increase in accrued landfill closure liability | (898) | | (898) | 265 |
| Net cash from operating activities | <u>60,592</u> | <u>3,550</u> | <u>64,142</u> | <u>40,494</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Operating transfers in | 1,831 | 237 | 2,068 | 1,394 |
| Operating transfers (out) | (13,524) | (207) | (13,731) | (13,771) |
| Net cash used in non capital financing activities | <u>(11,693)</u> | <u>30</u> | <u>(11,663)</u> | <u>(12,377)</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | | |
| Acquisition and construction of fixed assets | (28,524) | (1,527) | (30,051) | (36,030) |
| Proceeds from long term obligations | | | | 163 |
| Bond issuance costs and underwriter's discount | | | | 28 |
| Principal paid on long term obligations | (555) | (28) | (583) | (567) |
| Interest paid on long term obligations | (10,817) | (15) | (10,832) | (11,888) |
| Net cash used in capital financing activities | <u>(39,896)</u> | <u>(1,570)</u> | <u>(41,466)</u> | <u>(48,294)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment income received from cash and investments | 15,922 | 2,529 | 18,451 | 9,348 |
| Net cash provided by (used in) investing activities | <u>15,922</u> | <u>2,529</u> | <u>18,451</u> | <u>9,348</u> |
| Net Cash Flows | 24,925 | 4,539 | 29,464 | (10,829) |
| Cash and cash equivalents at beginning of year | 173,721 | 31,552 | 205,273 | 216,102 |
| Cash and cash equivalents at end of year | <u>\$198,646</u> | <u>\$36,091</u> | <u>\$234,737</u> | <u>\$205,273</u> |
| FINANCIAL STATEMENT PRESENTATION: | | | | |
| Cash and investments available for operations | \$197,621 | \$36,091 | \$233,712 | \$201,508 |
| Restricted cash and investments | 1,025 | | 1,025 | 3,765 |
| Cash and cash equivalents at end of year | <u>\$198,646</u> | <u>\$36,091</u> | <u>\$234,737</u> | <u>\$205,273</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: Increase in contributed capital | | | | |
| | <u>\$444</u> | <u>\$729</u> | <u>\$1,173</u> | <u>\$1,770</u> |

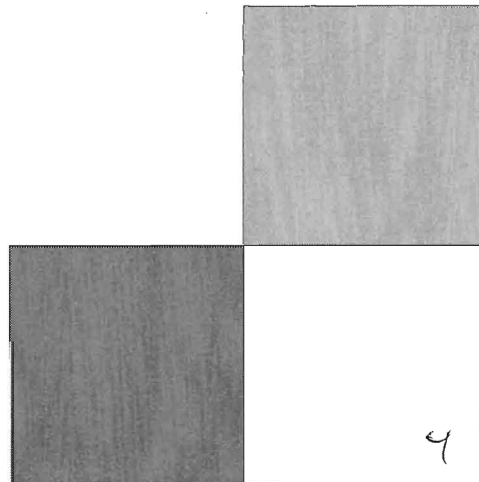
See accompanying notes to financial statements

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Notes to General Purpose Financial Statements

Fiscal Year Ended June 30, 2001



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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, which provides financing of public capital improvements for the City. The governing board is composed of City Council members. While this is a separate legal entity, the financial activities of the Corporation is integral to those of the City. The 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.

Financial statements for the above component unit 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, liabili-

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ties, 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 are also 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.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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 \$7.074 million, and vested accumulated sick pay of \$4.344 million as of June 30, 2001.

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, 1999 | \$59,288 | \$6,479 |
| Contributions from developers | 1,219 | |
| Contributions from other funds | | 551 |
| Balance, June 30, 2000 | <u>\$60,507</u> | <u>\$7,030</u> |
| Balance, June 30, 2001 | <u>\$60,507</u> | <u>\$7,030</u> |



Effective with fiscal 2000-2001 the City implemented Government Accounting Standards Board Statement 33 which requires contributed assets to be reflected as contribution revenues. These types of transactions in prior years were accounted for as contributed capital.

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, 2001, 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, 2001 presentation.

New Funds

The San Francisquito Creek Joint Powers Authority Agency Fund was established to account for the maintenance activities, flood control measures, and environmental preservation of the creek.

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

The University Avenue Area Parking District Agency Fund was established to account for the receipts and disbursements associated with the Series 2001-A University Avenue Area Off-Street Parking Assessments Bonds.

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 |
|-------------------------------|----------------------------|---------------------|-------------------|
| General Fund | \$92,210 | \$17,525 | \$109,735 |
| Special Revenue Funds: | | | |
| Federal Revenue | 677 | 166 | 843 |
| Housing In-Lieu | 100 | 4,113 | 4,213 |
| Local Law Enforcement | | 374 | 374 |
| Debt Service Funds: | | | |
| Terman Lease | 419 | | 419 |
| Golf Course | 703 | | 703 |
| Civic Center | 822 | | 822 |
| Special Assessment Debt | 875 | | 875 |

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 fund below incurred expenditures and operating transfers in excess of its budgets in the amount below as the result of unanticipated expenses. Sufficient resources were available within this fund to finance the excess.

The Street Improvement Special Revenue Fund actual expenditures and operating transfers out exceeded budget in the amounts of \$1.049 million.

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 in the bank’s name but are held by the Bank’s Trust Department in a separate account 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, which is the same as fair market value and are categorized as follows at June 30 (in thousands):

| | 2001 | | | 2000 |
|--|----------------------|----------------|------------------|------------------|
| | Cash and Investments | | | |
| | Available for | | | |
| | Operations | Restricted | Total | |
| Category 1 Investments: | | | | |
| U.S. Agency Obligations | \$311,822 | | \$311,822 | \$268,065 |
| Category 2 Investments: | | | | |
| U.S. Agency Obligations | | | | 750 |
| Pooled Investments (non Categorized): | | | | |
| Local Agency Investment Fund | 20,662 | | 20,662 | 17,439 |
| California Asset Management Program | | \$725 | 725 | 726 |
| Mutual funds (government securities) | 6,459 | 2,320 | 8,779 | 4,678 |
| Total Investments | 338,943 | 3,045 | 341,988 | 291,658 |
| Cash in banks (overdraft) and on hand | (818) | | (818) | 1,473 |
| Total Cash and Investments | <u>\$338,125</u> | <u>\$3,045</u> | <u>\$341,170</u> | <u>\$293,131</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

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is 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.

Cash in banks is entirely insured (Category 1) or collateralized by the institution holding the deposit (Category 2), as discussed above.

Bank balances before reconciling items were \$1.460 million, of which \$100 thousand was insured (Category 1) and \$1.360 million was collateralized as discussed above (Category 2) at June 30, 2001.

Market Risk and Investment Maturities

Market risk is the risk that investments will decline in fair 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 managed by the City matured as follows at June 30, 2001 (in thousands):

| <u>Type of Investment</u> | <u>Fair Value</u> |
|---|-----------------------------|
| Local Agency Investment Fund | \$20,662 |
| Mutual funds (government securities) | 6,459 |
| U.S. Agency Obligations: | |
| Maturities of less than 1 year | 74,824 |
| Maturities of 1 to 3 years | 120,227 |
| Maturities of 3 to 5 years | 81,244 |
| Maturities of more than 5 years | 35,393 |
| Mortgage Backed Securities, Maturing in 15 Years | <u>134</u> |
| Total Cash and Investments Available for Operations | <u><u>\$338,943</u></u> |

Authorized City Investments

Investment instruments authorized for purchase include:

1. Securities of the U.S. Government or its agencies. The maximum stated final maturity of individual securities in the portfolio shall not exceed ten years. No limit on purchase of these securities, except for Callable and Multi-step-up agency 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 twenty 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. 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 (REPO). Agreement shall not exceed 1 year and market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.
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.
11. Medium-Term Corporate Notes. No more than ten percent of the City's investment portfolio may be invested in Medium-Term Corporate Notes, and purchases may not exceed \$5 million invested in any single issuer, other than the U.S. Government, its agencies and instrumentality.

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. LAIF allocated the City's fair value gain or loss based on the City's investment in LAIF as compared to investments from all LAIF participants. 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 adjusts the carrying value of its investments to reflect their fair 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 earned \$17.9 million in interest income for a yield of 5.92 percent on its portfolio for the year. At year-end, the City adjusted its portfolio for an “unrealized” \$8.7 million gain due to the accounting requirement to restate the portfolio at fair value. The current fair value of the portfolio is 101.6 percent of the book value. However, because the City’s practice is to hold securities until they mature, changes in market price do not affect the City’s investment principal.

The composition of the return on investments for all the City’s funds was \$17.9 million in interest income plus \$8.7 million representing the net gains recognized as a result of fair value changes. These amounts total to \$26.6 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 2000-01 were as follows (in thousands):

| Fund Receiving Transfer | Fund Making Transfer | Amount Transferred |
|------------------------------|--|--------------------|
| General Fund | | |
| | Street Improvement Special Revenue Fund | \$357 |
| | Federal Revenue Special Revenue Fund | 106 |
| | Special Districts Special Revenue Fund | 372 |
| | Local Law Enforcement Special Revenue Fund | 69 |
| | Capital Projects Fund | 817 |
| | Water Enterprise Fund | 2,108 |
| | Electric Enterprise Fund | 7,848 |
| | Gas Enterprise Fund | 2,478 |
| | Wastewater Collection Enterprise Fund | 2 |
| Special Revenue Funds | | |
| Local Law Enforcement | General Fund | 3 |
| Federal Revenue | Transportation Mitigation Special Revenue Fund | 10 |
| Debt Service Funds | | |
| Golf Course | General Fund | 654 |
| Civic Center | General Fund | 671 |
| Civic Center | Special Districts Special Revenue Fund | 80 |

| Fund Receiving Transfer | Fund Making Transfer | Amount Transferred |
|--------------------------------|---|-----------------------|
| Capital Project Fund | General Fund | 7,626 |
| | Street Improvement Special Revenue Fund | 1,580 |
| | Transportation Mitigation Special Revenue Fund | 766 |
| | Water Enterprise Fund | 29 |
| | Electric Enterprise Fund | 216 |
| | Gas Enterprise Fund | 34 |
| | Wastewater Collection Enterprise Fund | 23 |
| | Wastewater Treatment Enterprise Fund | 44 |
| | Refuse Enterprise Fund | 30 |
| | Storm Drainage Enterprise Fund | 20 |
| | Vehicle Replacement and Maintenance Internal Service Fund | 77 |
| | Computer Equipment Replacement Internal Service Fund | 130 |
| Enterprise Funds | | |
| Water | Capital Projects Fund | 6 |
| Electric | General Fund | 33 |
| Electric | Capital Projects Fund | 15 |
| Electric | Water Enterprise Fund | 90 |
| Electric | Gas Enterprise Fund | 135 |
| Electric | Wastewater Collection Enterprise Fund | 35 |
| Electric | Wastewater Treatment Enterprise Fund | 9 |
| Electric | Refuse Enterprise Fund | 90 |
| Electric | Storm Drainage Enterprise Fund | 14 |
| Gas | Capital Projects Fund | 8 |
| Gas | Water Enterprise Fund | 97 |
| Gas | Electric Enterprise Fund | 97 |
| Gas | Wastewater Collection Enterprise Fund | 97 |
| Gas | Storm Drainage Enterprise Fund | 28 |
| Wastewater Collection | Capital Projects Fund | 3 |
| Wastewater Treatment | Capital Projects Fund | 4 |
| Refuse | Special Districts Special Revenue Fund | 67 |
| Refuse | Capital Projects Fund | 5 |
| Storm Drainage | General Fund | 997 |
| Storm Drainage | Capital Projects Fund | 1 |
| Internal Service Fund | | |
| Computer Equipment Replacement | General Fund | 237 |
| | | <u>\$28,218</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, 2001, the Federal Revenue Special Revenue Fund owed the General Fund \$69 thousand.

The City also has a long-term interfund advance which the General Fund owes the Vehicle Replacement and Maintenance Internal Service Fund \$155 thousand. This amount is expected to be repaid after fiscal year 2002-03 from the General Fund Community Services Department resources.

Note 5

Notes and Loans Receivable

At June 30, 2001, the City's notes and loans receivable totaled (in thousands):

| | |
|--|-----------------------|
| Palo Alto Housing Corporation: | |
| Oak Manor Townhouse | \$1,204 |
| Emerson Street Project | 375 |
| Alma Single Room Occupancy Development | 2,222 |
| Barker Hotel | 1,400 |
| Sheridan Apartments | 2,247 |
| Mid-Peninsula Housing Coalition: | |
| Palo Alto Gardens Apartments | 1,000 |
| Home Rehabilitation Loans | 269 |
| Executive Relocation Assistance Loans | <u>1,140</u> |
| Total | <u><u>\$9,857</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, 2001 the City forgave the \$141 thousand annual loan payment due under the agreement.

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 second 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 6, 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. During the fiscal year 2000-2001, the City forgave the principal balance of the loan.

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 107 unit single room occupancy development. This loan bears interest at three percent and is collateralized by a subordinated deed of trust. Loan payments are deferred until 2014. 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 2033.

Palo Alto Gardens 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, 2001, the City had two outstanding employee home loans due in 2029 and 2030 respectively.

In addition, the City paid \$900 thousand towards the cost of the employee’s residence under a shared equity financing agreement. The agreement is secured by a deed tenancy in common with the employee.

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.

| | |
|---|--------------|
| Buildings and structures | 25-60 years |
| Equipment: | |
| 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, 2001 were (in thousands):

| | Balance | | | Balance |
|------------------------------|----------------------|------------------|--------------------|----------------------|
| | <u>June 30, 2000</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2001</u> |
| General Fixed Assets: | | | | |
| Land and improvements | \$57,006 | \$192 | | \$57,198 |
| Buildings and structures | 52,407 | 10,893 | | 63,300 |
| Equipment | <u>6,476</u> | <u>556</u> | <u>\$117</u> | <u>6,915</u> |
| Total | <u>\$115,889</u> | <u>\$11,641</u> | <u>\$117</u> | <u>\$127,413</u> |

Included in the general fixed assets account group at June 30, 2001 is \$352 thousand of construction in progress (capital improvements) expended in fiscal year 2000-01.

The City's practice is to perform physical inventory counts of fixed assets every two years on a rotational basis. In fiscal year 2000-01, a physical inventory was conducted of the City's general fixed assets for the Fire, Public Works, and Planning Departments which

resulted in no material adjustments to the balances previously reported. Physical inventories are planned for 2001-02 for the Police Department.

Included in general fixed assets land and improvements and equipment at June 30, 2001 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, 2001 were (in thousands):

| | Balance June 30, 2000 | Additions | Retirements | Transfers | Balance June 30, 2001 |
|--------------------------------|--------------------------|-----------------|----------------|-----------|--------------------------|
| Enterprise Funds: | | | | | |
| Land and improvements | \$1,541 | | | | \$1,541 |
| Buildings and structures | 11,287 | | | | 11,287 |
| Equipment | 350,089 | \$1,141 | \$587 | \$21,448 | 372,091 |
| Construction in progress | 41,078 | 27,752 | | (21,448) | 47,382 |
| Total | 403,995 | \$28,893 | \$587 | | 432,301 |
| Less accumulated depreciation | (141,374) | (\$10,104) | (\$492) | | (150,986) |
| Net fixed assets | \$262,621 | | | | \$281,315 |
| Internal Service Funds: | | | | | |
| Equipment | \$23,277 | \$2,507 | \$1,736 | \$1,461 | \$25,509 |
| Construction in progress | 1,461 | | | (1,461) | |
| Total | 24,738 | \$2,507 | \$1,736 | | 25,509 |
| Less accumulated depreciation | (13,485) | (\$2,150) | (\$1,710) | | (13,925) |
| Net fixed assets | \$11,253 | | | | \$11,584 |

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 year 2000-01 comprise (in thousands):

| | <u>Expended to June 30, 2001</u> |
|--|--------------------------------------|
| Enterprise Funds: | |
| Storm drainage structural and water quality improvements | \$52 |
| Gas system extension replacements and improvements | 4,829 |
| Water system extension replacements and improvements | 932 |
| Electric distribution system improvements | 9,569 |
| Other electrical improvement projects | 6,498 |
| Sewer system rehabilitation and extensions | 7,909 |
| Automated mapping | 1 |
| Other construction in progress | <u>17,592</u> |
| Total | <u><u>\$47,382</u></u> |

Of the totals expended to June 30, 2001, costs amounting to \$21.448 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 \$4.02 million have been capitalized and included in amounts expended to June 30, 2001.

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, 2000 | Retirements | Balance June 30, 2001 |
|---|-----------------------------|--------------------------|----------------|--------------------------|
| General Long Term Obligations: | | | | |
| 1992 Civic Center Certificates of Participation, 3.60-6.70%, due 03/01/2012 | \$7,670 | \$4,220 | \$550 | \$3,670 |
| 1998 Golf Course Certificates of Participation, 4.00-5.00%, due 09/01/2018 | 7,750 | 7,405 | 375 | 7,030 |
| Terman School Capital Lease, variable, paid off 11/2000 | 6,321 | 396 | 396 | |
| | <u>\$21,741</u> | <u>\$12,021</u> | <u>\$1,321</u> | <u>\$10,700</u> |
| Enterprise Long Term Obligations: | | | | |
| Utility Revenue Bonds, | | | | |
| 1995 Series A, 5.0-6.25%, due 06/01/2020 | \$8,640 | \$7,730 | \$215 | \$7,515 |
| 1999 Refunding, 3.25-5.25%, due 06/01/24 | 17,735 | 17,390 | 340 | 17,050 |
| Less: unamortized discount/issuance cost | | (1,185) | (85) | (1,100) |
| | <u>\$26,375</u> | <u>\$23,935</u> | <u>\$470</u> | <u>\$23,465</u> |
| Internal Service Long Term Obligations: | | | | |
| Information Systems Capital Lease Obligations, 10.46%, due 8/2/2004 | \$128 | \$141 | \$28 | \$113 |

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 purchased a site from the Palo Alto Unified School District on an installment basis for public purposes. The lease was repaid in fiscal year 2000-01.

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. In lieu of a reserve fund, the Bonds are secured by a Surety Bond issued by AMBAC Indemnity Corporation. 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. During the year ended June 30, 2001 the 1992 Utility Revenue Bonds, Series A were retired.

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.

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 Drainage System”). As of June 30, 2001, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds; Wastewater Collection (10.2%), Wastewater Treatment (64.6%) and Storm Drainage (25.2%). Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. In lieu of a reserve fund, the Bonds are secured by a Surety Bond issued by AMBAC Indemnity Corporation. 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 year 2000-01, 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 | Certificates of | Capital | Utility | |
|-----------------------------------|-----------------|--------------|-----------------|-----------------|
| Ending | Participation | Leases | Revenue | Totals |
| June 30 | | | Bonds | |
| 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 | 7 | 1,893 | 3,273 |
| 2006 | 761 | | 1,891 | 2,652 |
| Thereafter | 8,514 | | 34,014 | 42,528 |
| | 15,055 | 133 | 43,465 | 58,653 |
| Less amount representing interest | 4,355 | 20 | 18,900 | 23,275 |
| Principal amount due | <u>\$10,700</u> | <u>\$113</u> | <u>\$24,565</u> | <u>\$35,378</u> |

Debt Call Provisions

Long-term debt as of June 30, 2001 is callable on the following terms and conditions:

| | Initial Call Date | |
|------------------------------------|-------------------|-----|
| General Long Term Debt: | | |
| 1992 Certificates of Participation | 03/01/2001 | (2) |
| 1998 Certificates of Participation | 09/01/2008 | (3) |
| Enterprise Long Term Debt: | | |
| Utility Revenue Bonds - | | |
| 1995 Series A | 06/01/2004 | (1) |
| 1999 Refunding | 06/01/2009 | (1) |

(1) 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.



- (2) 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.
- (3) 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, 2001 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, 2001 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.

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Notes to General Purpose Financial Statements – Note 8

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

| | Original Issue Amount | Balance June 30, 2000 | Retirements | Balance June 30, 2001 |
|--|-----------------------------|--------------------------|----------------|--------------------------|
| 1975 California Avenue Parking 7.00-7.50%, due 07/02/00 | \$420 | \$35 | \$35 | |
| 1977 University Avenue Parking 5.40-7.75%, due 07/02/02 | 791 | 195 | 195 | |
| 1987 California Avenue Parking, 6.70-9.25%, due 09/02/2007 | 1,325 | 740 | 70 | \$670 |
| 1989 University Avenue Area Off-Street Parking, 5.75-6.90%, due 09/01/06 | 6,420 | 3,700 | 3,700 | |
| | <u>\$8,956</u> | <u>\$4,670</u> | <u>\$4,000</u> | <u>\$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 |
|--------------------------------------|---|
| 2002 | \$122 |
| 2003 | 126 |
| 2004 | 125 |
| 2005 | 123 |
| 2006 | 121 |
| Thereafter | 243 |
| | 860 |
| Less amount representing interest | 190 |
| Principal amount due | <u>\$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. The bonds were repaid in fiscal year 2000-01.

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. During the fiscal year, the City defeased the Bonds as a result of the University Avenue Area Off-Street Parking Assessment District Bonds Series 2001-A issuance (see below) by placing its residual cash along with funds from 1989 University Avenue Area Off-Street Parking Assessment District Refunding and Improvement Bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased Bonds are not included in the financial statements. At June 30, 2001, 1977 University Avenue Area Off-street Parking Assessment District Bonds were outstanding in the amount of \$135 thousand.

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. During the fiscal year, proceeds from the University Avenue Area Off-Street Parking Assessment District Bonds, Series 2001-A, were used to defease the 1989 Bonds by placing the proceeds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased Bonds are not included in the financial statements. At June 30, 2001, 1989 University Avenue Area Off-street Parking Assessment District Bonds were outstanding in the amount of \$3.290 million.

Special Assessment Debt without 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, 2001, the District’s outstanding debt amounted to \$1.69 million.

The University Avenue Area Off-Street Parking Assessment District issued Assessment Bonds of Series 2001-A, 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 the District. Therefore, this debt is not included in general long-term debt of the City. At June 30, 2001, the District's outstanding debt amounted to \$9.135 million. A portion of the proceeds from the 2001 Bonds amounting to \$3.2 million was used to defease the 1977 University Avenue Area Off-Street Parking Assessment District Bonds and the 1989 University Avenue Area Off-street Parking Assessment District Refunding and Improvement Bonds.

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 2001. The \$6.238 million is reported for landfill closure and postclosure care liability at June 30, 2001.

Total cost estimates are based on what it would cost to perform all currently mandated closure and postclosure care in 2001. 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, 2001 with the establishment of the fully-funded liability for this purpose.

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, 2001, fund balance reservations and designations included (in thousands):

| | General Fund | Special Revenue Funds | Debt Service Funds | Capital Project Fund |
|--|------------------------|-----------------------------|--------------------------|----------------------------|
| Reserved for: | | | | |
| Encumbrances | \$4,916 | \$598 | | \$2,795 |
| Notes | 1,140 | 8,717 | | |
| Prepays | | | | |
| Debt Service | | | \$1,691 | |
| Debt proceeds | | | | 285 |
| Inventory of materials and supplies | <u>2,226</u> | | | |
| Total Reserved Fund Balance | <u><u>\$8,282</u></u> | <u><u>\$9,315</u></u> | <u><u>\$1,691</u></u> | <u><u>\$3,080</u></u> |
| Unreserved; designated for: | | | | |
| Unrealized gain on investment | \$1,309 | \$142 | | |
| Reappropriations | 749 | 1,297 | | \$18,005 |
| Capital and special revenue projects | | 6,129 | | |
| Budget stabilization | 24,490 | | | |
| Emergencies | 6,777 | | | |
| Infrastructure | <u>18,789</u> | | | |
| Total Unreserved/Designated Fund Balances | <u><u>\$52,114</u></u> | <u><u>\$7,568</u></u> | | <u><u>\$18,005</u></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 *unrealized gain on investments* is the portion of fund balance used to accumulate gains on the market values of investments.

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, 2001, internal service fund retained earnings reservations and designations included (in thousands):

| | |
|---|----------------------------|
| Reserved retained earnings- | |
| Commitments and reappropriations | \$2,910 |
| Unreserved: | |
| Designated for future catastrophic losses | 6,020 |
| Undesignated | <u>9,793</u> |
| Total | <u><u>\$18,723</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.

Enterprise Funds

At June 30, 2001, 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 | | \$56,645 | \$510 | | | | | \$57,155 |
| Distribution | | 8,326 | 1,805 | | | | | 10,131 |
| Operations | \$7,025 | | | \$6,759 | \$5,623 | \$11,102 | \$334 | 30,843 |
| | 7,025 | 64,971 | 2,315 | 6,759 | 5,623 | 11,102 | 334 | 98,129 |
| Emergency plant replacement | 904 | 2,252 | 783 | 450 | 1,455 | | | 5,844 |
| Calaveras | | 64,780 | | | | | | 64,780 |
| Reappropriations | 3,608 | 9,266 | 2,076 | 2,980 | 536 | 1,496 | 663 | 20,625 |
| Commitments | 1,155 | 6,676 | 1,720 | 4,892 | 2,588 | 825 | 116 | 17,972 |
| Restricted bond proceeds | | | | | 184 | | 152 | 336 |
| Underground loan | | 623 | | | | | | 623 |
| Conservation loan | | | 34 | | | | | 34 |
| Refuse Water Resources Board | | | | | | 590 | | 590 |
| Shasta rewind loan | | 64 | | | | | | 64 |
| Central Valley Project | | 704 | | | | | | 704 |
| Public benefit program | | 2,182 | | | | | | 2,182 |
| Total | 12,692 | 151,518 | 6,928 | 15,081 | 10,386 | 14,013 | 1,265 | 211,883 |
| Unreserved retained earnings | 27,861 | 95,913 | 35,779 | 27,094 | 1,313 | 5,723 | 3,560 | 197,343 |
| Total retained earnings | \$40,553 | \$247,431 | \$42,707 | \$42,175 | \$11,699 | \$19,736 | \$4,925 | \$409,226 |

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, 2001 follows (in thousands):

| | Water | Electric | Gas | Wastewater Collection | Wastewater Treatment | Refuse | Storm Drainage | Total |
|--|----------|-----------|----------|--------------------------|-------------------------|----------|-------------------|-----------|
| Operating revenues | \$15,954 | \$131,554 | \$23,669 | \$9,817 | \$13,899 | \$22,163 | \$2,129 | \$219,185 |
| Depreciation and amortization | 878 | 4,281 | 1,160 | 1,069 | 2,186 | 218 | 387 | 10,179 |
| Operating income | 4,020 | 50,113 | (3,012) | 1,675 | 1,266 | 1,623 | (13) | 55,672 |
| Operating transfers in | 6 | 421 | 327 | 3 | 4 | 72 | 998 | 1,831 |
| Operating transfers (out) | (2,324) | (8,161) | (2,647) | (157) | (53) | (120) | (62) | (13,524) |
| Net income | 2,875 | 42,730 | (4,505) | 3,031 | 1,768 | 2,740 | 709 | 49,348 |
| Property, plant & equipment: | 36,476 | 113,051 | 39,112 | 38,753 | 33,160 | 5,723 | 15,040 | 281,315 |
| Additions | 3,103 | 11,349 | 3,554 | 5,585 | 3,463 | 1,253 | 586 | 28,893 |
| Retirements | 93 | 422 | 63 | 9 | | | | 587 |
| Net working capital | 12,692 | 151,518 | 6,928 | 15,037 | 10,110 | 14,013 | 1,000 | 211,298 |
| Total assets | 50,931 | 277,274 | 48,128 | 54,368 | 44,343 | 26,257 | 16,401 | 517,702 |
| Bonds and contracts, net of bond discount, payable from operating revenues | | | | 1,620 | 10,465 | | 11,380 | 23,465 |
| Total equity | 49,168 | 264,569 | 46,040 | 52,214 | 33,081 | 19,736 | 4,925 | 469,733 |

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, 2001, are summarized as follows:

| | Safety | | Miscellaneous |
|---|------------------|--------------------------------|------------------|
| | Police | Fire | |
| Benefit vesting schedule | 5 years service | 5 years service monthly for | 5 years service |
| Benefit payments | monthly for life | 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 | 10.213% | 0% | 0% |

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.

Notes to General Purpose Financial Statements – Note 12

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 |
| 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%) |
| 1999 | 58,868 | 63,554 | 4,686 | 108.0% | 6,311 | (74.3%) |

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 |
| 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%) |
| 1999 | 75,323 | 94,899 | 19,576 | 126.0% | 8,853 | (221.1%) |

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 |
| 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%) |
| 1999 | 175,293 | 236,517 | 61,224 | 134.9% | 43,710 | (140.1%) |

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, 1999 (in thousands):

| | <u>Safety</u> | | <u>Miscellaneous</u> |
|--|-----------------|------------------|----------------------|
| | <u>Police</u> | <u>Fire</u> | |
| Actuarial Value of Assets 6/30/98 | \$56,762 | \$84,651 | \$207,573 |
| Contributions received | 1,747 | 2,034 | 6,183 |
| Benefits and Refunds Paid | (2,803) | (3,542) | (6,424) |
| Transfers & Miscellaneous Adjustments | | 83 | (18) |
| Expected Investment Earnings Credited | 4,640 | 6,926 | 17,114 |
| Expected Actuarial Value of Assets 6/30/99 | <u>\$60,346</u> | <u>\$90,152</u> | <u>\$224,428</u> |
| Market Value of Assets 6/30/99 | <u>\$69,971</u> | <u>\$104,392</u> | <u>\$260,694</u> |
| Actuarial Value of Assets 6/30/99 | <u>\$63,554</u> | <u>\$94,899</u> | <u>\$236,517</u> |

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for all plans for fiscal years ending 2001, 2000, and 1999 were, \$5.826, \$7.122, and \$9.878 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 year 2001-01, expenditures for retiree health care for approximately 494 eligible retired employees totaled \$1.542 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 year 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, an actuarial firm was hired in late 1999 to update an actuarial study completed in 1993 to estimate the liability for unfunded future retiree health benefits. The actuarial firm estimated unfunded retiree health benefits to be \$40 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 \$2.2 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. Staff is in the process of having the liability re-evaluated by an actuarial firm and expects to have a completed report in early 2002.

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

| | <u>2001</u> | <u>2000</u> |
|---------------------------------|-----------------|-----------------|
| Fund balance, beginning of year | \$10,944 | \$7,985 |
| Interest earnings | 1,040 | 398 |
| Interdepartmental charges | <u>2,215</u> | <u>2,561</u> |
| Fund balance, end of year | <u>\$14,199</u> | <u>\$10,944</u> |

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 \$500,000 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, 2001 the City contributed \$469 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 coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

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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 | |
|--|--------------------|----------------|
| | 2001 | 2000 |
| Beginning Balance | \$8,243 | \$7,653 |
| Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR) | 4,420 | 3,248 |
| Claims paid | (3,550) | (2,658) |
| Ending Balance | <u>\$9,113</u> | <u>\$8,243</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, 2001, the City incurred expenses totaling \$9.94 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$3.477 million at June 30, 2001. 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, 2001 is \$350.042 million. The City's participation in this project was 6.158%, or \$23.716 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 steam field operators, has observed a substantial increase in steam production in the

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, 2001, the book value of this Project's plant, equipment and other assets was \$537.469 million, while its long-term debt totaled \$530.526 million and other liabilities totaled \$6.943 million. The City's share of the Project's long-term debt amounted to \$121.597 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 an 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, 2001, the book value of this Project's plant, equipment and other assets was \$7.924 million, while its long-term debt totaled \$7.924 million. The City's share of the Project's long-term debt amounted to \$877 thousand 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 were used to finance a portion of a payment made under the Northwest Power Purchase Contract and costs of issuance of the debt. Under the NCPA Agreement for Financing Electric Capacity, the City was obligated to pay 13.61% of this debt service. At June 30, 2001 the book value of this Project's plant, equipment and other assets was \$10.874 million, while its long-term debt was retired.

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 \$431.442 million as of June 30, 2001. The City's share of this debt is \$17.258 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 \$2.575 million at June 30, 2001, which is included in the share of debt discussed above. Shares and obligations of the existing participants could increase pending final project subscription.

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, 2001 amounted to \$5.7 million.

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

| <u>Year ending June 30:</u> | |
|-----------------------------|-----------------|
| 2002 | \$6,052 |
| 2003 | 5,664 |
| 2004 | 5,947 |
| 2005 | 6,245 |
| 2006 | <u>6,557</u> |
| | <u>\$30,465</u> |

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 new agreement has 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 2000-01 this resulted in a payment to PASCO of \$7.699 million.

City of Palo Alto Regional Water Quality Control Plant – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner

based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years' notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Enterprise Fund's property, plant and equipment balance at June 30, 2001. 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, 2001 is \$4.186 million. During the year ended June 30, 2001, the City paid \$396 thousand as its portion of current debt service.

Deregulation of Electric Industry – The 1998 deregulation of the electric industry in California exhibited major flaws in light of the electric supply shortages and the resulting blackouts experienced by Californians. Exorbitantly high market price for electricity resulted in PG&E filing for bankruptcy. The actions taken by the State of California, the price caps imposed by the Federal Energy Regulatory Commission (FERC), and the active conservation efforts undertaken by all Californians brought a level of calm back to the electric supply markets by the end of Summer 2001. However, the outlook for the California Public Utilities Commission (CPUC) allowing customers of investor owned utilities the choice of selecting among competing suppliers now appears bleak until the impacts of the California Energy Crisis of 2000-2001 is fully resolved in the coming months and years.

Utilities Energy Resource Management

California Energy Crisis

The electricity supply shortage began in May 2000 with rolling blackouts becoming more frequent towards the end of the year. The electricity market rules put in place in 1998 after the deregulation of the electricity market in California proved to be deficient in light of supply shortages, and resulted in market prices increasing by approximately 1000%. Skyrocketing wholesale electricity prices and an inability to recover the cost of energy from retail end-use customers resulted in Pacific Gas and Electric Company (PG&E) seeking bankruptcy protection in April 2001.

PG&E seeking bankruptcy court protection and PG&E's filing with FERC to increase the energy rate it charges to Western Area Power Administration (WAPA) posed a threat of higher cost to the City of Palo Alto. While the City had been paying approximately 2 cents/kWh for the energy via the City's WAPA contract, it was suddenly at risk of having to pay 20 to 30 cents/kWh to purchase market energy. To protect against this threat of having to pay high prices and to avoid rolling blackouts in the City, the Utilities Department took a number of steps.

A 5 MW Cooperatively Owned Backup Generator (COBUG) was installed at the City to minimize the need to institute rolling blackouts in the City. An Accelerated Energy Efficiency Program (AEEP) program was implemented to reduce electricity consumption within the City. Interventions were made at the FERC to defeat PG&E's filing to increase WAPA rates. The City sought and obtained representation on the PG&E Bankruptcy Official Creditors Committee to protect Palo Alto and other WAPA customer interests in PG&E's bankruptcy proceedings. The City also purchased a 25 MW, three and half year electricity contract at prevailing market prices to partially hedge against the potential threat of being exposed to high summer market prices during a time when availability of supply was minimal.

Future Outlook

Several events helped California avoid the gloomy outlook projections made for summer 2001 earlier in the year. Aggressive customer conservation efforts, milder weather, economic slow-down, price caps, intervention by the Governor and the FERC all helped lower demand and bring down market prices substantially. The threat and potential loss of value associated with PG&E defaulting on its obligation to deliver low cost energy to WAPA has also reduced substantially with favorable FERC decisions and lower market prices.

State-wide load reductions of up to 10% and new generation plant additions are expected to continue to ease the energy crisis situation experienced during the winter and spring months. In spite of the reduction of uncertainty on certain fronts other uncertainties remain. For example, the regulatory regime in California is in a state of flux. The State has entered the power business through the Department of Water Resources and has also formed the California Power Authority. The responsibility for the reliability of the transmission grid is not certain. FERC is actively attempting to develop Regional Transmission Organizations.

Settlement discussions between IOUs and municipal utilities related to the transmission access charge have so far been unsuccessful. The NCPA-PG&E Interconnection Agreement expires in March 2002 and a favorable successor agreement has not been developed. Palo Alto's future transmission costs could increase dramatically due to the outcome of several of the above uncertainties.

The City has incurred obligations and has accrued benefits in managing the City's energy portfolio through the energy crisis. Optimizing energy resources owned by the City and selling surplus resources resulted in additional income of approximately \$43 million. However, transfers to meet the cost associated with the COBUG and AEEP programs and legal expenses resulted in additional cost of approximately \$9 million. In addition, to

hedge against high summer market prices the utility made a 25 MW, 3.5 year energy purchase at fixed price of 9.5¢/kWh and a total cost of approximately \$76 million.

Contingent Liability

On October 24, 2001, a large uncertainty faced by the City was lifted when FERC rejected a rate increase request from PG&E. This favorable outcome will maintain the existing low electric rates for Palo Alto under the City's Western contract. Despite this victory, PG&E may continue to explore other avenues to increase rates. As of October 2001, the potential impact of such a rate increase over the next 3 years is estimated at approximately \$20 million. This potential cost increase was higher when market prices were higher earlier this year, with corresponding cost increase estimates of \$200 million in April 2001 and \$60 million by the end of June 2001.

As of June 30, 2001 the estimated value loss associated with the 25 MW, 3.5 year contract was estimated at approximately \$35 million. However, the exact value loss associated with the contract will not be known with certainty until the end of the contract term in January 2005. The energy supply procured under this contract will be managed along with the City's electric supply portfolio in the coming years. All funds required to cover these obligations are expected to be met from funds available in the supply rate stabilization reserves and through retail customer rates.

FERC inquiry of events leading to high market prices early in the year may result in Palo Alto refunding some of the surplus sales revenue generated through Northern California Power Agency (NCPA), Palo Alto's resource scheduler and operator. During final settlement with members of NCPA Power Pool, Palo Alto may be paid additional funds or may be asked to refund funds based on the pool settlement algorithm.

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, 2001, the issue had not been settled and the refund had not been returned.

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.

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Supplemental Statements and Schedules

Fiscal Year Ended June 30, 2001

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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.

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City of Palo Alto – General Fund

Comparative Balance Sheets – June 30, 2001 and 2000

(in thousands of dollars)

| | <u>2001</u> | <u>2000</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and investments available for operations | \$56,255 | \$49,621 |
| Receivables, net: | | |
| Accounts | 4,230 | 5,576 |
| Interest | 1,671 | 1,414 |
| Notes | 1,140 | 649 |
| Interfund receivable | 69 | 130 |
| Inventory of materials and supplies | <u>2,226</u> | <u>2,144</u> |
| Total Assets | <u>\$65,591</u> | <u>\$59,534</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$3,020 | \$1,984 |
| Accrued salaries and benefits | 2,020 | 1,705 |
| Interfund advances/payables | <u>155</u> | <u>80</u> |
| Total Liabilities | <u>5,195</u> | <u>3,769</u> |
| FUND BALANCES | | |
| Reserved for: | | |
| Encumbrances | 4,916 | 12,045 |
| Notes | 1,140 | 649 |
| Inventory of materials and supplies | 2,226 | 2,144 |
| Unreserved, designated for: | | |
| Unrealized gain on investments | 1,309 | |
| Reappropriations | 749 | 612 |
| Budget stabilization | 24,490 | 20,029 |
| Emergencies | 6,777 | 6,388 |
| Infrastructure | <u>18,789</u> | <u>13,898</u> |
| Total Fund Balances | <u>60,396</u> | <u>55,765</u> |
| Total Liabilities and Fund Balances | <u>\$65,591</u> | <u>\$59,534</u> |

City of Palo Alto – General Fund

**Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Fiscal Year Ending June 30, 2001**

with comparative amounts for the fiscal year ended June 30, 2000 (in thousands of dollars)

| | 2001 | | Variance | 2000 |
|---|-------------------|----------------|----------------------------|---------------|
| | Budget | Actual | Favorable (Unfavorable) | Actual |
| REVENUES | | | | |
| Taxes: | | | | |
| Property taxes | \$11,335 | \$12,110 | \$775 | \$10,770 |
| Sales taxes | 24,200 | 25,786 | 1,586 | 22,867 |
| Utility users' tax | 6,163 | 6,895 | 732 | 5,861 |
| Transient occupancy tax | 9,400 | 9,359 | (41) | 8,293 |
| Other taxes and fines | 8,272 | 8,887 | 615 | 9,096 |
| Total taxes | 59,370 | 63,037 | 3,667 | 56,887 |
| Fire protection and emergency communication services | 5,290 | 5,466 | 176 | 5,053 |
| From other agencies | 623 | 818 | 195 | 517 |
| Service fees and permits | 11,310 | 12,743 | 1,433 | 12,408 |
| Return on investment | 3,815 | 6,308 | 2,493 | 3,447 |
| Rental income | 10,282 | 10,270 | (12) | 9,944 |
| Other revenues | 4,705 | 4,019 | (686) | 3,341 |
| Total Revenues | 95,395 | 102,661 | 7,266 | 91,597 |
| EXPENDITURES | | | | |
| Current: | | | | |
| City Council | 276 | 269 | 7 | 216 |
| City Manager | 1,849 | 1,624 | 225 | 1,483 |
| City Attorney | 2,928 | 2,124 | 804 | 1,671 |
| City Clerk | 854 | 755 | 99 | 830 |
| City Auditor | 680 | 463 | 217 | 526 |
| Administrative Services | 11,882 | 11,204 | 678 | 8,963 |
| Human Resources | 2,308 | 2,118 | 190 | 2,083 |
| Public Works | 10,109 | 9,522 | 587 | 8,827 |
| Planning and Community Environment | 7,879 | 6,652 | 1,227 | 6,639 |
| Public Safety - Police | 18,849 | 18,306 | 543 | 17,666 |
| Public Safety - Fire | 16,080 | 15,973 | 107 | 14,512 |
| Community Services | 19,835 | 18,469 | 1,366 | 17,858 |
| Non Departmental | 8,921 | 7,186 | 1,735 | |
| School Site Operations | 7,285 | 7,301 | (16) | 6,927 |
| Total Expenditures | 109,735 | 101,966 | 7,769 | 88,201 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (14,340) | 695 | 15,035 | 3,396 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 13,872 | 14,157 | 285 | 12,837 |
| Operating transfers (out) | (9,939) | (10,221) | (282) | (9,605) |
| Total Other Financing Sources (Uses) | 3,933 | 3,936 | 3 | 3,232 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (\$10,407) | 4,631 | \$15,038 | 6,628 |
| Fund balance at beginning of year | | 55,765 | | 49,137 |
| Fund balance at end of year | | 60,396 | | \$55,765 |

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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, 2001

with comparative amounts for June 30, 2000 (in thousands of dollars)

| | <u>Street Improvement</u> | <u>Federal Revenue</u> | <u>Housing In-Lieu</u> | <u>Special Districts</u> |
|---|-------------------------------|----------------------------|----------------------------|------------------------------|
| ASSETS | | | | |
| Cash and investments available for operations | \$1,660 | \$25 | \$3,196 | \$1,138 |
| Receivables, net | 111 | 55 | | |
| Interest receivable | 6 | | 45 | 16 |
| Notes, net | | <u>3,418</u> | <u>5,299</u> | |
| Total Assets | <u>\$1,777</u> | <u>\$3,498</u> | <u>\$8,540</u> | <u>\$1,154</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | | \$113 | \$641 | \$62 |
| Interfund payables | | <u>69</u> | | |
| Total Liabilities | | <u>182</u> | <u>641</u> | <u>62</u> |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Encumbrances | \$463 | | | |
| Notes | | 3,418 | 5,299 | |
| Unreserved, designated for: | | | | |
| Special revenue projects | | | 2,535 | 1,074 |
| Reappropriations | 1,297 | | | |
| Unrealized gain on investment | 17 | | 65 | 18 |
| Undesignated | | <u>(102)</u> | | |
| Total Fund Balances | <u>1,777</u> | <u>3,316</u> | <u>7,899</u> | <u>1,092</u> |
| Total Liabilities and Fund Balances | <u>\$1,777</u> | <u>\$3,498</u> | <u>\$8,540</u> | <u>\$1,154</u> |



.....

| <u>Transportation Mitigation</u> | <u>Local Law Enforcement</u> | <u>Downtown Planned Community</u> | <u>TOTALS</u> | |
|--------------------------------------|----------------------------------|---|-----------------|-----------------|
| | | | <u>2001</u> | <u>2000</u> |
| \$2,211 | \$429 | \$19 | \$8,678 | \$9,141 |
| | | | 166 | 149 |
| 32 | 6 | | 105 | 137 |
| | | | 8,717 | 9,078 |
| <u>\$2,243</u> | <u>\$435</u> | <u>\$19</u> | <u>\$17,666</u> | <u>\$18,505</u> |
| | | | \$816 | \$222 |
| | | | 69 | 130 |
| | | | 885 | 352 |
| | \$135 | | 598 | 4,167 |
| | | | 8,717 | 9,078 |
| \$2,208 | 294 | \$18 | 6,129 | 4,269 |
| | | | 1,297 | 750 |
| 35 | 6 | 1 | 142 | |
| | | | (102) | (111) |
| <u>2,243</u> | <u>435</u> | <u>19</u> | <u>16,781</u> | <u>18,153</u> |
| <u>\$2,243</u> | <u>\$435</u> | <u>\$19</u> | <u>\$17,666</u> | <u>\$18,505</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, 2001**

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | <u>Street Improvement</u> | <u>Federal Revenue</u> | <u>Housing In-Lieu</u> | <u>Special Districts</u> |
|---|-------------------------------|----------------------------|----------------------------|------------------------------|
| REVENUES | | | | |
| Other taxes and fines | \$2,020 | | | |
| From other agencies: | | | | |
| Community Development Block Grant | | \$112 | | |
| County Measure A/B | | | | |
| Local Law Enforcement Block Grant | | | | |
| State of California | | | | |
| TDA grant | | | | |
| Other revenue from other agencies | | 13 | | |
| Total from other agencies | | 125 | | |
| Return on investment | 79 | 5 | \$294 | \$84 |
| Other: | | | | |
| Great Western Bank - loan payoff | | 6 | | |
| Housing In-Lieu - residential | | | 1,310 | |
| Housing In-Lieu - commercial | | | 566 | |
| Traffic Mitigation - transportation | | | | |
| University Avenue Parking | | | | 536 |
| California Avenue Parking | | | | 100 |
| Other fees | | | | |
| Total other | | 6 | 1,876 | 636 |
| Total Revenues | 2,099 | 136 | 2,170 | 720 |
| EXPENDITURES FOR SPECIAL REVENUE PROJECTS | | | | |
| | | 222 | 4,158 | |
| EXCESS OF REVENUES OVER EXPENDITURES | | | | |
| | 2,099 | (86) | (1,988) | 720 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | | 10 | | |
| Operating transfers (out) | (1,937) | (106) | | (519) |
| Total Other Financing Sources (Uses) | (1,937) | (96) | | (519) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | | | | |
| | 162 | (182) | (1,988) | 201 |
| Fund balances at beginning of year | 1,615 | 3,498 | 9,887 | 891 |
| Fund balances at end of year | <u>\$1,777</u> | <u>\$3,316</u> | <u>\$7,899</u> | <u>\$1,092</u> |

Supplemental Statements and Schedules – Special Revenue Funds

| Transportation Mitigation | Local Law Enforcement | Downtown Planned Community | TOTALS | |
|------------------------------|--------------------------|----------------------------------|----------|----------|
| | | | 2001 | 2000 |
| | | | \$2,020 | \$1,148 |
| | | | 112 | 985 |
| | | | | 1,120 |
| | \$49 | | 49 | |
| | 133 | | 133 | 136 |
| | | | | 66 |
| | | | 13 | 31 |
| | 182 | | 307 | 2,338 |
| \$200 | 33 | \$2 | 697 | 402 |
| | | | 6 | |
| | | | 1,310 | 404 |
| | | | 566 | 576 |
| | | | | 792 |
| 868 | | | 1,404 | 462 |
| | | | 100 | 95 |
| | | | | 499 |
| 868 | | | 3,386 | 2,828 |
| 1,068 | 215 | 2 | 6,410 | 6,716 |
| | 8 | | 4,388 | 564 |
| 1,068 | 207 | 2 | 2,022 | 6,152 |
| | 3 | | 13 | 703 |
| (776) | (69) | | (3,407) | (5,770) |
| (776) | (66) | | (3,394) | (5,067) |
| 292 | 141 | 2 | (1,372) | 1,085 |
| 1,951 | 294 | 17 | 18,153 | 17,068 |
| \$2,243 | \$435 | \$19 | \$16,781 | \$18,153 |

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, 2001**

(in thousands of dollars)

| | STREET IMPROVEMENT | | | FEDERAL REVENUE | | |
|--|--------------------|---------|--|-----------------|---------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Other taxes and fines | \$1,126 | \$2,020 | \$894 | | | |
| From other agencies: | | | | | | |
| Community Development Block Grant | | | | \$732 | \$112 | (\$620) |
| County Measure A/B | 1,252 | | (1,252) | | | |
| Local Law Enforcement Block Grant | | | | | | |
| State of California | | | | | | |
| TDA grant | 420 | | (420) | | | |
| Other revenue from other agencies | 800 | | (800) | 20 | 13 | (7) |
| Total from other agencies | 2,472 | | (2,472) | 752 | 125 | (627) |
| Return on investment | 150 | 79 | (71) | 25 | 5 | (20) |
| Other: | | | | | | |
| Great Western Bank - loan payoff | | | | 10 | 6 | (4) |
| Housing In-Lieu - residential | | | | | | |
| Housing In-Lieu - commercial | | | | | | |
| University Avenue Parking | | | | | | |
| California Avenue Parking | | | | | | |
| Other fees | | | | | | |
| Total other | | | | 10 | 6 | (4) |
| Total Revenues | 3,748 | 2,099 | (1,649) | 787 | 136 | (651) |
| EXPENDITURES FOR SPECIAL REVENUE PROJECTS | | | | 843 | 222 | 621 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 3,748 | 2,099 | (1,649) | (56) | (86) | (30) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Operating transfers in | | | | 9 | 10 | 1 |
| Operating transfers (out) | (4,047) | (1,937) | 2,110 | (110) | (106) | 4 |
| Total Other Financing Sources (Uses) | (4,047) | (1,937) | 2,110 | (101) | (96) | 5 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (\$299) | 162 | \$461 | (\$157) | (182) | (\$25) |
| Fund balances at beginning of year | | 1,615 | | | 3,498 | |
| Fund balances at end of year | | \$1,777 | | | \$3,316 | |

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) |
| \$170 | \$294 | \$124 | \$37 | \$84 | \$47 | \$85 | \$200 | \$115 |
| 200 | 1,310 | 1,110 | | | | | | |
| 800 | 566 | (234) | 508 | 536 | 28 | 480 | 868 | \$388 |
| | | | 90 | 100 | 10 | | | |
| 50 | | (50) | | | | | | |
| 1,050 | 1,876 | 826 | 598 | 636 | 38 | 480 | 868 | 388 |
| 1,220 | 2,170 | 950 | 635 | 720 | 85 | 565 | 1,068 | 503 |
| 4,213 | 4,158 | 55 | | | | | | |
| (2,993) | (1,988) | 1,005 | 635 | 720 | 85 | 565 | 1,068 | 503 |
| | | | (581) | (519) | 62 | (776) | (776) | |
| | | | (581) | (519) | 62 | (776) | (776) | |
| (\$2,993) | (1,988) | \$1,005 | \$54 | 201 | \$147 | (\$211) | 292 | \$503 |
| | 9,887 | | | 891 | | | 1,951 | |
| | \$7,899 | | | \$1,092 | | | \$2,243 | |

(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, 2001**

(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 | \$23 | \$49 | \$26 | | | |
| State of California | 133 | 133 | | | | |
| TDA grant | | | | | | |
| Other revenue from other agencies | | | | | | |
| Total from other agencies | 156 | 182 | 26 | | | |
| Return on investment | | 33 | 33 | | \$2 | \$2 |
| Other: | | | | | | |
| Great Western Bank - loan payoff | | | | | | |
| Housing In-Lieu - residential | | | | | | |
| Housing In-Lieu - commercial | | | | | | |
| University Avenue Parking | | | | | | |
| California Avenue Parking | | | | | | |
| Other fees | | | | | | |
| Total other | | | | | | |
| Total Revenues | 156 | 215 | 59 | 2 | | 2 |
| EXPENDITURES FOR SPECIAL REVENUE PROJECTS | 374 | 8 | 366 | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (218) | 207 | 425 | 2 | | 2 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Operating transfers in | 3 | 3 | | | | |
| Operating transfers (out) | (72) | (69) | 3 | | | |
| Total Other Financing Sources (Uses) | (69) | (66) | 3 | | | |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (\$287) | 141 | \$428 | 2 | | \$2 |
| Fund balances at beginning of year | | 294 | | | 17 | |
| Fund balances at end of year | | \$435 | | | \$19 | |

| TOTALS | | |
|------------------|-----------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) |
| \$1,126 | \$2,020 | \$894 |
| 732 | 112 | (620) |
| 1,252 | | (1,252) |
| 23 | 49 | 26 |
| 133 | 133 | |
| 420 | | (420) |
| 820 | 13 | (807) |
| 3,380 | 307 | (3,073) |
| 467 | 697 | 230 |
| 10 | 6 | (4) |
| 200 | 1,310 | 1,110 |
| 800 | 566 | (234) |
| 988 | 1,404 | 416 |
| 90 | 100 | 10 |
| 50 | | (50) |
| 2,138 | 3,386 | 1,248 |
| 7,111 | 6,410 | (701) |
| 5,430 | 4,388 | 1,042 |
| 1,681 | 2,022 | 341 |
| 12 | 13 | 1 |
| (5,586) | (3,407) | 2,179 |
| (5,574) | (3,394) | 2,180 |
| <u>(\$3,893)</u> | (1,372) | <u>\$2,521</u> |
| | 18,153 | |
| | <u>\$16,781</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, 2001

with comparative amounts for June 30, 2000 (in thousands of dollars)

| | <u>Terman Lease</u> | <u>Golf Course</u> | <u>Civic Center</u> |
|---|-------------------------|------------------------|-------------------------|
| ASSETS | | | |
| Cash and investments available for operations | \$95 | | |
| Cash and investments with fiscal agent | | \$726 | \$779 |
| Special assessment receivable | | | |
| Prepaid items | | | |
| Interest receivable | <u>1</u> | | <u>3</u> |
| Total Assets | <u>\$96</u> | <u>\$726</u> | <u>\$782</u> |
| LIABILITIES | | | |
| Deferred revenue | | | |
| Total Liabilities | | | |
| FUND BALANCES | | | |
| Reserved for debt service | \$96 | \$726 | \$782 |
| Reserved for prepaid item | | | |
| Total Fund Balances | <u>96</u> | <u>726</u> | <u>782</u> |
| Total Liabilities and Fund Balances | <u>\$96</u> | <u>\$726</u> | <u>\$782</u> |



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| Special Assessment Debt | TOTALS | |
|-------------------------------|----------------|----------------|
| | 2001 | 2000 |
| \$87 | \$182 | \$808 |
| | 1,505 | 1,476 |
| 670 | 670 | 4,095 |
| | | 102 |
| | 4 | 21 |
| <u>\$757</u> | <u>\$2,361</u> | <u>\$6,502</u> |
| <u>\$670</u> | <u>\$670</u> | <u>\$4,095</u> |
| <u>670</u> | <u>670</u> | <u>4,095</u> |
| 87 | 1,691 | 2,305 |
| | | 102 |
| <u>87</u> | <u>1,691</u> | <u>2,407</u> |
| <u>\$757</u> | <u>\$2,361</u> | <u>\$6,502</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, 2001**

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | <u>Terman Lease</u> | <u>Golf Course</u> | <u>Civic Center</u> |
|---|-------------------------|------------------------|-------------------------|
| REVENUES | | | |
| Special assessments | | | |
| From other agencies | \$318 | | |
| Return on investment | <u>8</u> | <u>\$84</u> | <u>\$47</u> |
| Total Revenues | <u>326</u> | <u>84</u> | <u>47</u> |
| EXPENDITURES | | | |
| Debt service: | | | |
| Principal retirement | 395 | 375 | 550 |
| Interest and fiscal charges | <u>22</u> | <u>328</u> | <u>272</u> |
| Total Expenditures | <u>417</u> | <u>703</u> | <u>822</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(91)</u> | <u>(619)</u> | <u>(775)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Contributions from special assessment district | | | |
| Payment to bond escrow agent | | | |
| Operating transfers in | | <u>654</u> | <u>751</u> |
| Total Other Financing Sources (Uses) | | <u>654</u> | <u>751</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | (91) | 35 | (24) |
| Fund balances at beginning of year | <u>187</u> | <u>691</u> | <u>806</u> |
| Fund balances at end of year | <u>\$96</u> | <u>\$726</u> | <u>\$782</u> |

| Special Assessment Debt | TOTALS | |
|-------------------------------|----------------|----------------|
| | 2001 | 2000 |
| \$872 | \$872 | \$887 |
| | 318 | 288 |
| | 139 | 49 |
| <u>872</u> | <u>1,329</u> | <u>1,224</u> |
| 575 | 1,895 | 1,775 |
| <u>300</u> | <u>922</u> | <u>1,026</u> |
| <u>875</u> | <u>2,817</u> | <u>2,801</u> |
| <u>(3)</u> | <u>(1,488)</u> | <u>(1,577)</u> |
| 72 | 72 | |
| <u>(705)</u> | <u>(705)</u> | |
| | <u>1,405</u> | <u>1,360</u> |
| <u>(633)</u> | <u>772</u> | <u>1,360</u> |
| (636) | (716) | (217) |
| <u>723</u> | <u>2,407</u> | <u>2,624</u> |
| <u>\$87</u> | <u>\$1,691</u> | <u>\$2,407</u> |

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, 2001**

(in thousands of dollars)

| | TERMAN LEASE | | | GOLF COURSE | | |
|---|----------------|-------------|--|--------------|--------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Special assessments | | | | | | |
| From other agencies | \$267 | \$318 | \$51 | | | |
| Return on investment | 12 | 8 | (4) | \$75 | \$84 | \$9 |
| Total Revenues | 279 | 326 | 47 | 75 | 84 | 9 |
| EXPENDITURES | | | | | | |
| Debt Service | | | | | | |
| Principal retirement | 395 | 395 | | 375 | 375 | |
| Interest and fiscal charges | 24 | 22 | 2 | 328 | 328 | |
| Total Expenditures | 419 | 417 | 2 | 703 | 703 | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (140) | (91) | 49 | (628) | (619) | 9 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Contributions from special assessment district | | | | | | |
| Payment to bond escrow account | | | | | | |
| Operating transfers in | | | | 628 | 654 | 26 |
| Total Other Financing Sources (Uses) | | | | 628 | 654 | 26 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (\$140) | (91) | \$49 | | 35 | \$35 |
| Fund balances at beginning of year | | 187 | | | 691 | |
| Fund balances at end of year | | \$96 | | | \$726 | |

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) |
| | | | \$852 | \$872 | \$20 | \$852 | \$872 | \$20 |
| \$47 | \$47 | | | | | 267 | 318 | 51 |
| 47 | 47 | | 852 | 872 | 20 | 1,253 | 1,329 | 76 |
| 550 | 550 | | 575 | 575 | | 1,895 | 1,895 | |
| 272 | 272 | | 300 | 300 | | 924 | 922 | 2 |
| 822 | 822 | | 875 | 875 | | 2,819 | 2,817 | 2 |
| (775) | (775) | | (23) | (3) | 20 | (1,566) | (1,488) | 78 |
| | | | 72 | 72 | | 72 | 72 | |
| 775 | 751 | (24) | | (705) | (705) | 1,403 | (705) | (705) |
| 775 | 751 | (24) | 72 | (633) | (705) | 1,475 | 772 | (703) |
| | (24) | (\$24) | \$49 | (636) | (\$685) | (\$91) | (716) | (\$625) |
| | 806 | | | 723 | | | 2,407 | |
| | \$782 | | | \$87 | | | \$1,691 | |

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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, 2001 and 2000

(in thousands of dollars)

| | <u>2001</u> | <u>2000</u> |
|---|-----------------|-----------------|
| ASSETS | | |
| Cash and investments available for operations | \$21,230 | \$13,916 |
| Cash and investments with fiscal agent | 515 | 492 |
| Receivable, net | | 65 |
| Interest receivable | <u>2</u> | <u>3</u> |
| Total Assets | <u>\$21,747</u> | <u>\$14,476</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | <u>\$662</u> | <u>\$1,424</u> |
| Total Liabilities | <u>662</u> | <u>1,424</u> |
| FUND BALANCE | | |
| Reserved for: | | |
| Encumbrances | 2,795 | 4,873 |
| Debt proceeds | 285 | 192 |
| Unreserved: | | |
| Designated for reappropriations | <u>18,005</u> | <u>7,987</u> |
| Total Fund Balance | <u>21,085</u> | <u>13,052</u> |
| Total Liabilities and Fund Balance | <u>\$21,747</u> | <u>\$14,476</u> |

City of Palo Alto – Capital Projects Fund

**Comparative Statement of Revenues, Expenditures and Changes
in Fund Balance – Fiscal Year Ended June 30, 2001 and 2000**

(in thousands of dollars)

| | <u>2001</u> | <u>2000</u> |
|--|-----------------|-----------------|
| REVENUES | | |
| From other agencies: | | |
| State of California | \$438 | \$77 |
| Hewlett Packard Foundation | | 4 |
| Pacific Gas & Electric | | 10 |
| Palo Alto Unified | 41 | 23 |
| San Francisco Airport | 202 | |
| Santa Clara County | | 25 |
| Stanford University | 84 | |
| | <u>765</u> | <u>139</u> |
| Total from other agencies | | |
| Return on investment | 28 | 32 |
| Other revenues | 185 | 44 |
| | <u>978</u> | <u>215</u> |
| Total Revenues | | |
| EXPENDITURES | | |
| Capital outlay | 6,701 | 12,587 |
| | <u>6,701</u> | <u>12,587</u> |
| Total Expenditures | | |
| DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES | | |
| | <u>(5,723)</u> | <u>(12,372)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Contributions from special assessment district | 4,040 | |
| Operating transfers in | 10,575 | 12,895 |
| Operating transfers (out) | (859) | (43) |
| | <u>13,756</u> | <u>12,852</u> |
| Total Other Financing Sources (Uses) | | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | | |
| | 8,033 | 480 |
| Fund balance at beginning of year | <u>13,052</u> | <u>12,572</u> |
| Fund balance at end of year | <u>\$21,085</u> | <u>\$13,052</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, 2001

with comparative amounts for June 30, 2000 (in thousands of dollars)

| ASSETS | <u>Water</u> | <u>Electric</u> | <u>Gas</u> |
|--|-----------------|------------------|-----------------|
| Current Assets: | | | |
| Cash and investments: | | | |
| Available for operations | \$12,026 | \$137,781 | \$5,645 |
| Cash and investments with fiscal agent | | | |
| Accounts receivable, net | 2,259 | 24,039 | 3,294 |
| Interest receivable | 170 | 1,960 | 77 |
| Prepaid items | | 443 | |
| | <u>14,455</u> | <u>164,223</u> | <u>9,016</u> |
| Total Current Assets | | | |
| Noncurrent Assets: | | | |
| Property, plant and equipment, net | <u>36,476</u> | <u>113,051</u> | <u>39,112</u> |
| | <u>36,476</u> | <u>113,051</u> | <u>39,112</u> |
| | <u>\$50,931</u> | <u>\$277,274</u> | <u>\$48,128</u> |
| Total Assets | | | |
| | | | |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | \$1,640 | \$12,342 | \$2,003 |
| Accrued salaries and benefits | 123 | 363 | 85 |
| Current portion of revenue bonds | | | |
| Accrued landfill closure liability | | | |
| | <u>1,763</u> | <u>12,705</u> | <u>2,088</u> |
| Total Current Liabilities | | | |
| Long-term liabilities: | | | |
| Revenue bonds, net of unamortized discount and issuance costs | | | |
| | <u>1,763</u> | <u>12,705</u> | <u>2,088</u> |
| Total Liabilities | | | |
| | | | |
| FUND EQUITY | | | |
| Contributed capital | 8,615 | 17,138 | 3,333 |
| Retained earnings | <u>40,553</u> | <u>247,431</u> | <u>42,707</u> |
| | <u>49,168</u> | <u>264,569</u> | <u>46,040</u> |
| Total Fund Equity | | | |
| | <u>\$50,931</u> | <u>\$277,274</u> | <u>\$48,128</u> |
| Total Liabilities and Fund Equity | | | |



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| Wastewater Collection | Wastewater Treatment | Refuse | Storm Drainage | TOTALS | |
|--------------------------|-------------------------|-----------------|-------------------|------------------|------------------|
| | | | | 2001 | 2000 |
| \$13,917 | \$9,606 | \$18,186 | \$460 | \$197,621 | \$169,956 |
| | 334 | | 691 | 1,025 | 3,765 |
| 1,502 | 1,093 | 2,090 | 207 | 34,484 | 21,372 |
| 196 | 150 | 258 | 3 | 2,814 | 2,418 |
| | | | | 443 | 188 |
| <u>15,615</u> | <u>11,183</u> | <u>20,534</u> | <u>1,361</u> | <u>236,387</u> | <u>197,699</u> |
| <u>38,753</u> | <u>33,160</u> | <u>5,723</u> | <u>15,040</u> | <u>281,315</u> | <u>262,621</u> |
| <u>38,753</u> | <u>33,160</u> | <u>5,723</u> | <u>15,040</u> | <u>281,315</u> | <u>262,621</u> |
| <u>\$54,368</u> | <u>\$44,343</u> | <u>\$26,257</u> | <u>\$16,401</u> | <u>\$517,702</u> | <u>\$460,320</u> |
| \$468 | \$632 | \$211 | \$80 | \$17,376 | \$8,222 |
| 66 | 165 | 72 | 16 | 890 | 642 |
| 44 | 276 | | 265 | 585 | 554 |
| | | 6,238 | | 6,238 | 7,136 |
| <u>578</u> | <u>1,073</u> | <u>6,521</u> | <u>361</u> | <u>25,089</u> | <u>16,554</u> |
| <u>1,576</u> | <u>10,189</u> | | <u>11,115</u> | <u>22,880</u> | <u>23,381</u> |
| <u>2,154</u> | <u>11,262</u> | <u>6,521</u> | <u>11,476</u> | <u>47,969</u> | <u>39,935</u> |
| 10,039 | 21,382 | | | 60,507 | 60,507 |
| 42,175 | 11,699 | 19,736 | 4,925 | 409,226 | 359,878 |
| <u>52,214</u> | <u>33,081</u> | <u>19,736</u> | <u>4,925</u> | <u>469,733</u> | <u>420,385</u> |
| <u>\$54,368</u> | <u>\$44,343</u> | <u>\$26,257</u> | <u>\$16,401</u> | <u>\$517,702</u> | <u>\$460,320</u> |

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City of Palo Alto – Enterprise Funds

**Combining Statements of Revenues, Expenses and Changes
in Retained Earnings – Fiscal Year Ended June 30, 2001**

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | Water | Electric | Gas | Wastewater Collection |
|---|-----------------|------------------|-----------------|--------------------------|
| OPERATING REVENUES | | | | |
| Sales of utilities: | | | | |
| Customers | \$14,781 | \$51,536 | \$22,529 | \$8,760 |
| City departments | 660 | 1,545 | 657 | 155 |
| Wholesale | | 4,065 | | |
| Excess capacity | | 67,530 | | |
| Wastewater treatment | | | | |
| Service connection charges and miscellaneous | 302 | 1,172 | 403 | 107 |
| Other operating revenues | 211 | 5,706 | 80 | 795 |
| Total Operating Revenues | 15,954 | 131,554 | 23,669 | 9,817 |
| OPERATING EXPENSES | | | | |
| Purchase of utilities : | | | | |
| Retail | 5,969 | 32,974 | 20,563 | 4,974 |
| Excess capacity | | 24,790 | | |
| Administration and general | 1,603 | 4,531 | 2,023 | 524 |
| Engineering (operating) | 135 | 750 | 171 | 103 |
| Resource management | 190 | 4,865 | 757 | |
| Operations and maintenance | 2,233 | 6,819 | 1,835 | 1,378 |
| Rent | 926 | 2,431 | 172 | 94 |
| Depreciation and amortization | 878 | 4,281 | 1,160 | 1,069 |
| Total Operating Expenses | 11,934 | 81,441 | 26,681 | 8,142 |
| Operating Income | 4,020 | 50,113 | (3,012) | 1,675 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Return on investment | 1,046 | 10,413 | 831 | 1,316 |
| Interest (expense) | | | | (89) |
| Joint venture debt service | | (9,999) | | |
| Loss on disposal of fixed assets | (34) | (57) | (4) | |
| Contributions | 161 | | | 283 |
| Net Nonoperating Revenues (Expenses) | 1,173 | 357 | 827 | 1,510 |
| Income (Loss) Before Operating Transfers | 5,193 | 50,470 | (2,185) | 3,185 |
| Operating transfers in | 6 | 421 | 327 | 3 |
| Operating transfers (out) | (2,324) | (8,161) | (2,647) | (157) |
| Net Income (Loss) | 2,875 | 42,730 | (4,505) | 3,031 |
| Retained earnings at beginning of year | 37,678 | 204,701 | 47,212 | 39,144 |
| Retained earnings at end of year | \$40,553 | \$247,431 | \$42,707 | \$42,175 |

Supplemental Statements and Schedules – Enterprise Funds

| Wastewater Treatment | Refuse | Storm Drainage | TOTALS | |
|-------------------------|-----------------|-------------------|------------------|------------------|
| | | | 2001 | 2000 |
| | \$18,496 | \$2,013 | \$118,115 | \$114,573 |
| \$5,031 | 639 | 114 | 8,801 | 7,895 |
| | | | 4,065 | 4,582 |
| | | | 67,530 | 15,652 |
| 8,691 | | | 8,691 | 7,405 |
| | | | 1,984 | 2,492 |
| 177 | 3,028 | 2 | 9,999 | 8,522 |
| <u>13,899</u> | <u>22,163</u> | <u>2,129</u> | <u>219,185</u> | <u>161,121</u> |
| | 7,699 | | 72,179 | 55,058 |
| | | | 24,790 | 7,433 |
| 1,375 | 1,247 | 581 | 11,884 | 10,934 |
| 811 | 250 | 643 | 2,863 | 2,740 |
| | | | 5,812 | 3,979 |
| 8,261 | 6,837 | 531 | 27,894 | 27,760 |
| | 4,289 | | 7,912 | 7,537 |
| 2,186 | 218 | 387 | 10,179 | 9,640 |
| <u>12,633</u> | <u>20,540</u> | <u>2,142</u> | <u>163,513</u> | <u>125,081</u> |
| <u>1,266</u> | <u>1,623</u> | <u>(13)</u> | <u>55,672</u> | <u>36,040</u> |
| 741 | 1,560 | 15 | 15,922 | 8,058 |
| (190) | (395) | (229) | (903) | (933) |
| | | | (9,999) | (11,026) |
| | | | (95) | (50) |
| | | | 444 | |
| <u>551</u> | <u>1,165</u> | <u>(214)</u> | <u>5,369</u> | <u>(3,951)</u> |
| 1,817 | 2,788 | (227) | 61,041 | 32,089 |
| 4 | 72 | 998 | 1,831 | 1,366 |
| (53) | (120) | (62) | (13,524) | (12,933) |
| 1,768 | 2,740 | 709 | 49,348 | 20,522 |
| <u>9,931</u> | <u>16,996</u> | <u>4,216</u> | <u>359,878</u> | <u>339,356</u> |
| <u>\$11,699</u> | <u>\$19,736</u> | <u>\$4,925</u> | <u>\$409,226</u> | <u>\$359,878</u> |

City of Palo Alto – Enterprise Funds

Combining Statements of Cash Flows – Fiscal Year Ended June 30, 2001

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | <u>Water</u> | <u>Electric</u> | <u>Gas</u> | <u>Wastewater Collection</u> |
|---|-----------------|------------------|----------------|----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$4,020 | \$50,113 | (\$3,012) | \$1,675 |
| Adjustments to reconcile operating income (loss) to cash flows from operating activities: | | | | |
| Depreciation and amortization | 878 | 4,281 | 1,160 | 1,069 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | (68) | (11,407) | (1,734) | 144 |
| (Increase) decrease in interest receivable | (4) | (502) | 113 | 29 |
| (Increase) decrease in prepaid items | | (443) | | 188 |
| Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits | 859 | 8,100 | 952 | (82) |
| Increase in accrued landfill closure | | | | |
| Net Cash From Operating Activities | <u>5,685</u> | <u>50,142</u> | <u>(2,521)</u> | <u>3,023</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Operating transfers in | 6 | 421 | 327 | 3 |
| Operating transfers (out) | <u>(2,324)</u> | <u>(8,161)</u> | <u>(2,647)</u> | <u>(157)</u> |
| Net Cash From Noncapital Financing Activities | <u>(2,318)</u> | <u>(7,740)</u> | <u>(2,320)</u> | <u>(154)</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | | |
| Acquisition and construction of fixed assets | (2,943) | (11,349) | (3,554) | (5,312) |
| Proceeds from bond issuance | | | | |
| Bond issuance costs and underwriter's discount | | | | |
| Payment to bond escrow agent | | | | (43) |
| Principal paid on long term debt | | | | (74) |
| Interest paid on long term debt | | (9,999) | | |
| Cash Flows From Capital Financing Activities | <u>(2,943)</u> | <u>(21,348)</u> | <u>(3,554)</u> | <u>(5,429)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on pooled investments | 1,046 | 10,413 | 831 | 1,316 |
| Net Cash From Investing Activities | <u>1,046</u> | <u>10,413</u> | <u>831</u> | <u>1,316</u> |
| Net Cash Flows | 1,470 | 31,467 | (7,564) | (1,244) |
| Cash and cash equivalents at beginning of year | 10,556 | 106,314 | 13,209 | 15,161 |
| Cash and cash equivalents at end of year | <u>\$12,026</u> | <u>\$137,781</u> | <u>\$5,645</u> | <u>\$13,917</u> |
| FINANCIAL STATEMENT PRESENTATION: | | | | |
| Cash and investments available for operations | \$12,026 | \$137,781 | \$5,645 | \$13,917 |
| Restricted cash and investments | | | | |
| Cash and cash equivalents at end of year | <u>\$12,026</u> | <u>\$137,781</u> | <u>\$5,645</u> | <u>\$13,917</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Increase in contributed fixed assets | <u>\$161</u> | | | <u>\$283</u> |



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| Wastewater Treatment | Refuse | Storm Drainage | TOTALS | |
|-------------------------|-----------------|-------------------|------------------|------------------|
| | | | 2001 | 2000 |
| \$1,266 | \$1,623 | (\$13) | \$55,672 | \$36,040 |
| 2,186 | 218 | 387 | 10,179 | 9,640 |
| 16 | (36) | (27) | (13,112) | (7,390) |
| (23) | (6) | (3) | (396) | (20) |
| | | | (255) | (58) |
| (418) | 80 | (89) | 9,402 | 329 |
| | (898) | | (898) | 265 |
| <u>3,027</u> | <u>981</u> | <u>255</u> | <u>60,592</u> | <u>38,806</u> |
| 4 | 72 | 998 | 1,831 | 1,366 |
| (53) | (120) | (62) | (13,524) | (12,933) |
| <u>(49)</u> | <u>(48)</u> | <u>936</u> | <u>(11,693)</u> | <u>(11,567)</u> |
| (3,495) | (1,253) | (618) | (28,524) | (33,304) |
| | | | | 28 |
| (262) | | (250) | (555) | (545) |
| (152) | (395) | (197) | (10,817) | (11,875) |
| <u>(3,909)</u> | <u>(1,648)</u> | <u>(1,065)</u> | <u>(39,896)</u> | <u>(45,696)</u> |
| 741 | 1,560 | 15 | 15,922 | 8,058 |
| <u>741</u> | <u>1,560</u> | <u>15</u> | <u>15,922</u> | <u>8,058</u> |
| (190) | 845 | 141 | 24,925 | (10,399) |
| <u>10,130</u> | <u>17,341</u> | <u>1,010</u> | <u>173,721</u> | <u>184,120</u> |
| <u>\$9,940</u> | <u>\$18,186</u> | <u>\$1,151</u> | <u>\$198,646</u> | <u>\$173,721</u> |
| \$9,606 | \$18,186 | \$460 | \$197,621 | \$169,956 |
| 334 | | 691 | 1,025 | 3,765 |
| <u>\$9,940</u> | <u>\$18,186</u> | <u>\$1,151</u> | <u>\$198,646</u> | <u>\$173,721</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, 2001

with comparative amounts for June 30, 2000 (in thousands of dollars)

| | Vehicle Replacement and Maintenance | Computer Equipment Replacement | Printing and Mailing Services | General Benefits and Insurance | TOTALS | |
|---|--|--------------------------------------|--|---|-----------------|-----------------|
| | | | | | 2001 | 2000 |
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and investments available for operations | \$3,297 | \$4,534 | \$348 | \$27,912 | \$36,091 | \$31,552 |
| Accounts receivable, net | 1 | | | 3 | 4 | 17 |
| Interest receivable | 47 | 65 | 5 | 322 | 439 | 431 |
| Interfund receivable | 155 | | | | 155 | 80 |
| Inventory of materials and supplies | 261 | | | | 261 | 289 |
| Total Current Assets | 3,761 | 4,599 | 353 | 28,237 | 36,950 | 32,369 |
| Property, plant and equipment, net | 11,262 | 309 | 13 | | 11,584 | 11,253 |
| Total Assets | \$15,023 | \$4,908 | \$366 | \$28,237 | \$48,534 | \$43,622 |
| LIABILITIES | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$260 | \$142 | \$7 | \$47 | \$456 | \$284 |
| Accrued salaries and benefits | 38 | | 4 | 1,639 | 1,681 | 1,456 |
| Accrued compensated absences - current | | | | 7,610 | 7,610 | 6,882 |
| Accrued claims payable - current | | | | 3,468 | 3,468 | 3,325 |
| Total Current Liabilities | 298 | 142 | 11 | 12,764 | 13,215 | 11,947 |
| Long-term Liabilities | | | | | | |
| Accrued compensated absences | | | | 3,808 | 3,808 | 3,105 |
| Accrued claims payable | | | | 5,645 | 5,645 | 4,918 |
| Capital lease obligation | | 113 | | | 113 | 141 |
| Total Long-term Liabilities | | 113 | | 9,453 | 9,566 | 8,164 |
| Total Liabilities | 298 | 255 | 11 | 22,217 | 22,781 | 20,111 |
| FUND EQUITY | | | | | | |
| Contributed capital | 4,834 | 2,000 | 196 | 2019 | 7,030 | 7,030 |
| Retained earnings | 9,891 | 2,653 | 159 | 6,020 | 18,723 | 16,481 |
| Total Fund Equity | 14,725 | 4,653 | 355 | 6,020 | 25,753 | 23,511 |
| Total Liabilities and Fund Equity | \$15,023 | \$4,908 | \$366 | \$28,237 | \$48,534 | \$43,622 |

Fund 94
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 -
 -
 51149
 -
 62733
 -
 ✓OK

AB702
 +14199
 39952
 62733

City of Palo Alto – Internal Service Funds

**Combining Statements of Revenues, Expenses and Changes
in Retained Earnings – Fiscal Year Ended June 30, 2001**

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | Vehicle Replacement and Maintenance | Computer Equipment Replacement | Printing and Mailing Services | General Benefits and Insurance | TOTALS | | |
|---|--|--------------------------------------|--|---|----------------|---------------|-------|
| | | | | | 2001 | 2000 | |
| OPERATING REVENUES | | | | | | | |
| Charges for services | \$4,296 | \$1,264 | \$714 | \$31,624 | \$37,898 | \$35,249 | +2215 |
| OPERATING EXPENSES | | | | | | | |
| Administration and general | 464 | 376 | 857 | 921 | 2,618 | 2,774 | |
| Operations and maintenance | 2,319 | | | | 2,319 | 2,113 | |
| Depreciation and amortization | 2,039 | 101 | 10 | | 2,150 | 1,862 | |
| Claim payments and change in estimated self-insured liability | | | | 5,100 | 5,100 | 3,763 | |
| Compensated absences and other benefits | | | | 27,345 | 27,345 | 25,579 | |
| Total Operating Expenses | 4,822 | 477 | 867 | 33,366 | 39,532 | 36,091 | |
| Total Operating Income (Loss) | (526) | 787 | (153) | (1,742) | (1,634) | (842) | 581 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| Return on investment | 281 | 340 | 32 | 1,876 | 2,529 | 1,290 | +1040 |
| Interest (expense) | | (15) | | | (15) | (13) | -569 |
| Gain on disposal of fixed assets | 225 | | | | 225 | 170 | |
| Contributions | 729 | | | | 729 | | |
| Other nonoperating revenues | 12 | | 1 | 365 | 378 | 626 | |
| Total Nonoperating Revenues | 1,247 | 325 | 33 | 2,241 | 3,846 | 2,073 | 4886 |
| Income (Loss) Before Operating Transfers | 721 | 1,112 | (120) | 499 | 2,212 | 1,231 | 5467 |
| Operating transfers in | | 237 | | | 237 | 28 | |
| Operating transfers (out) | (77) | (130) | | | (207) | (838) | |
| Net Income (Loss) | 644 | 1,219 | (120) | 499 | 2,242 | 421 | +3255 |
| Retained earnings at beginning of year | 9,247 | 1,434 | 279 | 5,521 | 16,481 | 16,060 | 75497 |
| Retained earnings at end of year | \$9,891 | \$2,653 | \$159 | \$6,020 | \$18,723 | \$16,481 | |

Fund 94
Ret. Earn 99/00 = 10,944

27425

City of Palo Alto – Internal Service Funds

Combining Statements of Cash Flows – Fiscal Year Ended June 30, 2001

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | Vehicle Replacement and Maintenance | Computer Equipment Replacement | Printing and Mailing Services |
|--|--|--------------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating income (loss) | (\$526) | \$787 | (\$153) |
| Adjustments to reconcile operating income (loss) to cash flows from operating activities: | | | |
| Depreciation and amortization | 2,039 | 101 | 10 |
| Other | 12 | | 1 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in accounts receivable | 13 | | |
| Decrease (increase) in interest receivable | (1) | (15) | 2 |
| Decrease (increase) in interfund receivable | (75) | | |
| Decrease (increase) in prepaid items | | | |
| Increase in inventory | 28 | | |
| Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits | 124 | 83 | (1) |
| Decrease in accrued compensated absences | | | |
| Increase in accrued claims payable | | | |
| | <hr/> | <hr/> | <hr/> |
| Net Cash From Operating Activities | 1,614 | 956 | (141) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating transfer in | | 237 | |
| Operating transfer (out) | (77) | (130) | |
| | <hr/> | <hr/> | <hr/> |
| Net Cash From Noncapital Financing Activities | (77) | 107 | |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | |
| Acquisition and construction of fixed assets | (1,489) | (39) | 1 |
| Proceeds from capital lease obligation | | | |
| Principal paid on long term obligation | | (28) | |
| Interest paid on long term obligation | | (15) | |
| | <hr/> | <hr/> | <hr/> |
| Net Cash From Capital Financing Activities | (1,489) | (82) | 1 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends on pooled investments | 281 | 340 | 32 |
| | <hr/> | <hr/> | <hr/> |
| Net Cash From Investing Activities | 281 | 340 | 32 |
| Net Cash Flows | 329 | 1,321 | (108) |
| Cash, cash equivalents and investments at beginning of year | 2,968 | 3,213 | 456 |
| Cash, cash equivalents and investments at end of year | <u>\$3,297</u> | <u>\$4,534</u> | <u>\$348</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Increase in contributed fixed assets | <u>\$729</u> | | |



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| General Benefits and Insurance | TOTALS | |
|---|-----------------|-----------------|
| | 2001 | 2000 |
| (\$1,742) | (\$1,634) | (\$842) |
| | 2,150 | 1,862 |
| 365 | 378 | 626 |
| | 13 | (15) |
| 6 | (8) | (70) |
| | (75) | (80) |
| | | 8 |
| | 28 | (63) |
| 191 | 397 | (277) |
| 1,431 | 1,431 | (51) |
| 870 | 870 | 590 |
| <u>1,121</u> | <u>3,550</u> | <u>1,688</u> |
| | 237 | 28 |
| | (207) | (838) |
| | 30 | (810) |
| | (1,527) | (2,726) |
| | | 163 |
| | (28) | (22) |
| | (15) | (13) |
| | (1,570) | (2,598) |
| <u>1,876</u> | <u>2,529</u> | <u>1,290</u> |
| <u>1,876</u> | <u>2,529</u> | <u>1,290</u> |
| 2,997 | 4,539 | (430) |
| <u>24,915</u> | <u>31,552</u> | <u>31,982</u> |
| <u>\$27,912</u> | <u>\$36,091</u> | <u>\$31,552</u> |
| | <u>\$729</u> | <u>\$551</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 five 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.



San Francisquito Creek Joint Powers Authority

The fund accounts for the activities for maintenance, flood control measures, and environmental preservation of the creek.

Cable Joint Powers Authority

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

University Avenue Parking Assessment

The fund accounts for the receipts and disbursements associated with the Series 2001-A University Avenue Are Off-Street Parking Assessments Bonds.

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City of Palo Alto – Trust and Agency Funds

Combining Balance Sheets – June 30, 2001

with comparative amounts for June 30, 2000 (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 | \$360 | \$54 | \$277 | \$14,000 |
| Interest receivable | 5 | 1 | 4 | 199 |
| Total Assets | <u>\$365</u> | <u>\$55</u> | <u>\$281</u> | <u>\$14,199</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$3 | | | |
| Due to bondholders | | | | |
| Due to developers | | | | |
| Total Liabilities | <u>3</u> | | | |
| FUND BALANCE | | | | |
| Unreserved, undesignated | 362 | \$55 | \$281 | \$14,199 |
| Total Fund Balances | <u>362</u> | <u>55</u> | <u>281</u> | <u>14,199</u> |
| Total Liabilities and Equity | <u>\$365</u> | <u>\$55</u> | <u>\$281</u> | <u>\$14,199</u> |

Supplemental Statements and Schedules – Fiduciary Funds

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| AGENCY FUNDS | | | | | TOTALS | |
|--|-------------------------|---|------------------------------------|---|-----------------|-----------------|
| California Avenue Parking Assessment District | Developer's Deposits | San Francisquito Creek Joint Powers Authority | Cable Joint Powers Authority | University Avenue Area Parking Assessment District | 2001 | 2000 |
| \$355 | \$400 | \$125 | \$695 | \$1,802 | \$18,068 | \$12,404 |
| | | 2 | 10 | | 221 | 157 |
| <u>\$355</u> | <u>\$400</u> | <u>\$127</u> | <u>\$705</u> | <u>\$1,802</u> | <u>\$18,289</u> | <u>\$12,561</u> |
| | | \$44 | | | \$47 | \$1 |
| \$355 | | | | \$1,802 | 2,157 | 374 |
| | \$400 | 83 | \$705 | | 1,188 | 617 |
| <u>355</u> | <u>400</u> | <u>127</u> | <u>705</u> | <u>1,802</u> | <u>3,392</u> | <u>992</u> |
| | | | | | 14,897 | 11,569 |
| | | | | | 14,897 | 11,569 |
| <u>\$355</u> | <u>\$400</u> | <u>\$127</u> | <u>\$705</u> | <u>\$1,802</u> | <u>\$18,289</u> | <u>\$12,561</u> |

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City of Palo Alto – Expendable Trust Funds

**Combining Statements of Revenues, Expenditures
and Changes in Fund Balances – Fiscal Year Ended June 30, 2001**

with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| | Community Projects Donations | Assets Seizure | Human Services Projects | Retiree Health Benefit | TOTALS | |
|--|------------------------------------|-------------------|-------------------------------|------------------------------|-----------------|-----------------|
| | | | | | 2001 | 2000 |
| REVENUES | | | | | | |
| Return on Investment | \$28 | \$5 | \$23 | \$1,040 | \$1,096 | \$426 |
| Other | 106 | 5 | 2 | 2,215 | 2,328 | 2,675 |
| Total Revenues | 134 | 10 | 25 | 3,255 | 3,424 | 3,101 |
| EXPENDITURES | | | | | | |
| Public Safety - Police | 50 | 9 | | | 59 | 27 |
| Community Services | 37 | | | | 37 | 46 |
| Total Expenditures | 87 | 9 | | | 96 | 73 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 47 | 1 | 25 | 3,255 | 3,328 | 3,028 |
| Fund balance at beginning of year | 315 | 54 | 256 | 10,944 | 11,569 | 8,541 |
| Fund balance at end of year | <u>\$362</u> | <u>\$55</u> | <u>\$281</u> | <u>\$14,199</u> | <u>\$14,897</u> | <u>\$11,569</u> |

City of Palo Alto – Agency Funds

**Statements of Charges in Assets and Liabilities –
Fiscal Year Ended June 30, 2001**

(in thousands of dollars)

| | Balance June 30, 2000 | Additions | Reductions | Balance June 30, 2001 |
|---|--------------------------|-----------|------------|--------------------------|
| <u>California Avenue Parking Assessment District</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | \$374 | \$318 | \$337 | \$355 |
| LIABILITIES | | | | |
| Due to bondholders | \$374 | \$318 | \$337 | \$355 |
| <u>Developer's Deposits</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | \$617 | \$827 | \$1,044 | \$400 |
| LIABILITIES | | | | |
| Due to developers | \$617 | \$827 | \$1,044 | \$400 |
| <u>San Francisquito Creek Joint Powers Authority</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | | \$261 | \$136 | \$125 |
| Interest receivable | | 2 | | 2 |
| Total assets | | \$263 | \$136 | \$127 |
| LIABILITIES | | | | |
| Accounts payable | | \$44 | | \$44 |
| Due to developers | | 219 | \$136 | 83 |
| Total liabilities | | \$263 | \$136 | \$127 |
| <u>Cable Joint Powers Authority</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | | \$705 | \$10 | \$695 |
| Interest receivable | | 10 | | 10 |
| Total assets | | \$715 | \$10 | \$705 |
| LIABILITIES | | | | |
| Due to developers | | \$715 | \$10 | \$705 |
| <u>University Avenue Area Parking Assessment District</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | | \$6,085 | \$4,283 | \$1,802 |
| LIABILITIES | | | | |
| Due to bondholders | | \$6,085 | \$4,283 | \$1,802 |
| <u>Total Agency Funds</u> | | | | |
| ASSETS | | | | |
| Cash and investments available for operations | \$991 | \$8,196 | \$5,810 | \$3,377 |
| Interest receivable | | 12 | | 12 |
| Total assets | \$991 | \$8,208 | \$5,810 | \$3,389 |
| LIABILITIES | | | | |
| Accounts payable | | \$44 | | \$44 |
| Due to bondholders | \$374 | 6,403 | \$4,620 | 2,157 |
| Due to developers | 617 | 1,761 | 1,190 | 1,188 |
| Total liabilities | \$991 | \$8,208 | \$5,810 | \$3,389 |

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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, 2001

(in thousands of dollars)

| | <u>Balance June 30, 2000</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2001</u> |
|--|----------------------------------|------------------------|-----------------------|----------------------------------|
| General Fixed Assets: | | | | |
| Land and improvements | \$57,006 | \$192 | | \$57,198 |
| Buildings and structures | 52,407 | 10,893 | | 63,300 |
| Equipment | <u>6,476</u> | <u>556</u> | <u>(\$117)</u> | <u>6,915</u> |
| Total General Fixed Assets | <u><u>\$115,889</u></u> | <u><u>\$11,641</u></u> | <u><u>(\$117)</u></u> | <u><u>\$127,413</u></u> |
| Investments in General Fixed Assets by Source: | | | | |
| Balances prior to July 1, 1994 | \$97,626 | | | \$97,626 |
| General Fund | 181 | \$10,797 | (\$117) | 10,861 |
| Capital Projects Fund | <u>18,082</u> | <u>844</u> | | <u>18,926</u> |
| Total Investment in General Fixed Assets | <u><u>\$115,889</u></u> | <u><u>\$11,641</u></u> | <u><u>(\$117)</u></u> | <u><u>\$127,413</u></u> |

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

Fiscal Year Ended June 30, 2001 (in thousands of dollars)

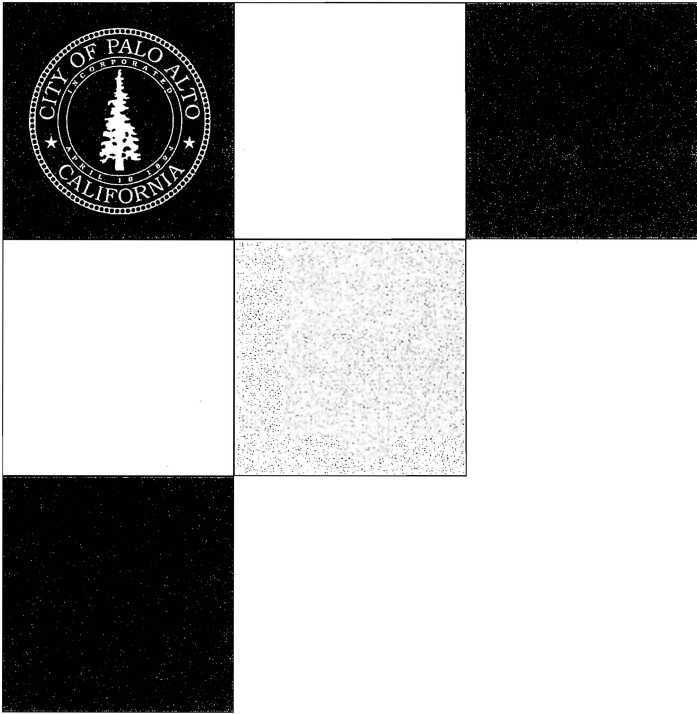
| FUNCTION AND ACTIVITY | Balance June 30, 2000 | Additions | Retirements | Balance June 30, 2001 |
|-----------------------------------|--------------------------|-----------------|----------------|--------------------------|
| ADMINISTRATION: | | | | |
| City clerk and council | \$46 | | | \$46 |
| City manager | 5 | | | 5 |
| Administrative services | 1,735 | \$153 | (\$15) | 1,873 |
| General government | 18,390 | 10,635 | | 29,025 |
| Total administration | 20,176 | 10,788 | (15) | 30,949 |
| PUBLIC SAFETY: | | | | |
| Police | 350 | 52 | | 402 |
| Fire | 5,954 | 261 | | 6,215 |
| Communications | 629 | | | 629 |
| Animal services | 400 | | | 400 |
| Total public safety | 7,333 | 313 | | 7,646 |
| LIBRARIES | 3,392 | | | 3,392 |
| PARKS, RECREATION AND CULTURE | 55,059 | 529 | (102) | 55,486 |
| PARKING FACILITIES | 11,687 | | | 11,687 |
| OPEN SPACE | 18,242 | 11 | | 18,253 |
| Total General Fixed Assets | \$115,889 | \$11,641 | (\$117) | \$127,413 |

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

as of June 30, 2001

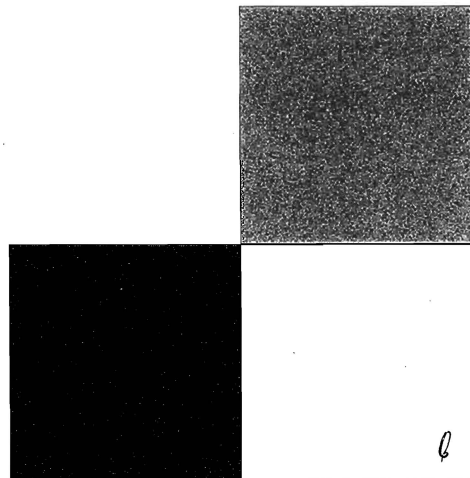
with comparative amounts for fiscal year ended June 30, 2000 (in thousands of dollars)

| FUNCTION AND ACTIVITY | Land and Improvements | Buildings and Structures | Equipment | TOTALS | |
|-------------------------------|--------------------------|-----------------------------|-----------|-----------|-----------|
| | | | | 2001 | 2000 |
| ADMINISTRATION: | | | | | |
| City clerk and council | | | \$46 | \$46 | \$46 |
| City manager | | | 5 | 5 | 5 |
| Administrative services | | | 1,873 | 1,873 | 1,735 |
| General government | \$1,782 | \$25,521 | 1,722 | 29,025 | 18,390 |
| Total administration | 1,782 | 25,521 | 3,646 | 30,949 | 20,176 |
| PUBLIC SAFETY: | | | | | |
| Police | | | 402 | 402 | 350 |
| Fire | 392 | 5,288 | 535 | 6,215 | 5,954 |
| Communications | | | 629 | 629 | 629 |
| Animal services | 37 | 330 | 33 | 400 | 400 |
| Total public safety | 429 | 5,618 | 1,599 | 7,646 | 7,333 |
| LIBRARIES | 245 | 2,881 | 266 | 3,392 | 3,392 |
| PARKS, RECREATION AND CULTURE | 33,477 | 20,605 | 1,404 | 55,486 | 55,059 |
| PARKING FACILITIES | 3,012 | 8,675 | | 11,687 | 11,687 |
| OPEN SPACE | 18,253 | | | 18,253 | 18,242 |
| Total General Fixed Assets | \$57,198 | \$63,300 | \$6,915 | \$127,413 | \$115,889 |



Statistical

Fiscal Year Ended June 30, 2001



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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.

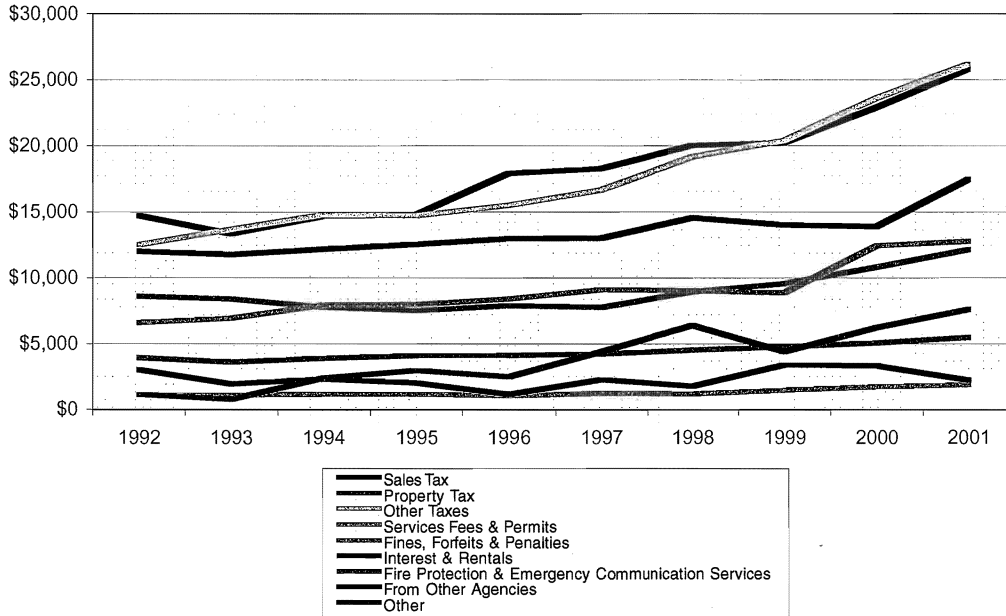
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City of Palo Alto – General Governmental Revenues by Source

All Governmental Fund Types

Last Ten Fiscal Years (in thousands of dollars)



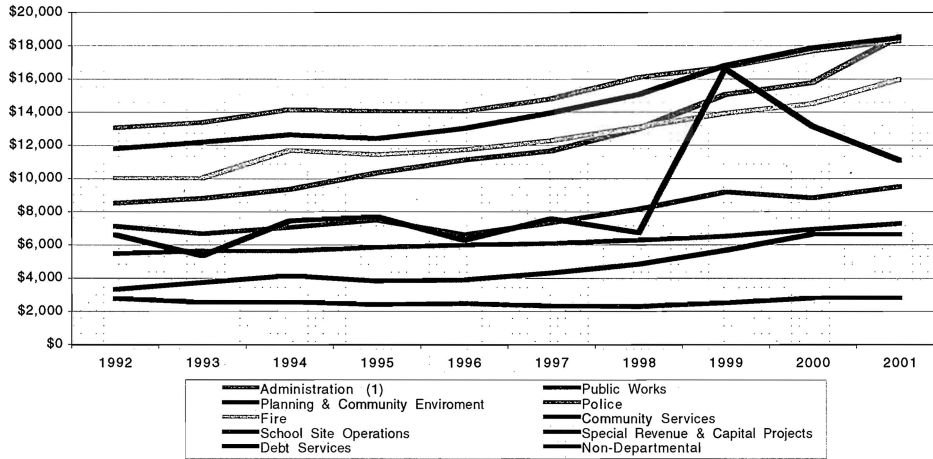
| Fiscal Year | Sales Tax | Property Tax | Other Taxes | Services Fees & Permits | Fines, Forfeits & Penalties | Interest & Rentals | Fire Protection & Emergency Communication Services | From Other Agencies | Other | Total |
|-------------|-----------|--------------|-------------|-------------------------|-----------------------------|--------------------|--|---------------------|---------|----------|
| 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 | 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 |
| 2001 | 25,786 | 12,110 | 26,160 | 12,743 | 1,873 | 17,432 | 5,466 | 2,208 | 7,590 | 111,368 |



City of Palo Alto – General Governmental Expenditures by Function

All Governmental Fund Types

Last Ten Fiscal Years (in thousands of dollars)



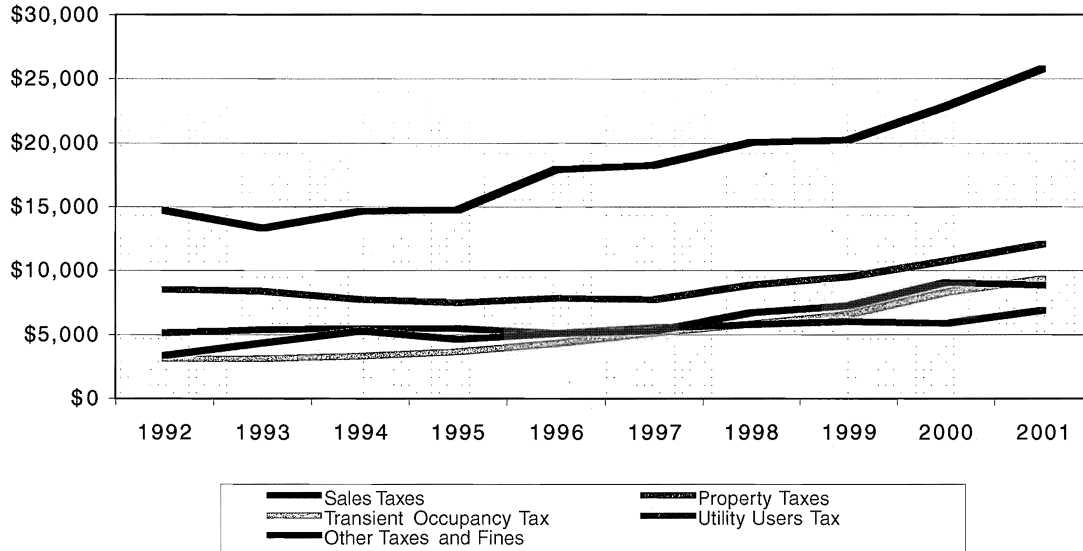
| Fiscal Year | Administration (1) | Public Works | Planning & Community Environment | Police | Fire | Community Services | School Site Operations | Special Revenue & Capital Projects | Debt Services | Non-Departmental | Total |
|-------------|--------------------|--------------|----------------------------------|----------|----------|--------------------|------------------------|------------------------------------|---------------|------------------|----------|
| 1992 | \$8,519 | \$7,129 | \$3,313 | \$13,076 | \$10,027 | \$11,816 | \$5,469 | \$6,609 | \$2,765 | | \$68,723 |
| 1993 | 8,809 | 6,673 | 3,757 | 13,380 | 10,040 | 12,183 | 5,632 | 5,342 | 2,541 | | 68,357 |
| 1994 | 9,343 | 7,058 | 4,160 | 14,150 | 11,718 | 12,651 | 5,645 | 7,450 | 2,569 | | 74,744 |
| 1995 | 10,340 | 7,517 | 3,842 | 14,058 | 11,437 | 12,435 | 5,884 | 7,722 | 2,415 | | 75,650 |
| 1996 | 11,133 | 6,614 | 3,901 | 14,066 | 11,739 | 13,019 | 5,992 | 6,296 | 2,490 | | 75,250 |
| 1997 | 11,689 | 7,339 | 4,320 | 14,804 | 12,292 | 13,972 | 6,086 | 7,581 | 2,319 | | 80,402 |
| 1998 | 12,987 | 8,172 | 4,832 | 16,093 | 13,100 | 15,050 | 6,298 | 6,749 | 2,293 | | 85,574 |
| 1999 | 15,066 | 9,202 | 5,674 | 16,705 | 13,949 | 16,820 | 6,520 | 16,605 | 2,509 | | 103,050 |
| 2000 | 15,772 | 8,827 | 6,639 | 17,666 | 14,512 | 17,858 | 6,927 | 13,151 | 2,801 | | 104,153 |
| 2001 | 18,557 | 9,522 | 6,652 | 18,306 | 15,973 | 18,469 | 7,301 | 11,089 | 2,817 | 7,186 | 115,872 |

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 1994-94 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)



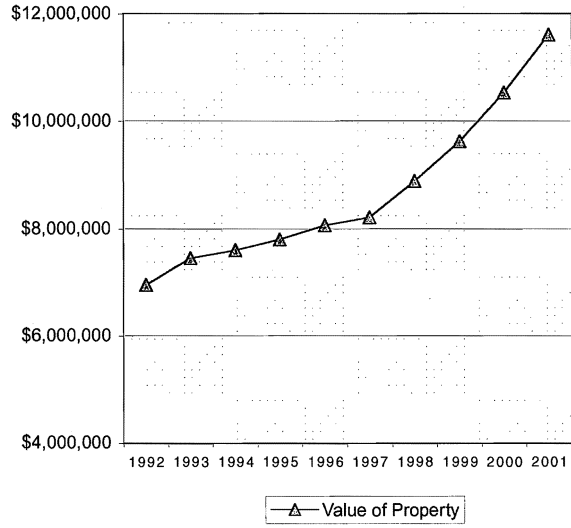
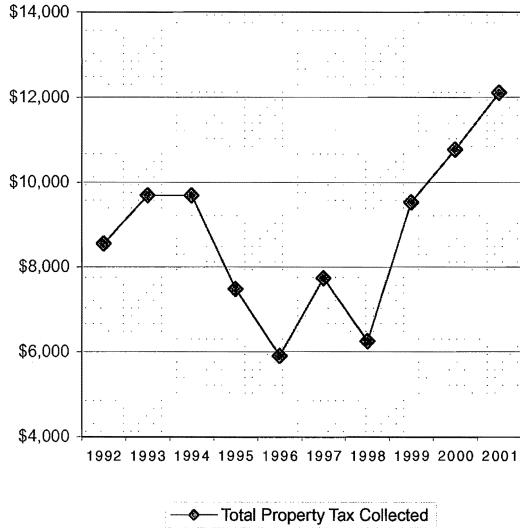
| Fiscal Year | Sales Taxes | Property Taxes | Transient Occupancy Tax | Utility Users Tax | Other Taxes and Fines | Total |
|-------------|-------------|----------------|-------------------------|-------------------|-----------------------|----------|
| 1992 | \$14,692 | \$8,555 | \$3,104 | \$5,149 | \$3,358 | \$34,858 |
| 1993 | 13,322 | 8,367 | 3,109 | 5,362 | 4,333 | 34,493 |
| 1994 | 14,635 | 7,737 | 3,301 | 5,455 | 5,277 | 36,405 |
| 1995 | 14,765 | 7,485 | 3,643 | 5,482 | 4,633 | 36,008 |
| 1996 | 17,895 | 7,854 | 4,279 | 5,098 | 5,092 | 40,218 |
| 1997 | 18,277 | 7,735 | 5,107 | 5,509 | 5,299 | 41,927 |
| 1998 | 20,011 | 8,903 | 5,846 | 5,780 | 6,694 | 47,234 |
| 1999 | 20,225 | 9,521 | 6,551 | 6,039 | 7,255 | 49,591 |
| 2000 | 22,867 | 10,770 | 8,293 | 5,861 | 9,096 | 56,887 |
| 2001 | 25,786 | 12,110 | 9,359 | 6,895 | 8,887 | 63,037 |

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)



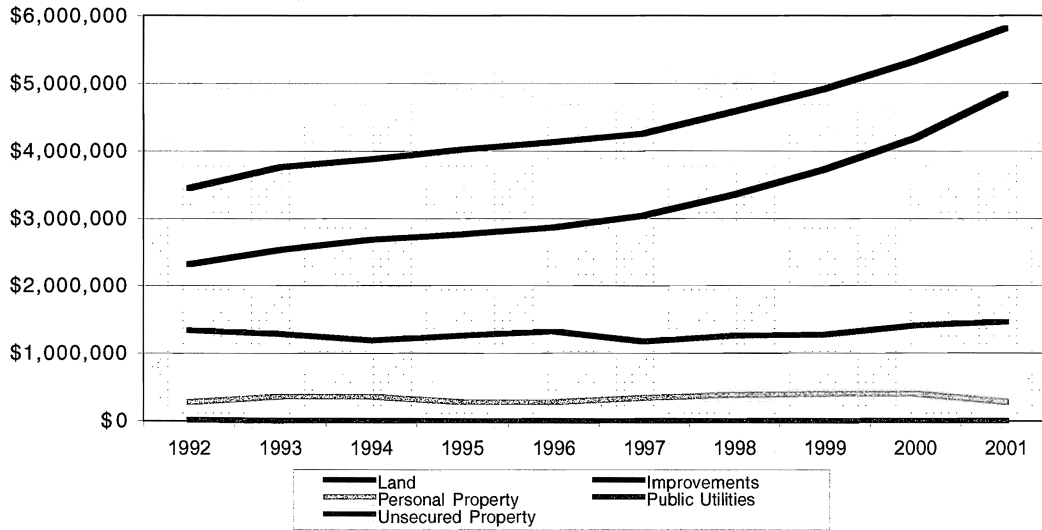
| Fiscal Year | Total Tax Levy | Current Tax Collections | Delinquent Tax Collections | Total Property Tax Collected | Value of Property Subject to Basic County Wide Tax Rate |
|-------------|----------------|-------------------------|----------------------------|------------------------------|---|
| 1992 | \$8,617 | \$8,372 | \$139 | \$8,555 | \$6,949,429 |
| 1993 | 8,373 | 6,520 | 183 | 9,690 | 7,443,688 |
| 1994 | 7,310 | 7,310 | 219 | 9,690 | 7,592,131 |
| 1995 | 7,485 | 7,485 | 427 | 7,485 | 7,795,396 |
| 1996 | 7,854 | 9,200 | A | 5,910 | 8,058,927 |
| 1997 | 7,735 | 7,735 | A | 7,735 | 8,206,532 |
| 1998 | 7,660 | 9,820 | A | 6,250 | 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 |
| 2001 | 12,110 | 12,110 | A | 12,110 | 11,609,915 |

Source: County of Santa Clara Assessor's Office

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 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 | Less | | | Total Assessed Value |
|-------------|------------------------|--------------|-------------------|------------------------|------------------|--------------------|-----------------------------|----------------------|
| | Land | Improvements | Personal Property | Net Local Secured Roll | Public Utilities | Unsecured Property | Exemptions Net of State Aid | |
| 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 |
| 2001 | 4,849,233 | 5,816,633 | 280,958 | 10,946,824 | 3,309 | 1,473,678 | 813,896 | 11,609,915 |

SOURCE: County of Santa Clara Assessor's Office

NOTE: 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.

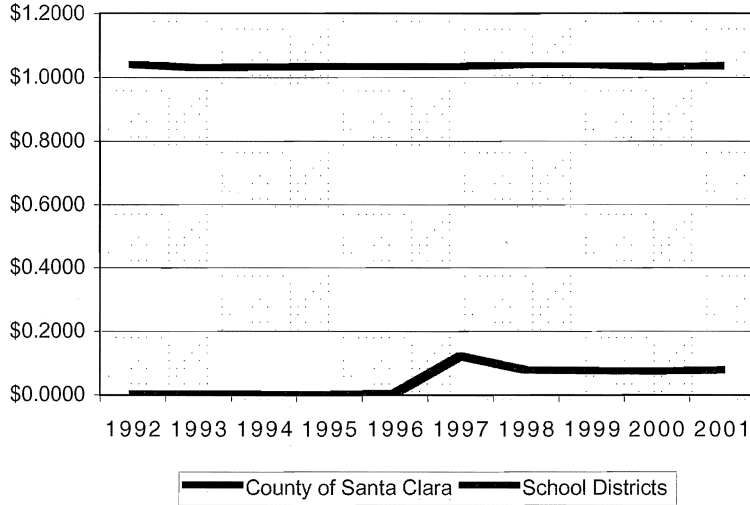
The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.



City of Palo Alto – Property Tax Rates

All Overlapping Governments

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

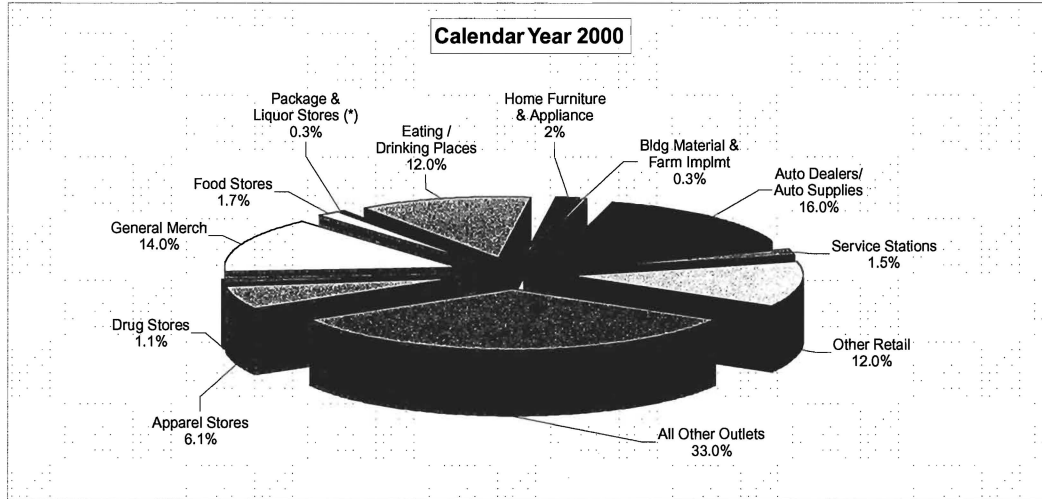


| Fiscal Year | County of Santa Clara | School Districts | Total |
|-------------|-----------------------|------------------|----------|
| 1992 | \$1.0390 | \$0.0020 | \$1.0410 |
| 1993 | 1.0290 | 0.0030 | 1.0320 |
| 1994 | 1.0310 | 0.0000 | 1.0310 |
| 1995 | 1.0330 | 0.0000 | 1.0330 |
| 1996 | 1.0340 | 0.0030 | 1.0370 |
| 1997 | 1.0340 | 0.1210 | 1.1550 |
| 1998 | 1.0388 | 0.0764 | 1.1152 |
| 1999 | 1.0388 | 0.0757 | 1.1145 |
| 2000 | 1.0319 | 0.0740 | 1.1059 |
| 2001 | 1.0356 | 0.0771 | 1.1127 |

Source: County of Santa Clara, Tax Rates and Information

City of Palo Alto – Taxable Transactions by Type of Business

Last Eight Calendar Years – (in millions of dollars)



RETAIL STORES

| Calendar Year | Apparel Stores | Drug Stores | General Merch | Food Stores | Package & Liquor Stores (*) | Eating / Drinking Places | Home Furniture & Appliance | Bldg Mtrl & Farm Implmt | Auto Dtrs., Auto Supplies | Service Stations | Other Retail | 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 |
| 2000 | 1,300 | 230 | 3,110 | 370 | 60 | 2,500 | 370 | 60 | 3,330 | 330 | 2,560 | 14,220 | 7,130 | 21,350 |

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

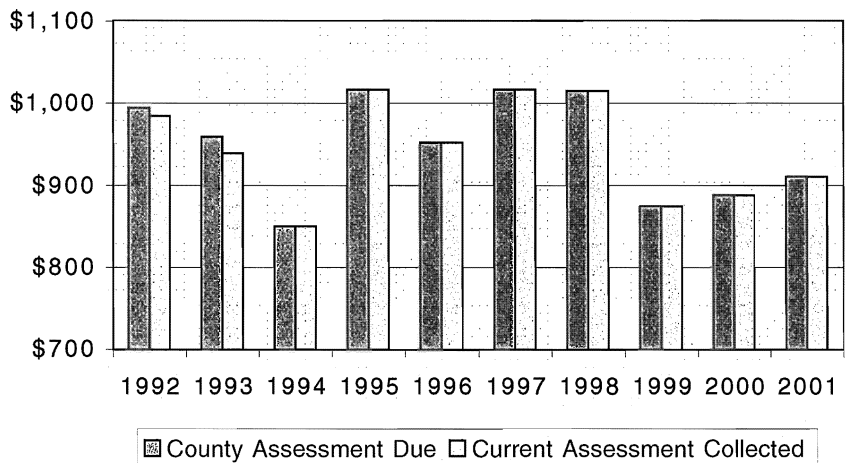
SALESTAX RATES FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2000

| | |
|---|-------|
| State General Fund | 6.00% |
| County Transportation Fund (Transportation Development Act) | 0.25% |
| County Transportation Fund | 1.00% |
| City | 1.00% |

Source: California State Board of Equalization 8.25%

City of Palo Alto – Special Assessment Billing 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 |
|-------------|-----------------------|------------------------------|----------------------------------|---|
| 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 |
| 2001 | 910 | 910 | (A) | 910 |

Source: County of Santa Clara Assessor's Office

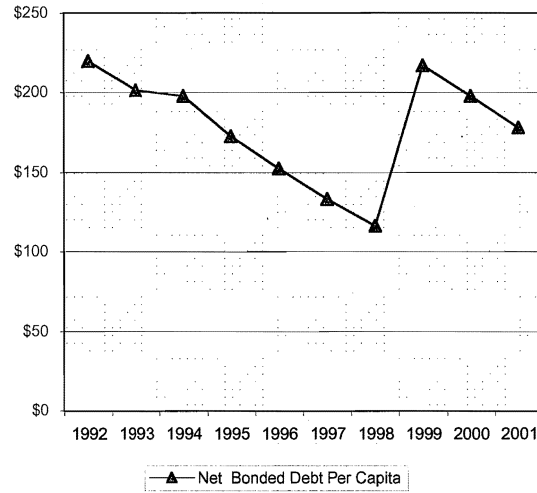
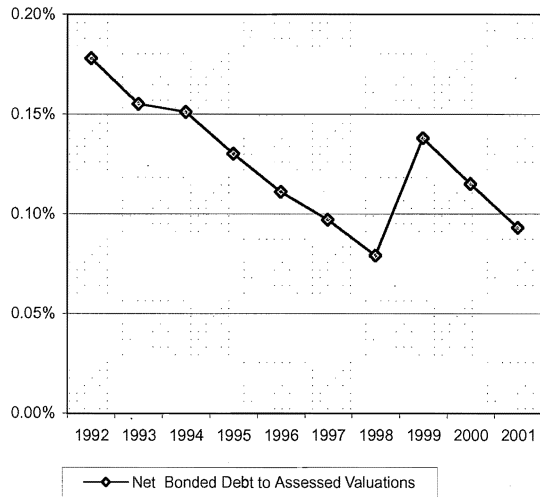
Notes: (A) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. Payment for all prior delinquencies was also received in this fiscal year.



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 Valuations | Net Bonded Debt Per Capita |
|-------------|------------|-------------------------------|----------------------------|--|----------------------------|
| 1992 | 56,330 | \$6,949,429.00 | \$12,376.00 | 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 |
| 2001 | 60,835 | 11,609,915 | 10,813 | 0.093% | 177.74 |



City of Palo Alto – Computation of Legal Debt Margin

June 30, 2001

(in thousands of dollars)

| | |
|--|--------------------------|
| <hr/> | |
| 2000-2001 Assessed Valuation: | <u><u>11,609,915</u></u> |
| Debt limit - 15% of assessed value | 1,741,487 |
| Amount of debt applicable to debt limit: | |
| Certificates of participation | 10,700 |
| Capital lease obligations | 113 |
| Special assessment debt with governmental commitment (2) | <u>670</u> |
| Total | 11,483 |
| Less amount of debt not applicable to debt limit | <u>0</u> |
| Total amount of debt applicable to debt limit | <u><u>11,483</u></u> |
| Legal debt margin (1) | <u><u>1,730,004</u></u> |
| <hr/> | |

- 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, 2001

(in thousands of dollars)

2000-2001 Assessed Valuation \$ 11,609,915

| <u>Direct and Overlapping Bonded Debt</u> | Percentage Applicable to City of Palo Alto | June 30, 2001 Bonded Debt |
|--|--|--------------------------------------|
| OVERLAPPING TAX AND ASSESSMENT DEBT: | | |
| Santa Clara County Flood Control and Water Conservation District, Zone W-1 | 0.581 | \$58 |
| Foothill-De Anza Community College District | 22.599 | 22,598 |
| Palo Alto Unified School District | 89.473 | 117,764 |
| Fremont Union High School District | 0.008 | 8 |
| Mountain View-Los Altos Union High School District | 1.408 | 711 |
| Cupertino Union School District | 0.005 | 3 |
| Los Altos School District | 1.005 | 868 |
| Whisman School District | 6.181 | 1,916 |
| City of Palo Alto Special Assessment Bonds | 100.000 | 11,495 |
| Midpeninsula Regional Open Space Park District | 13.457 | 1,507 |
| Total Overlapping tax and assessment debt | | <u>156,928</u> |
| DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT: | | |
| Santa Clara County General Fund Obligations | 7.675 | 38,184 |
| Santa Clara County Board of Education Certificates of Participation | 7.675 | 1,464 |
| Foothill-DeAnza Community College District Certificates of Participation | 22.599 | 7,321 |
| Mountain View-Los Altos Union High School District Certificates of Participation | 1.408 | 72 |
| Cupertino Union School District Certificates of Participation | 0.005 | 0 |
| City of Palo Alto General Fund Obligations | 100.000 | 10,700 |
| Midpeninsula Regional Open Space Park District Certificates of Participation | 13.457 | 13,618 |
| Santa Clara Valley Water District Certificates of Participation | 7.675 | 15,699 |
| El Camino Hospital District Authority | 0.084 | 2 |
| Total gross direct and overlapping General Fund obligation debt | | 87,060 |
| Less: El Camino Hospital Authority (100% self-supporting) | | <u>2</u> |
| Total net direct and overlapping General Fund obligation debt | | <u>87,058</u> |
| GROSS COMBINED TOTAL DEBT | | <u>243,988</u> ⁽¹⁾ |
| NET COMBINED TOTAL DEBT | | <u><u>\$243,986</u></u> |

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

Ratios to Assessed Valuation:

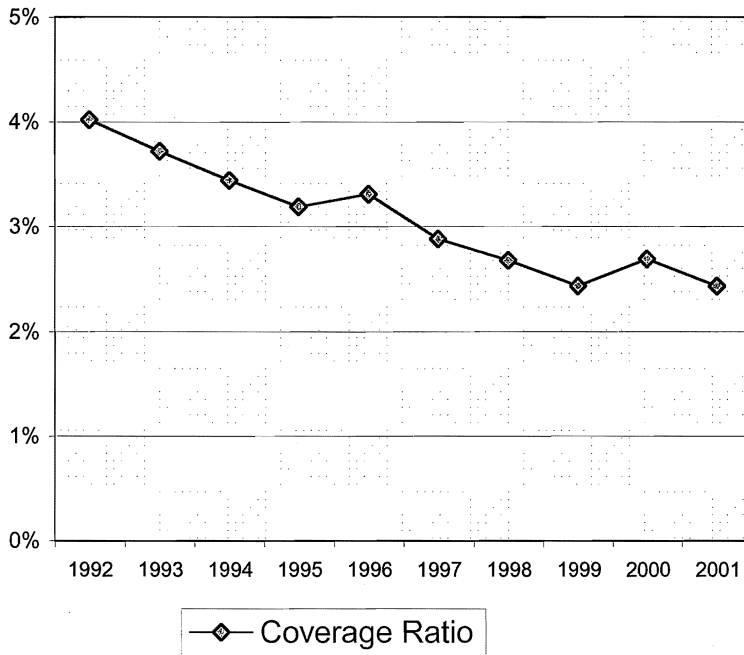
| | |
|--|-------|
| Combined Direct Debt (\$10,700) | 0.09% |
| Total Overlapping Tax and Assessment Debt | 1.35% |
| Gross Combined Total Debt | 2.10% |
| Net Combined Total Debt | 2.10% |
| STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: | \$0 |

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)



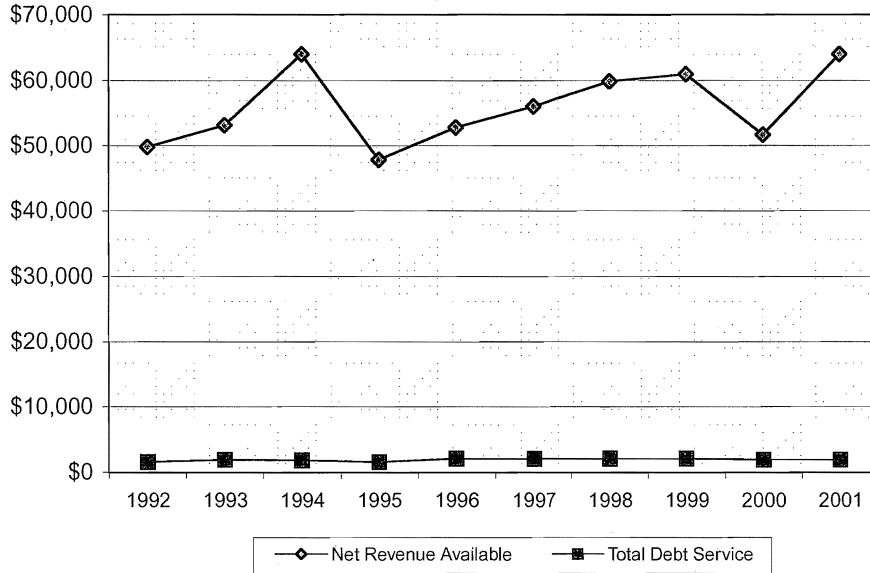
| Fiscal Year | Total General Expenditures (1) | Debt Service | | Total | Coverage Ratio |
|-------------|--------------------------------|--------------|----------|---------|----------------|
| | | Principal | Interest | | |
| 1992 | \$68,723 | \$1,151 | \$1,614 | \$2,765 | 4.02% |
| 1993 | 68,357 | 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% |
| 2001 | 115,872 | 1,895 | 922 | 2,817 | 2.43% |

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)



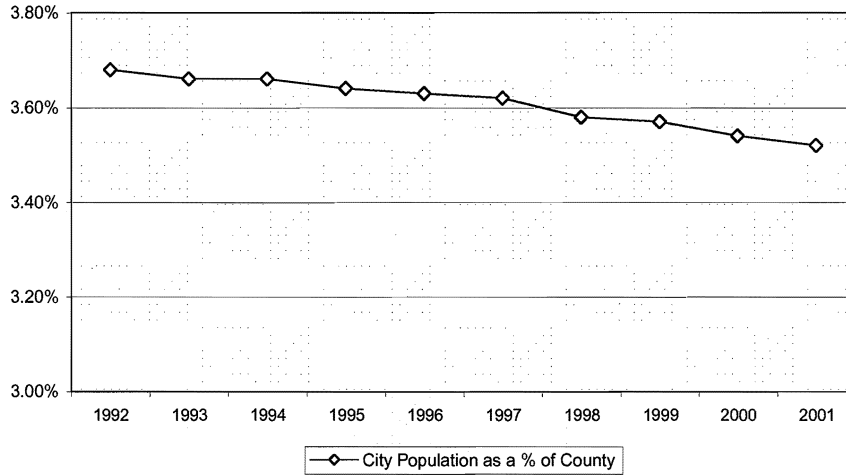
| Fiscal Year | Gross Revenue | Direct Operating Expenditures (1) | Net Revenue Available for (2) | Debt Service | | | Coverage |
|-------------|---------------|-----------------------------------|-------------------------------|--------------|----------|---------|----------|
| | | | | Principal | Interest | Total | |
| 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 |
| 2001 | 197,022 | 133,012 | 64,010 | 555 | 1,342 | 1,897 | 33.74 |

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



City of Palo Alto – Demographic Statistics

Last Ten Fiscal Years

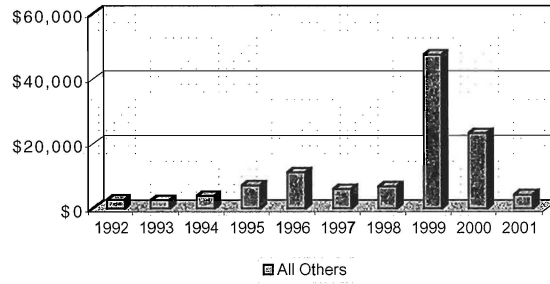
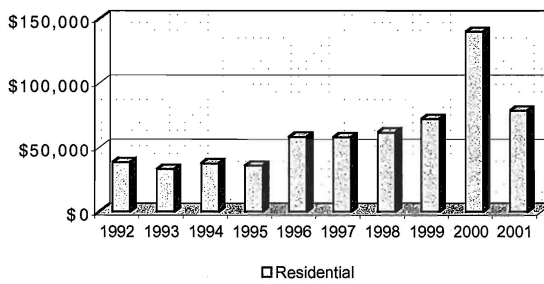
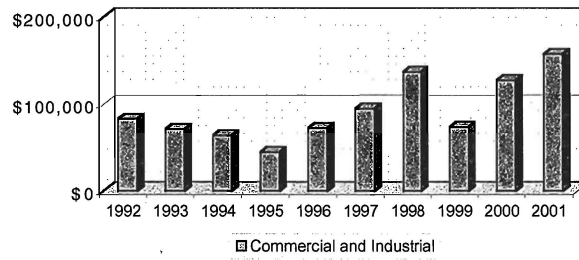


| Fiscal Year | City Size Square Miles | Street Miles | City Population | (1) County Population | City Population % of County | (2) School Population | (3) Unemployment Rate |
|-------------|------------------------|--------------|-----------------|-----------------------|-----------------------------|-----------------------|-----------------------|
| 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 | 3.04% |
| 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% |
| 2001 | 25.98 | 193.12 | 60,835 | 1,728,680 | 3.52% | 10,031 | 2.40% |

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 Other | |
|-------------|-----------------|-------------------------|-----------|-------------------|-----------|-------------------|-----------|
| | | Number of Permits | Valuation | Number of Permits | Valuation | Number of Permits | Valuation |
| 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 |
| 2001 | 11,609,915 | 820 | 157,088 | 2,599 | 78,345 | 25 | 4,200 |

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

City of Palo Alto – Insurance Coverage

June 30, 2001

(in thousands of dollars)

| TYPE | COVERAGE (Deductible) | LIMITS | COMPANY | EXPIRATION DATE |
|--|---|---|-------------------------------------|-----------------|
| <u>PROPERTY LOSS</u> | | | | |
| Blanket | All real & personal property (\$25,000 deductible) | \$187,665,012 | CA Public Entity Property Program | 7/01/2001 |
| Boiler & Machinery | All real & personal property: (\$50,000 deductible) | \$100,000 combined limit excluding power generation facilities \$50,000,000 business interruption | CA Public Entity Property Program | 7/01/2001 |
| Flood Insurance | All real property 1305 Middlefield Road (\$1,000 deductible) | \$500,000 | South Carolina Insurance Company | 02/04/2002 |
| <u>FINANCIAL LOSS</u> | | | | |
| 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. | 3/22/2004 |
| Trustees Errors and Omissions | Trustees errors and omissions | \$19,500,000 | Insurance Company of Pennsylvania | 07/01/2001 |
| <u>UMBRELLA EXCESS</u> | | | | |
| | City is a member of an insurance pool participating with a number of other California cities. (\$500,000 self insured retention) | \$19,000,000 \$10,000,000 per occurrence | Insurance Company of Pennsylvania | 07/01/2001 |
| <u>SPECIAL LIABILITY</u> | | | | |
| Volunteers Accident | Each Occurrence Medical - Each Person (\$25 deductible) | \$20,000 | American National Insurance Company | 01/01/2002 |
| Special Events | Bodily Injury | \$1,000,000 per occurrence | General Star Indemnity Co. | 01/01/2002 |
| <u>AUTOMOBILE LIABILITY</u> | | | | |
| City Manager Vehicle Only | Physical Damage (\$1,000 deductible comp. collision) | \$1,000,000 | Federal Insurance | 3/17/2002 |
| <u>EMPLOYEE BENEFIT</u> | | | | |
| Travel Accident | Indemnity, based on salary | \$1,500,000 per accident | Life Insurance Co. of North America | 06/01/2001 |
| <u>EMPLOYEE HEALTH PLAN</u> | | | | |
| | The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees. | | | |
| <u>WORKERS' COMPENSATION</u> | | | | |
| | City is self-insured for first \$300,000 of liability | | | |
| <u>EXCESS WORKERS' COMPENSATION</u> | | | | |
| | Excess Workers' Compensation Employers Liability | \$2,000,000 | Employers' Reinsurance Corporation | 07/01/2001 |

SOURCE: Human Resources Department
City of Palo Alto

City of Palo Alto – Top Ten Property Taxpayers

June 30, 2001

(in thousands of dollars)

| Taxpayer | Type of Business | Assessed Valuation | Percent of Total Assessed Valuation |
|--|---------------------------------|---------------------------|--|
| Leland Stanford Jr. University | University and Ancillary | \$1,892,481 | 18.85% |
| Space Systems/Loral, Inc. | Research and Development | 196,873 | 1.96% |
| Embarcadero Place Associates | Offices, Banks and Clinics | 63,240 | 0.63% |
| Sun Microsystems, Inc, | Computers and Electronics | 61,923 | 0.62% |
| Harbor Investment Partners | Offices, Banks and Clinics | 56,349 | 0.56% |
| Cowper-Hamilton Associates | Offices, Banks and Clinics | 39,165 | 0.39% |
| Embarcadero Bayshore Investors Et Al | Offices, Banks and Clinics | 30,050 | 0.30% |
| Hyatt Equities, L.L.C. | Offices, Banks and Clinics | 24,000 | 0.24% |
| Seabiscuit L.L.C. Et Al | Offices, Banks and Clinics | 23,482 | 0.23% |
| Agilent Technologies | Communications and Life Science | 22,755 | 0.23% |
| Totals | | \$2,410,317 | 24.01% |
| 2000/2001 Local Secured Assessed Valuation: | | \$10,040,415 | |

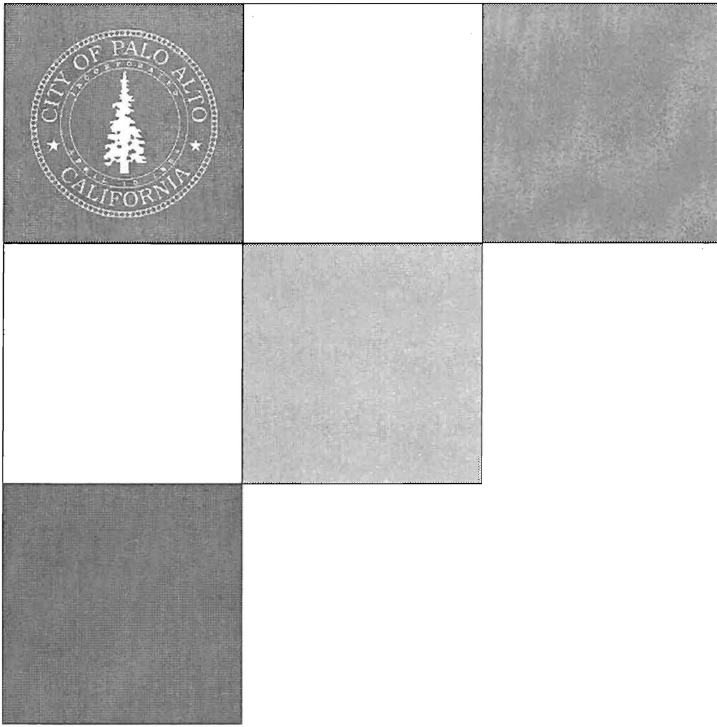
SOURCE: County of Santa Clara, Center for Urban Analysis



City of Palo Alto – Miscellaneous Statistics

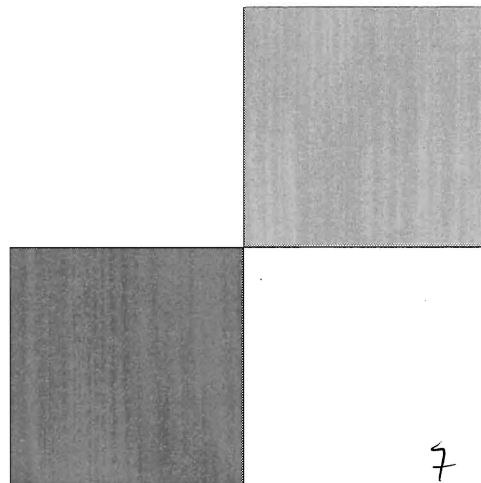
June 30, 2001

| | | | |
|----------------------------------|--------------------|-----------------------------------|--------------------------|
| YEAR CITY DISCOVERED | 1769 | NUMBER OF HOUSING UNITS | 26,048 |
| 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 | 60,835 | Millions of CCF Sold | 5.9 |
| LAND AREA | 25.98 Square Miles | Accounts | 19,335 |
| CITY MAINTAINED TREES | 38,094 | Miles of Water Mains | 222 |
| POLICE PROTECTION | | WASTEWATER | |
| Number of Stations | 1 | Millions of Gallons Processed | 9,243 |
| Number of Full-time Positions | 176 | Accounts | 21,752 |
| Number of Police Patrol Vehicles | 33 | Miles of Sanitary Sewer Lines | 218 |
| FIRE PROTECTION | | ELECTRIC | |
| Number of Stations | 8 | Millions of kWh Sold | 1,057 |
| Number of Full-time Positions | 130 | Accounts | 28,097 |
| Number of Fire Apparatus | 24 | Pole Miles of Overhead Lines | 227 |
| Number of Fire Hydrants | 1,729 | Trench Miles of Underground Lines | 220 |
| COMMUNITY SERVICES | | GAS | |
| Acres - Downtown Parks | 170 | Millions of Therms Sold | 36.7 |
| Acres - Open Space | 3,731 | Accounts | 23,101 |
| Parks | 33 | Miles of Gas Mains | 201 |
| Golf Course | 1 | | |
| Tennis Courts | 52 | | |
| Athletic Center | 1 | | |
| Community Centers | 4 | | |
| Theatres | 3 | | |
| Cultural Centre | 1 | | |
| Junior Museum - Zoo | 1 | | |
| Swimming Pools | 1 | | |
| Nature Centers | 2 | | |
| Libraries | 6 | | |



Single Audit

Fiscal Year Ended June 30, 2001



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Single Audit Section

Introduction

This section provides an overview of grant awards received from the federal government. The Single Audit Act Amendments of 1996 require local governments to report and audit federal funds separately from their general purpose financial statements.

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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, 2001 and have issued our unqualified report thereon dated October 25, 2001. 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 25, 2001.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Identification of Major Programs

The Department of Housing and Urban Development Community Development Block Grant (CFDA #14.218) and HOME Investment Partnership Program (CFDA #14.239) were major programs.

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.

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)

SUMMARY OF PRIOR YEAR FINDINGS

There were no findings in the prior year.

Mage + Associates

October 25, 2001

City of Palo Alto – Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2001

| 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-99-MC-06-0020 | 14.218 | \$122,307 |
| Subgrants: | | | |
| Mid Peninsula Citizens for Fair Housing | | | 18,550 |
| Emergency Housing Consortium | | | 8,240 |
| Catholic Charities- OMBUDSMAN | | | 8,240 |
| Clara Mateo Alliance Shelter | | | 25,000 |
| Clara Mateo Alliance Family Shelter | | | 10,000 |
| CTA Voice Mail | | | 12,000 |
| Community Working Group | | | 25,000 |
| Shelter Network Haven Housing | | | 15,000 |
| ACHIEVE-Fence | | | 29,839 |
| Palo Alto Housing Corporation: | | | |
| Information & Referral | | | 22,500 |
| Barker Counseling | | | 17,745 |
| Loans Receivable | | | <u>2,819,293</u> |
| | | 14.218 | <u>3,133,714</u> |
| HOME Investment Partnership Program Grant | | | |
| Loan receivable | | 14.239 | <u>1,000,000</u> |
| U.S. Department of Transportation | | | |
| Highway Planning and Construction Grant (Passed through California Department of Transportation) | | | |
| Intermodal Surface Transportation Efficiency Act | STPLN-5100 (2) | 20.205 | <u>3,197</u> |
| TOTAL FEDERAL FINANCIAL AWARDS | | | <u><u>\$4,136,911</u></u> |

See Notes to Schedule of Expenditures of Federal Awards



Notes To The Schedule Of Expenditures Of Federal Awards

October 13, 2001

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 and HOME Investment Partnership loan programs 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 programs 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, 2001, and have issued our report thereon dated October 25, 2001. 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 25, 2001.

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 25, 2001

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, 2001. 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, 2001.

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, 2001, and have issued our report thereon dated October 25, 2001. 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 25, 2001

