

# 2013-2014 Comprehensive Annual Financial Report

City of Palo Alto, California

FISCAL YEAR ENDED  
June 30, 2014



CITY OF  
**PALO  
ALTO**



City of Palo Alto, California



CITY OF  
**PALO  
ALTO**

**2013-2014  
Comprehensive Annual  
Financial Report**

Fiscal Year Ended  
June 30, 2014

Prepared by:  
Administrative Services Department

**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2014**

**Table of Contents**

	<i>Page</i>
<b>INTRODUCTORY SECTION:</b>	
Transmittal Letter .....	i
City Officials .....	vi
Organizational Structure .....	vii
Administrative Services Organization .....	viii
GFOA Certificate of Achievement for Excellence in Financial Reporting .....	ix
 <b>FINANCIAL SECTION:</b>	
<b>Independent Auditor’s Report</b> .....	<b>1</b>
 <b>Management’s Discussion and Analysis</b> (Required Supplementary Information – Unaudited).....	 <b>5</b>
 <b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	29
Statement of Activities .....	31
 <b>Governmental Fund Financial Statements:</b>	
Balance Sheet .....	33
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position - Governmental Activities .....	 34
Statement of Revenues, Expenditures and Changes in Fund Balances .....	35
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities .....	 36
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	 37
 <b>Proprietary Fund Financial Statements:</b>	
Statement of Net Position .....	38
Statement of Revenues, Expenses and Changes in Fund Net Position .....	40
Statement of Cash Flows .....	42
 <b>Fiduciary Fund Financial Statement:</b>	
Statement of Fiduciary Net Position .....	44
 <b>Index to the Notes to the Basic Financial Statements</b> .....	 <b>45</b>
 <b>Notes to the Basic Financial Statements</b> .....	 <b>47</b>

**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2014**

**Table of Contents (Continued)**

	<i>Page</i>
<b>Supplementary Information:</b>	
Non-Major Governmental Funds:	
Combining Balance Sheet.....	101
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	102
Non-Major Special Revenue Funds:	
Combining Balance Sheet.....	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	106
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual .....	108
Non-Major Debt Service Funds:	
Combining Balance Sheet.....	114
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	115
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual .....	116
Non-Major Permanent Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual .....	118
Internal Service Funds:	
Combining Statement of Fund Net Position.....	120
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	121
Combining Statement of Cash Flows.....	122
Fiduciary Funds:	
Statement of Changes in Assets and Liabilities – All Agency Funds.....	124
 <b>STATISTICAL SECTION:</b>	
<b>Financial Trends:</b>	
Net Position by Component.....	127
Changes in Net Position .....	128
Fund Balances of Governmental Funds .....	130
Changes in Fund Balances of Governmental Funds.....	132

**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2014**

**Table of Contents (Continued)**

	<i>Page</i>
<b>Revenue Capacity:</b>	
Electric Operating Revenue by Source.....	133
Supplemental Disclosure for Water Utilities .....	134
Assessed Value of Taxable Property .....	135
Property Tax Rates, All Overlapping Governments .....	136
Property Tax Levies and Collections .....	137
Principal Property Taxpayers .....	138
Assessed Valuation and Parcels by Land Use .....	139
Per Parcel Assessed Valuation of Single Family Residential .....	140
<b>Debt Capacity:</b>	
Ratio of Outstanding Debt by Type.....	141
Computation of Direct and Overlapping Debt .....	142
Computation of Legal Bonded Debt Margin.....	143
Revenue Bond Coverage .....	144
<b>Demographic and Economic Information:</b>	
Taxable Transactions by Type of Business .....	145
Demographic and Economic Statistics.....	146
Principal Employers.....	147
<b>Operating Information:</b>	
Operating Indicators by Function/Program.....	148
Capital Asset Statistics by Function/Program .....	150
Full-Time Equivalent City Government Employees by Function.....	152
<b>SINGLE AUDIT SECTION:</b>	
Index to the Single Audit Report.....	153
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	155
Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 .....	157
Schedule of Expenditures of Federal Awards .....	159
Notes to the Schedule of Expenditures of Federal Awards .....	160
Schedule of Findings and Questioned Costs .....	161
Schedule of Prior Years Findings and Questioned Costs .....	162



City of Palo Alto
Office of the City Manager

Transmittal Letter.....

November 17, 2014

THE HONORABLE CITY COUNCIL

Palo Alto, California

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

Members of the Council and Citizens of Palo Alto:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this CAFR comply with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB) and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Palo Alto's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants. The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). Macias Gini & O'Connell issued an unmodified opinion for the fiscal year ended June 30, 2014. Their report is presented as the first component of the financial section of this report.

In addition, Macias Gini & O'Connell conducted the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, government's internal controls and compliance with legal requirements. These reports are included in the Single Audit section of the CAFR.

An overview of the City's financial activities for the fiscal year is discussed in detail in the Management's Discussion and Analysis (MD&A) section of the CAFR. MD&A complements this transmittal letter and should be read in conjunction with it.

**CITY OF PALO ALTO PROFILE**

Palo Alto was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, Palo Alto is a largely built-out community of approximately 67,000 residents. Palo Alto delivers a full range of municipal services and public utilities under the council-manager form of government and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles and has dedicated almost one-third of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City provides a diverse array of human services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved state and national recognition for the excellence of its programs.

**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. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to the Council.

**Finance Committee:** While retaining the authority to approve all actions, the City Council has established a subcommittee to consider and make recommendations on matters referred to it by the Council relating to finance, budget, audits, capital planning and debt. Staff provides the Finance Committee and Council with reports such as the CAFR, quarterly budget-versus-actual results, and investment and performance measure reports, which are utilized in their review of the City’s financial position.

**FISCAL/ECONOMIC CONDITIONS AND OUTLOOK**

**Employment Trends:** The City of Palo Alto is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied and relatively stable employers such as Stanford University, Stanford Medical Center, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, Palantir and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. At the end of Fiscal Year (FY) 2014, the City’s unemployment rate had dropped to 2.8 percent from 3.6 percent the prior year, as compared to Santa Clara County’s unemployment rate of 5.4 percent, and the state’s unemployment rate of 7.4 percent.

**Real Estate Market:** In its most recent annual report, the Santa Clara County Assessor’s Office noted that Santa Clara County’s 2014/2015 assessment roll increased 6.8 percent, from \$335 billion to \$357 billion - “the third highest roll growth in County history.” The assessment roll growth was balanced throughout the County, with the highest growth rate in Milpitas at 9.7 percent and the lowest in Monte Sereno at 5.3 percent. Palo Alto’s assessment roll growth rate was 6.5 percent. Property sales and new construction were the primary factors contributing to the robust growth. With its highly regarded school district, well-educated and high-income population, cultural amenities, and

the presence of Stanford University, the City’s real estate values have typically been shielded from major price swings.

**Local Trends:** The solid recovery from the Great Recession is anticipated to continue, as the majority of national, state, regional and local economic indicators point toward continuously improving economic growth. In the past two years, we have witnessed a continuing gradual increase in economically sensitive revenue sources such as sales and documentary transfer taxes. The robust local economy and job growth are also driving increases in other revenues, particularly transient occupancy tax and permit and license revenues.

Overall, funding sources are expected to be sufficient to cover projected FY 2015 expenses, as forecasted in the City’s Adopted Budget. The City Council adopted a General Fund budget with expenses of \$171.1 million for FY 2015, an increase of 7.1 percent from the prior year Adopted Budget. Citywide, full-time equivalent (FTE) benefited positions are increasing by 14.45 positions, or 1.4 percent, however the total budgeted position count for FY 2015 is still well below the number of FTEs employed a decade ago. Pension and health care costs continue to rise. Employer pension rates will increase substantially beginning in FY 2016 as a result of changes in the actuarial method for calculating pension rates that were adopted by the CalPERS Board of Administration. The most recent CalPERS valuations show unfunded liabilities for pension and retiree health benefits in the range of \$439 million, a significant increase from the prior valuation as a result of CalPERS changing amortization and smoothing policies to use market value of assets instead of actuarial value. The City has proactively taken steps over the past several years to mitigate increased costs by negotiating increased employee contributions to the CalPERS retirement plan. Also, implementation of a second tier retirement plan in 2011 and adoption of the state-mandated third tier pension benefit plan in 2013 will help mitigate future pension cost increases. Similarly, the City is negotiating provisions such as capping the City’s health care contributions as an additional measure to decrease the rate of health care cost growth.

Economic growth has increased the demand for housing, parking, and other City services. These issues were reflected in the setting of City Council priorities for 2014:

- Comprehensive Planning and action on land use and transportation: the Built Environment, Transportation, Mobility, Parking, and Livability
- Infrastructure Strategy and Funding
- Technology and the Connected City

In keeping with these priorities, City Council has approved funding for enhanced shuttle services and establishment of a Transportation Management Authority. A newly formed Office of Sustainability will oversee various sustainability initiatives, and the Public Art Program has been expanded to facilitate oversight of the public art component of construction projects and manage the City’s portable art collection. Major initiatives on the horizon include assuming management and control of the Palo Alto Airport in August 2014 and a significant reconfiguration of the Palo Alto Municipal Golf Course which will enhance playing conditions, improve wetland areas and achieve flood control.

The City’s infrastructure needs have been quantified as a result of a major effort by the Infrastructure Blue Ribbon Commission (IBRC), and the recently formed Council Infrastructure Committee. The Committee has proposed a five year plan to spend \$126 million on infrastructure, which includes projects such as a new Public Safety Building, a Bike and Pedestrian plan, and a downtown parking garage. These projects will be funded partially by debt to be repaid with a proposed increase in the



transient occupancy tax (TOT) rate and the TOT from newly opened hotels, and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The City has taken steps to fund its infrastructure needs by increasing General Fund transfers by \$2.2 million annually since 2013 for “keep up” costs. In addition, as a result of sound fiscal management and reserve policies, General Fund surpluses of \$7.6 million in FY 2012, \$8.9 million in FY 2013, and \$4.0 million in FY 2014 were transferred to the Infrastructure Reserve.

The City’s Enterprise Funds implemented minimal rate changes in FY 2014. There were no changes in electric, gas, wastewater and refuse rates. Water rates increased by 7 percent effective July 1, 2013. The Fiber Optics and Storm Drainage Funds both implemented a 2.2 percent rate increase effective July 1, 2013 for inflation based on the Consumer Price Index.

**Long Range Financial Forecast:** The City of Palo Alto produces a 10 year General Fund Long Range Financial Forecast (LRFF) annually. This comprehensive report analyzes local, state, and federal economic conditions, short and long-term revenue and expense trends, and addresses challenges such as funding retiree medical benefits and infrastructure needs. The forecast is designed to highlight finance issues which the City can address proactively. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time. Delivered to Council in December or January, this forecast sets the tone and themes for the annual budget process that begins in January. The forecast is one of the many tools and reports the City uses for financial planning.

The City Council is conscientious and proactive in its financial planning. While the LRFF projects General Fund surplus positions over the next ten years, the Council remains fiscally prudent in approving new ongoing costs that will increase the City’s budget. Further, the City maintains a General Fund Budget Stabilization Reserve (BSR) level of 15 to 20 percent of the General Fund operating budget, with a targeted goal of 18.5 percent. City Council approval is required to set this reserve balance lower than 15 percent. For FY 2014, after transferring \$4.0 million to the Infrastructure Reserve, the remaining BSR balance is \$35.1 million, or 20.5 percent. \$1.7 million was set aside to balance the FY 2015 Operating Budget due to one-time costs for expanded shuttle service, establishing a Transportation Management Authority and the Our Palo Alto program, and providing an additional loan to the Airport Fund. The remaining BSR balance of \$33.4 million is within reserve guidelines at 19.5 percent. Both Moody’s and Standard and Poor’s (S&P) awarded their highest credit rating of Triple A to the City’s general obligation debt. This rating has been awarded to only a few cities in California.

**SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**

The City of Palo Alto is a community dedicated to meeting the social, cultural, recreational, educational, commercial and retail needs of its citizens and businesses. As such, open space, education, recreational facilities, cultural events and safe streets and neighborhoods are important aspects of the community, and the City has been recognized for its accomplishments with a variety of awards and recognitions over the past year:

- Named as #5 on the Top 100 Best Places to Live and #8 on the Top 10 Best Cities for Kids by Livability.com, a website that ranks quality of life amenities of America’s small and mid-sized cities;
- Awarded the Beacon Award for efforts and leadership in addressing climate change and achieving greenhouse gas reductions and energy savings;



- Named as a 2014 Top Innovator by the Urban Libraries Council for the Library’s makeX: Teen Mobile Makerspace, a teen-designed “third space” for middle and high school aged teens;
- Named as the 2014 Most Electric Vehicle Ready Community;
- Awarded the 2014 Best Solar Collaboration Award for streamlining the solar approval process;
- Awarded the MetLife Foundation Community-Police Partnership Award for crafting an extraordinary partnership with Downtown Streets Team, Business and Professional Association, Parking Committee and the Police Department to improve community safety;
- Named as the #1 digital city in America in its population size for its adoption of innovative technologies such as Open Data, PaloAlto311, Nextdoor and Police ride-a-longs via Twitter, all of which advance and facilitate interaction between City staff, the community, businesses and visitors; and
- Awarded the 2013 Dr. Teng-chung Wu Pollution Prevention Award to the City’s Regional Water Quality Control Plant for being a leader in emerging pollutants research, education and programming.

**Awards:** During the past year, the City received an award for the prior fiscal year CAFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2014 CAFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

**Acknowledgments:** This CAFR reflects the hard work, 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 wishes to acknowledge the support of Laura Kuryk, Accounting Manager, and the Senior Accountants, Staff Accountants, Payroll Analysts 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 Macias Gini & O’Connell, the City’s independent external auditors, who assisted and contributed to the preparation of this Comprehensive Annual Financial Report.

Special acknowledgment must be given to the City Council and Finance Committee for their dedication to directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,

LALO PEREZ,  
Chief Financial Officer

JAMES KEENE,  
City Manager

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

**City Council**  
Nancy Shepherd, **Mayor**  
Liz Kniss, **Vice-Mayor**  
Marc Berman  
Patrick Burt  
Karen Holman  
Larry Klein  
Gail A. Price  
Gregory Scharff  
Greg Schmid

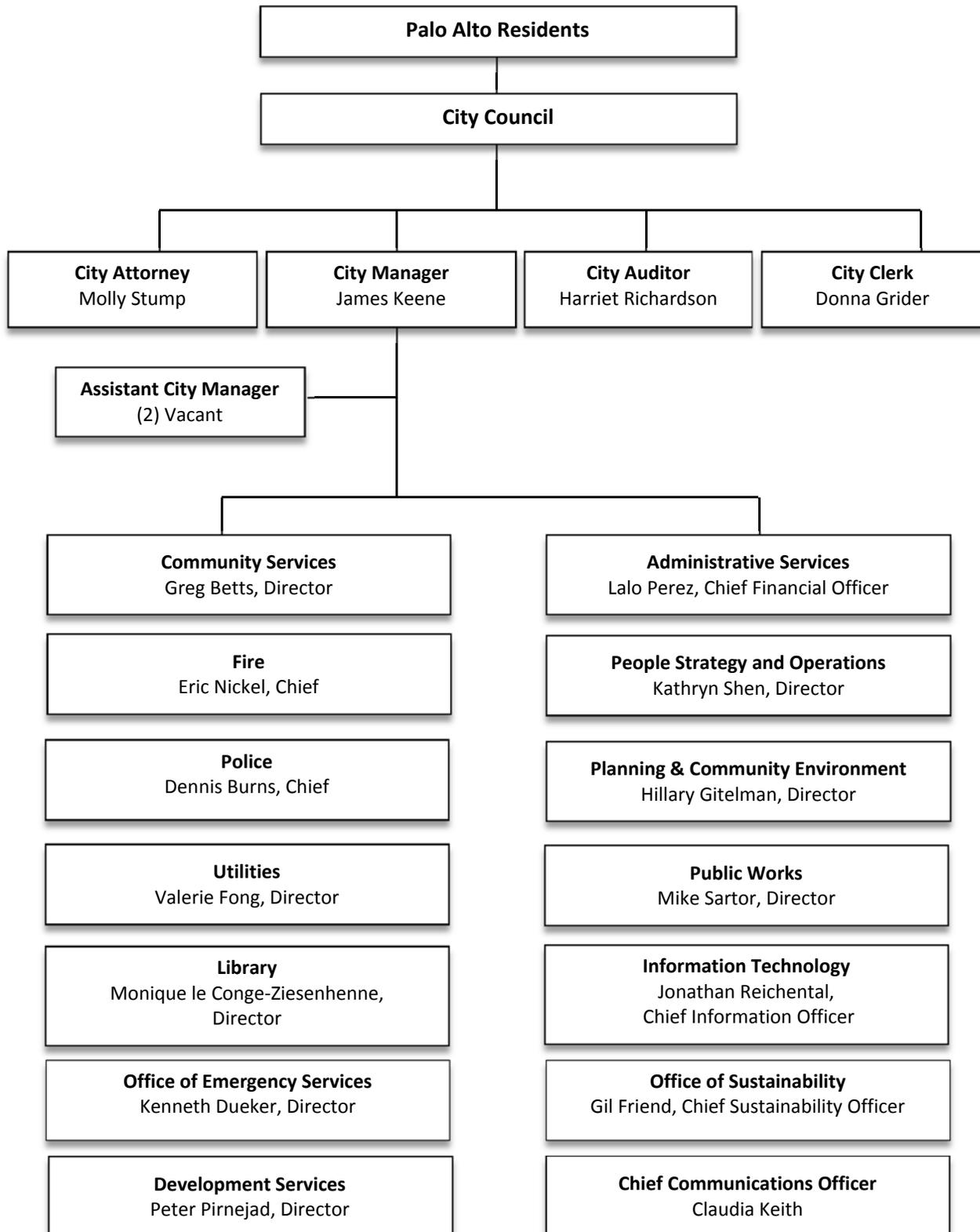
**Finance Committee**  
Marc Berman, **Chair**  
Patrick Burt  
Karen Holman  
Liz Kniss

**Policy and Services Committee**  
Gail A. Price, **Chair**  
Larry Klein  
Gregory Scharff  
Greg Schmid

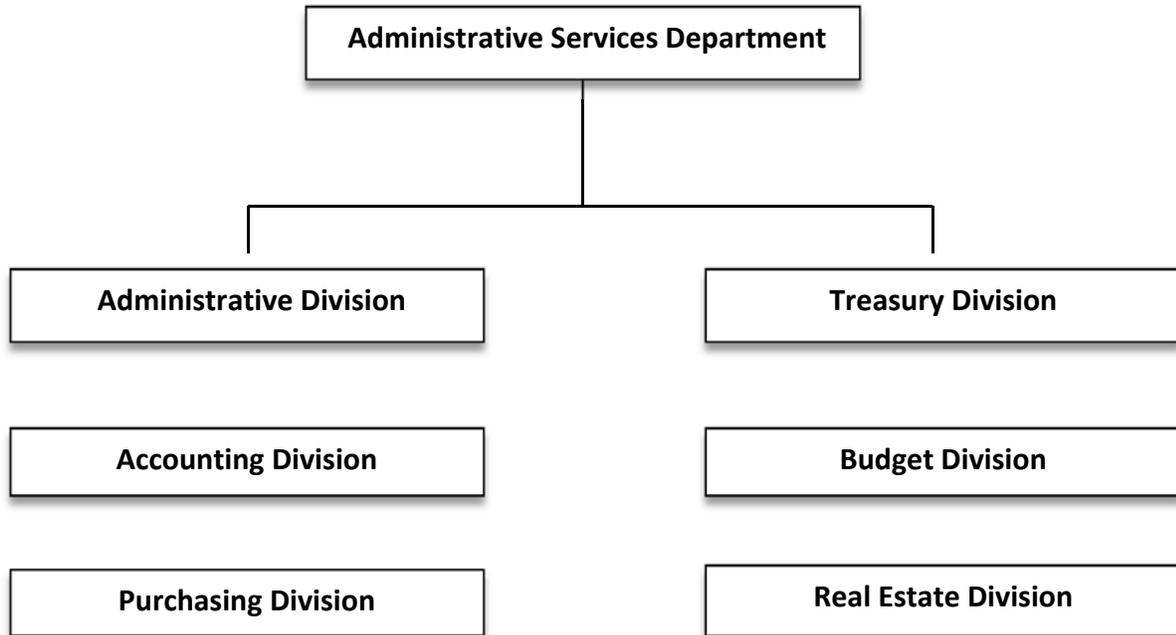
**Council-Appointed Officers**  
**City Manager**  
James Keene  
**City Attorney**  
Molly Stump  
**City Clerk**  
Donna Grider  
**City Auditor**  
Harriet Richardson



# 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.*



***Government Finance Officers Association of  
the United States and Canada – Award .....***



Government Finance Officers Association

**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, 2013**

Executive Director/CEO

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### *Change in Accounting Principles*

As discussed in Note 1(m) to the basic financial statements, effective July 1, 2013, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, statistical section and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 17, 2014

This page is left intentionally blank.



# Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's financial performance for the fiscal year ended June 30, 2014. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

## Financial Highlights

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities at the close of Fiscal Year (FY) 2014 by \$1,387.1 million. Of this amount, \$454.2 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of FY 2014, the City's governmental funds reported combined fund balances of \$214.0 million, an increase of \$3.1 million from prior year. Approximately 17.1 percent of this amount, or \$36.7 million, is unassigned fund balance and available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$42.1 million, or 27.5 percent of total general fund expenditures, including transfers.
- The City's total outstanding long-term debt decreased by \$5.5 million during the current fiscal year due primarily to scheduled debt retirement.
- As of July 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. FY 2013 balances were restated to reflect the impact, as detailed in Note 1(m).

## OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal Letter and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to these statements
- Supplemental Information
- Statistical Information
- Single Audit

## Basic Financial Statements

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements and the Notes to these financial statements. This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.



For certain entities and funds, the City acts solely as a depository agent. For example, the City has several Assessment Districts for which it produces fiduciary statements detailing the cash balances and activities of these districts. These entities are independent, and their balances are excluded from the City's government-wide financial statements.

**Government-wide Financial Statements**

The Government-wide Financial Statements provide a longer-term view of the City's activities as a whole. They include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes the City's capital assets and long-term liabilities on a full accrual basis of accounting similar to that used by private sector companies. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities provides information about the City's revenues and expenses on a full accrual basis, with an emphasis on measuring net revenues or expenses for each of the City's programs. The Statement of Activities explains in detail the change in net position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type Activities in order to provide a summary of each type of activity.

**Governmental Activities** - All of the City's basic services are considered to be governmental activities. Included in basic services are the City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, People Strategy and Operations, Public Works, Planning and Community Environment, Public Safety, Community Services, and Library. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees and grants.

The City's governmental activities also include the activities of the Palo Alto Public Improvement Corporation, which is a separate legal entity financially accountable to the City.

**Business-type Activities** - All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges, except for the Airport which is currently supported by a long-term advance from the General Fund, as discussed in Note 4.

The Government-wide Financial Statements can be found on pages 29-31 of this report.



**Fund Financial Statements**

The Fund Financial Statements provide detailed information about each of the City's most significant funds called major funds. The concept of major funds and the determination of which are major funds, was established by Governmental Accounting Standards Board (GASB) Statement No. 34 and replaced the concept of combining like funds and presenting them in total. Therefore, each major fund is presented individually, with all non-major funds combined in a single column on each fund statement. Subordinate schedules display these non-major funds in more detail. Major funds present the major activities of the City for the year. The General Fund is always considered a major fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Their focus is primarily on the short-term activities of the City's General Fund and other major funds such as Capital Projects, Water Services, Electric Services, Fiber Optics, Gas Services, Wastewater Collection Services, Wastewater Treatment Services, Refuse Services, Storm Drainage Services and Airport.

Budget and actual financial comparison information is presented only for the General Fund.

Fund Financial Statements include Governmental, Enterprise, Internal Service and Agency Funds.

**Governmental Funds**

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2014, the City had two major governmental funds, the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental section of this report.

Because the focus of governmental funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Governmental Fund Financial Statements can be found on pages 33-37 of this report.

**Proprietary Funds**

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, similar to that used by private sector companies. These statements include all of their assets, deferred outflows of resources and liabilities, both current and long-term.

Since the City's Internal Service Funds provide goods and services exclusively to the City's governmental and business-type activities, their activities are only reported in total at the fund level. Internal Service Funds, such as Technology and General Benefits, cannot be considered major funds because their revenues are derived from other City funds. Revenues between funds are eliminated in the Government-wide Financial Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual net assets of the Internal Service Funds.



The Proprietary Fund Financial Statements can be found on pages 38-43 of this report.

***Fiduciary Funds***

The City is the fiduciary agent for certain assessment districts such as the University Avenue Area Off-Street Parking Assessment District. In this role, the City holds money collected from property owners and awaiting transfer to the districts' bond trustees. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position and the supplemental Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot utilize these assets to finance its own operations.

The Fiduciary Fund Financial Statements can be found on page 44 of this report.

***Notes to the Financial Statements***

The Notes provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 47-99 of this report.

***Other Information***

The combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds, are presented immediately following the Notes to the financial statements. Combining statements and individual fund statements and schedules can be found on pages 101-124 of this report.

### Financial Analysis of Government-wide Financial Statements

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ending June 30, 2014. As noted earlier, the City's total assets exceed total liabilities by \$1,387.1 million at the end of the fiscal year, an improvement in net position of \$52.8 million.

**STATEMENT OF NET POSITION**  
*As of June 30, 2014*  
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2014	2013 *	2014	2013 *	2014	2013 *
Cash and investments	\$ 271.8	\$ 261.9	\$ 269.5	\$ 266.0	\$ 541.3	\$ 527.9
Other assets	55.8	58.4	34.3	42.3	90.1	100.7
Capital assets	452.6	428.9	545.5	522.2	998.1	951.1
<b>Total Assets</b>	<b>780.2</b>	<b>749.2</b>	<b>849.3</b>	<b>830.5</b>	<b>1,629.5</b>	<b>1,579.7</b>
Unamortized loss from refunding	-	-	0.4	0.5	0.4	0.5
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>
Long-term debt	80.9	82.6	76.2	80.0	157.1	162.6
Other liabilities	56.9	52.1	28.8	31.2	85.7	83.3
<b>Total Liabilities</b>	<b>137.8</b>	<b>134.7</b>	<b>105.0</b>	<b>111.2</b>	<b>242.8</b>	<b>245.9</b>
<b>Net Position</b>						
Net investment in capital assets	386.7	378.1	473.8	446.1	860.5	824.2
Restricted	68.3	71.7	4.1	4.1	72.4	75.8
Unrestricted	187.4	164.7	266.8	269.6	454.2	434.3
<b>Total Net Position</b>	<b>\$ 642.4</b>	<b>\$ 614.5</b>	<b>\$ 744.7</b>	<b>\$ 719.8</b>	<b>\$ 1,387.1</b>	<b>\$ 1,334.3</b>

\* FY 2013 balances have been restated for GASB Statement No. 65 implementation.

The largest portion of the City's net position (62.0 percent) is its investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (5.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$454.2 million, representing 32.8 percent of the City's net position, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Components of the \$52.8 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities – Net Position**

The following analysis focuses on the net position and changes in net position of the City's Governmental Activities, presented in the Government-wide Statement of Net Position and Statement of Activities.

**GOVERNMENTAL ACTIVITIES**  
**Net Position at June 30**  
 (in millions)

	<u>2014</u>	<u>2013 *</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 271.8	\$ 261.9	\$ 9.9
Other assets	55.8	58.4	(2.6)
Capital assets	<u>452.6</u>	<u>428.9</u>	<u>23.7</u>
<b>Total Assets</b>	<b><u>780.2</u></b>	<b><u>749.2</u></b>	<b><u>31.0</u></b>
Long-term debt	80.9	82.6	(1.7)
Other liabilities	<u>56.9</u>	<u>52.1</u>	<u>4.8</u>
<b>Total Liabilities</b>	<b><u>137.8</u></b>	<b><u>134.7</u></b>	<b><u>3.1</u></b>
<b>Net Position</b>			
Net investment in capital assets	386.7	378.1	8.6
Restricted	68.3	71.7	(3.4)
Unrestricted	<u>187.4</u>	<u>164.7</u>	<u>22.7</u>
<b>Total Net Position</b>	<b><u>\$ 642.4</u></b>	<b><u>\$ 614.5</u></b>	<b><u>\$ 27.9</u></b>

\* FY 2013 balances have been restated for GASB Statement No. 65 implementation.

The City's Governmental Activities total net position increased \$27.9 million to \$642.4 million as of June 30, 2014. Changes in assets and liabilities were a result of the following:

- Cash balance increased \$9.9 million primarily due to collection of the \$3.2 million Maybell loan and an increase in accounts payable of \$5.0 million for Library capital expenditures.
- Other assets decreased \$2.6 million primarily due to collection of the Maybell loan.



- Capital assets net of depreciation increased \$23.7 million due to continued construction of the Mitchell Park Library and Community Center (\$4.2 million) and the Main Library (\$11.7 million), and net additions to the City's network of roadways and sidewalks (\$2.3 million).
- Investment in capital assets increased \$8.6 million to \$386.7 million. Restricted net position decreased \$3.4 million to \$68.3 million. Unrestricted net position increased \$22.7 million to \$187.4 million. Unrestricted net position represents current net assets available to finance subsequent year operations and other expenditures approved by City Council.

**Governmental Activities – Revenues**

The table below shows that Governmental Activities revenues totaled \$166.4 million in FY 2014, a decrease of \$3.9 million from prior year revenues of \$170.3 million.



**GOVERNMENTAL ACTIVITIES**  
*Revenues for the Year Ended June 30*  
 (in millions)

<u>Revenues by Source</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
<b>Program Revenues:</b>			
Charges for services	\$ 54.0	\$ 75.8	\$ (21.8)
Operating grants and contributions	5.4	5.0	0.4
Capital grants and contributions	<u>0.9</u>	<u>0.5</u>	<u>0.4</u>
<b>Total Program Revenues</b>	<b><u>60.3</u></b>	<b><u>81.3</u></b>	<b><u>(21.0)</u></b>
<b>General Revenues:</b>			
Property tax	35.3	31.9	3.4
Sales tax	29.4	25.6	3.8
Utility user tax	11.0	10.9	0.1
Transient occupancy tax	12.3	10.8	1.5
Documentary transfer tax	7.8	6.8	1.0
Other tax	1.8	3.7	(1.9)
Investment earnings	5.9	(1.2)	7.1
Rents and miscellaneous	<u>2.6</u>	<u>0.5</u>	<u>2.1</u>
<b>Total General Revenues</b>	<b><u>106.1</u></b>	<b><u>89.0</u></b>	<b><u>17.1</u></b>
<b>Total Revenues</b>	<b><u>\$ 166.4</u></b>	<b><u>\$ 170.3</u></b>	<b><u>\$ (3.9)</u></b>





Total Program Revenues decreased \$21.0 million from the prior year due to the following:

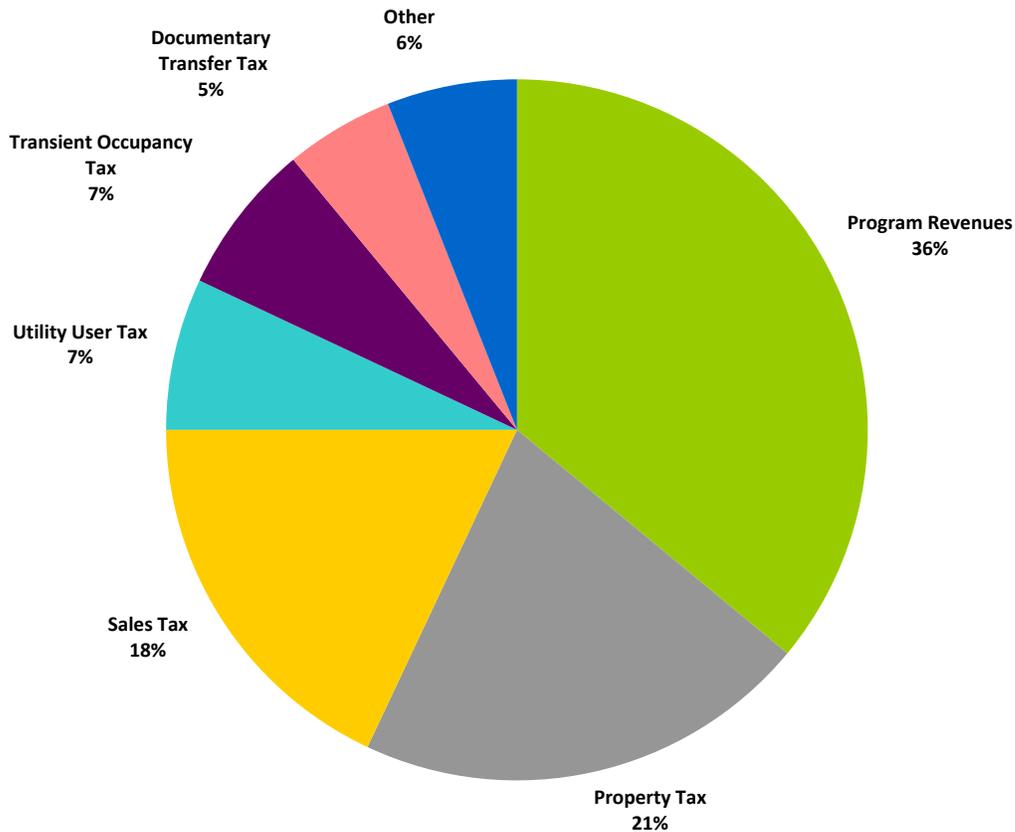
- \$8.6 million decrease in developer impact, housing in-lieu, and transportation mitigation fees, all of which vary depending on volume and magnitude of development projects.
- \$11.7 million decrease in receipts from a Development Agreement with Stanford Hospital Clinics, Lucile Salter Packard Children's Hospital at Stanford and the Board of Trustees of the Leland Stanford Junior University (SUMC Parties). This was a one-time payment received from SUMC in the prior fiscal year.

Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity.

General Revenues increased \$17.1 million, or 19.2 percent, from the prior year, \$7.1 million of which was due to an increase in fair value of the investment portfolio at June 30. Further analysis of general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.

**Governmental Activities – Revenues by Source**

The chart below presents revenues by source for Governmental Activities. General Revenues are composed of taxes and other revenues not specifically generated by, or restricted to, individual activities. All tax revenues and investment earnings are included in General Revenues.



### Governmental Activities – Expenses

The table below presents a comparison of FY 2014 and FY 2013 expenses by function, and interest and other expense. Total Governmental Activities functional expense was \$155.5 million in FY 2014, an increase of \$15.8 million, or 11.3 percent. Of this increase, \$7.3 million was a result of General Fund expenditures and the variance drivers are explained in more detail in the Fund Financial Statements section of the MD&A. The remaining \$8.5 million variance is due primarily to fixed asset related activities such as depreciation and asset retirements.

**GOVERNMENTAL ACTIVITIES**  
**Expenses and Change in Net Position for the Year Ended June 30**  
(in millions)

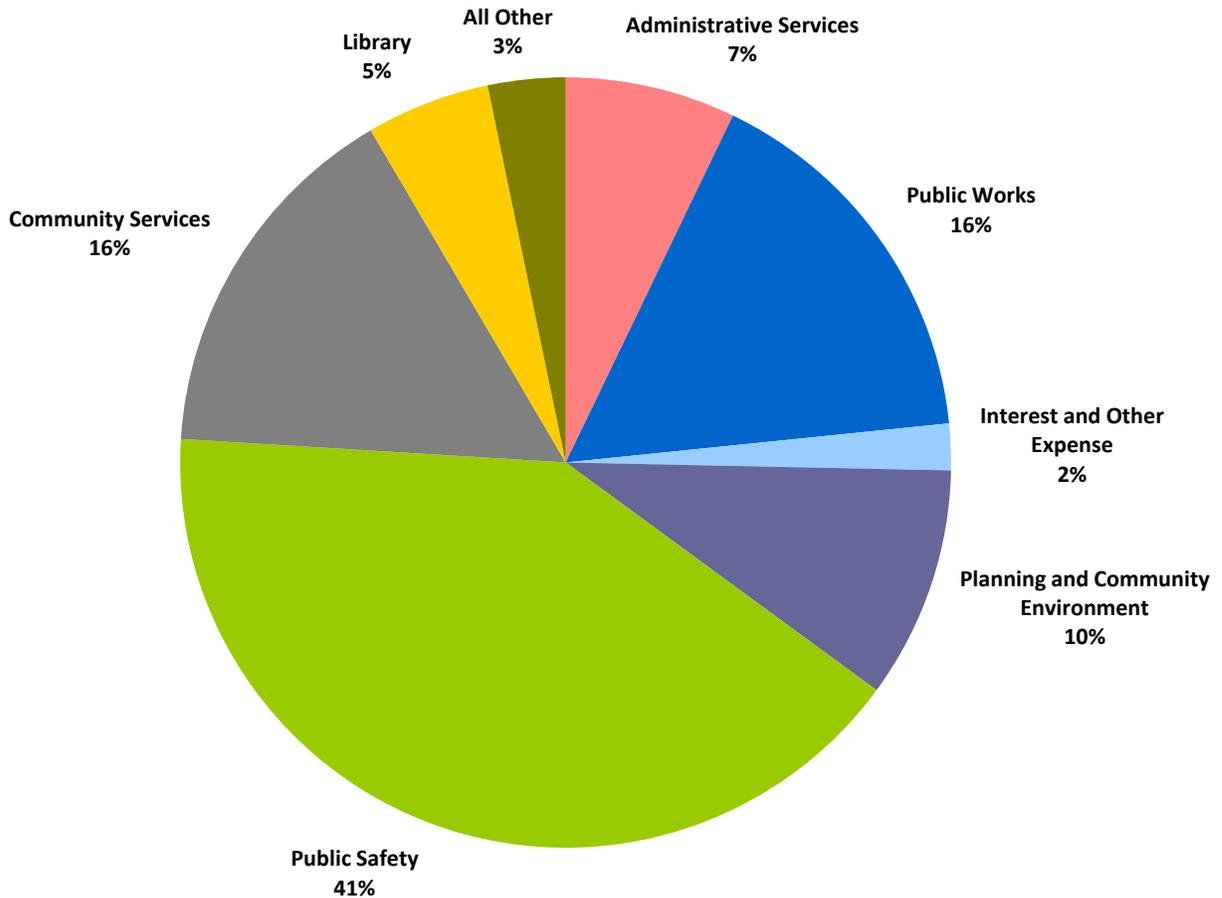
<u>Activities</u>	<u>2014</u>	<u>2013 *</u>	<u>Increase/ (Decrease)</u>
City Council	\$ 0.4	\$ 0.1	\$ 0.3
City Manager	2.2	1.2	1.0
City Attorney	1.8	1.6	0.2
City Clerk	0.6	0.3	0.3
City Auditor	0.5	0.5	0.0
Administrative Services	11.3	7.6	3.7
People Strategy and Operations	1.3	1.4	(0.1)
Public Works	24.6	20.8	3.8
Planning and Community Environment	14.9	13.6	1.3
Public Safety	62.9	59.5	3.4
Community Services	23.8	22.7	1.1
Library	7.8	7.3	0.5
Interest and Other Expense	3.4	3.1	0.3
<b>Total Functional Expense</b>	<b><u>155.5</u></b>	<b><u>139.7</u></b>	<b><u>15.8</u></b>
Increase in Net Position before Transfers	10.8	30.7	(19.9)
Transfers in	<u>17.1</u>	<u>19.3</u>	<u>(2.2)</u>
Change in Net Position	27.9	50.0	(22.1)
Net Position, Beginning, Restatement due to GASB 65	614.5	565.1	49.4
	<u>-</u>	<u>(0.6)</u>	<u>0.6</u>
<b>Net Position, Ending</b>	<b><u>\$ 642.4</u></b>	<b><u>\$ 614.5</u></b>	<b><u>\$ 27.9</u></b>

\* FY 2013 balances have been restated for GASB Statement No. 65 implementation.



### Governmental Activities – Functional Expenses

The functional expenses chart below includes only current year expenses. It does not include capital outlays, as those are added to the City's capital assets. Functions which comprise 1 percent or less of total expenses are combined into the All Other category in the chart below. All Other includes City Council, City Manager, City Attorney, City Clerk, City Auditor and People Strategy and Operations.



**Business-type Activities – Net Position**

The following analysis focuses on the net position and changes in net position of the City's Business-type Activities presented in the Government-wide Statement of Net Position and Statement of Activities.



**BUSINESS-TYPE ACTIVITIES**  
**Net Position at June 30**  
(in millions)

	<u>2014</u>	<u>2013 *</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 269.5	\$ 266.0	\$ 3.5
Other assets	34.3	42.3	(8.0)
Capital assets	<u>545.5</u>	<u>522.2</u>	<u>23.3</u>
<b>Total Assets</b>	<b><u>849.3</u></b>	<b><u>830.5</u></b>	<b><u>18.8</u></b>
Unamortized loss from refunding	<u>0.4</u>	<u>0.5</u>	<u>(0.1)</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>0.4</u></b>	<b><u>0.5</u></b>	<b><u>(0.1)</u></b>
Long-term debt	76.2	80.0	(3.8)
Other liabilities	<u>28.8</u>	<u>31.2</u>	<u>(2.4)</u>
<b>Total Liabilities</b>	<b><u>105.0</u></b>	<b><u>111.2</u></b>	<b><u>(6.2)</u></b>
<b>Net Position</b>			
Net investment in capital assets	473.8	446.1	27.7
Restricted	4.1	4.1	0.0
Unrestricted	<u>266.8</u>	<u>269.6</u>	<u>(2.8)</u>
<b>Total Net Position</b>	<b><u>\$ 744.7</u></b>	<b><u>\$ 719.8</u></b>	<b><u>\$ 24.9</u></b>

\* FY2013 balances have been restated for GASB Statement No. 65 implementation.



The City's Business-type Activities total net position increased \$24.9 million to \$744.7 million as of June 30, 2014.

Other assets decreased \$8.0 million primarily as a result of lower accounts receivable balances of \$5.7 million. The lower accounts receivable balances are due primarily to:

- \$2.6 million in Electric Fund due to \$0.9 million adjustment for a meter malfunction, with the remainder due to a timing difference in billing of routes.
- \$2.1 million in Wastewater Treatment Fund due to the Regional Water Quality Control Plant (RWQCP) discontinuing its practice of invoicing partners for encumbrances.

Capital assets increased \$23.3 million to \$545.5 million in FY 2014 as a result of Water, Electric and Gas infrastructure improvements. Additions include \$9.9 million of capital improvements in Water, \$7.7 million of capital improvements in Electric, and \$5.7 million of capital improvements in Gas.

Net investment in capital assets increased \$27.7 million to \$473.8 million.

Unrestricted net position of \$266.8 million, a decrease of \$2.8 million from the prior year, represents liquid assets available to finance day-to-day operations and other expenditures approved by the City Council. This amount includes Council-designated reserves such as the rate stabilization reserves (RSR) of \$136.3 million, the Electric special projects (Calaveras) reserve for stranded costs of \$51.8 million, and the emergency plant replacement reserve of \$7.0 million.

**Business-type Activities – Revenues**

The table below presents the revenues for each of the City's Business-type Activities or Enterprise Funds. The City operates the Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport Funds, which are major funds and are presented in the Basic Financial Statements.

**BUSINESS-TYPE ACTIVITIES**  
**Revenues for the Year Ended June 30**  
 (in millions)

<u>Revenues by Source</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
<b>Program Revenues:</b>			
Charges for services	\$ 273.0	\$ 272.8	\$ 0.2
Operating grants and contributions	0.5	0.6	(0.1)
Capital grants and contributions	<u>2.0</u>	<u>2.2</u>	<u>(0.2)</u>
<b>Total Program Revenues</b>	<u><b>275.5</b></u>	<u><b>275.6</b></u>	<u><b>(0.1)</b></u>
<b>General Revenues:</b>			
Investment earnings (loss)	<u>6.4</u>	<u>(2.8)</u>	<u>9.2</u>
<b>Total General Revenues</b>	<u><b>6.4</b></u>	<u><b>(2.8)</b></u>	<u><b>9.2</b></u>
<b>Total Revenues</b>	<u><b>\$ 281.9</b></u>	<u><b>\$ 272.8</b></u>	<u><b>\$ 9.1</b></u>

Business-type Activities revenues totaled \$281.9 million, an increase of \$9.1 million from the prior year. Program revenues were flat year over year. Investment earnings increased \$9.2 million from the prior year due to an increase in fair value of the investment portfolio at June 30.

**Business-type Activities – Expenses**

The table below presents a comparison of the FY 2014 and FY 2013 expenses for the City's Business-type Activities. Encumbrances and reappropriations are not included.



**BUSINESS-TYPE ACTIVITIES**  
**Expenses and Change in Net Position for the Year Ended June 30**  
 (in millions)

<u>Business-type Activities</u>	<u>2014</u>	<u>2013 *</u>	<u>Increase/ (Decrease)</u>
Water	\$ 31.6	\$ 30.7	\$ 0.9
Electric	113.0	106.5	6.5
Fiber Optics	1.7	1.4	0.3
Gas	26.9	26.8	0.1
Wastewater Collection	13.2	14.3	(1.1)
Wastewater Treatment	21.0	20.6	0.4
Refuse	28.4	28.6	(0.2)
Storm Drainage	3.6	3.7	(0.1)
Airport	0.5	0.2	0.3
<b>Total Functional Expense</b>	<u><b>239.9</b></u>	<u><b>232.8</b></u>	<u><b>7.1</b></u>
 Increase in Net Position before Transfers	 42.0	 40.0	 2.0
Transfers out	<u>(17.1)</u>	<u>(19.2)</u>	<u>2.1</u>
 Change in Net Position	 24.9	 20.8	 4.1
 Net Position, Beginning	 719.8	 699.8	 20.0
Restatement due to GASB 65	<u>-</u>	<u>(0.8)</u>	<u>0.8</u>
 <b>Net Position, Ending</b>	 <u><b>\$ 744.7</b></u>	 <u><b>\$ 719.8</b></u>	 <u><b>\$ 24.9</b></u>

\* FY 2013 balances have been restated for GASB Statement No. 65 implementation.



Business-type Activities expenses increased \$7.1 million for a total of \$239.9 million. Year over year expenses were significantly affected by the following events:

- Electric Fund expenses increased \$6.5 million primarily due to increased energy purchase costs.
- Wastewater Collection expenses decreased \$1.1 million due to the RWQCP discontinuing its practice of invoicing partners for encumbrances.



## FUND FINANCIAL STATEMENTS

### Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### Governmental Funds

The focus of the City's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance not yet limited to use for a particular purpose by either an external party, the City itself, or an entity that has been delegated authority by the City Council to assign resources for use.

As of June 30, 2014, the City's Governmental Funds reported combined fund balances of \$214.0 million, an increase of \$3.1 million from the prior year. Approximately 17.1 percent, or \$36.7 million, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$21.1 million); 2) restricted for particular purposes (\$68.5 million); 3) committed for particular purposes (\$27.1 million); or 4) assigned for particular purposes (\$60.6 million).

Governmental Fund revenues decreased \$6.1 million, or 3.6 percent, from prior year to \$164.7 million. Revenues in the General Fund increased \$9.1 million and Capital Projects Fund revenue increased \$1.4 million. Other Governmental Funds revenue decreased by \$16.5 million primarily due to \$11.7 million less in receipts from SUMC Parties Development Agreement, and a decrease in developer impact and other fees.

Governmental Fund expenditures were \$179.1 million, an increase of \$18.9 million from the prior year. General Fund expenditures increased \$7.3 million, Capital Projects Fund expenditures increased by \$7.0 million, and Non-major Fund expenditures increased by \$4.6 million. Details of significant changes are discussed in the following sections.

#### General Fund Balance Sheet

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$48.3 million, compared to \$42.1 million in the prior year. The fund balance has been classified as \$6.2 million non-spendable, \$5.4 million assigned, and \$36.7 million unassigned. Of the unassigned amount, \$35.1 million is designated by the Council for budget stabilization. \$1.7 million will be used to fund one-time expenses in the FY 2015 Operating Budget. The remaining balance of \$33.4 million represents 19.5 percent of FY 2015 expenditures and operating transfers which is within the reserve guidelines set by City Council. Excess funds totaling \$4.0 million were transferred to the Infrastructure Reserve in the Capital Projects Fund, as allowed by the General Fund Reserve Policy.





*Statement of Revenues, Expenditures and Changes in Fund Balance*

**Revenues**

The City's General Fund revenues totaled \$141.7 million in FY 2014. This represents an increase of \$9.1 million, or 6.9 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

**GENERAL FUND**  
**Revenues for the Year Ended June 30**  
 (in millions)

<u>Revenues by Source</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 30.6	\$ 28.7	\$ 1.9
Sales tax	29.4	25.6	3.8
Utility user tax	11.0	10.9	0.1
Transient occupancy tax	12.2	10.8	1.4
Documentary transfer tax	7.8	6.8	1.0
Charges for services	24.0	26.7	(2.7)
Permits and licenses	7.0	7.6	(0.6)
Rental income	14.2	12.9	1.3
All other	5.5	2.6	2.9
<b>Total Revenues</b>	<b><u>\$ 141.7</u></b>	<b><u>\$ 132.6</u></b>	<b><u>\$ 9.1</u></b>

Property tax revenue increased by \$1.9 million, or 6.6 percent, over FY 2013 for a total of \$30.6 million. The City's property assessment roll growth of 6.5 percent was supplemented by better than expected receipts from secured property taxes.

Sales tax revenue increased by \$3.8 million, or 14.8 percent, over FY 2013 levels for a total of \$29.4 million. The increase was driven by strong retail activity in auto, electronic equipment, apparel store, restaurant, and service station sales.

Transient occupancy tax continued to increase, and ended the year \$1.4 million, or 13.0 percent, higher than prior year due to strong business activity and increasing occupancy and room rates.

Documentary transfer tax increased \$1.0 million to \$7.8 million primarily due to a small number of high dollar commercial property transactions.

Charges for services totaled \$24.0 million in FY 2014, a decrease of \$2.7 million from the prior year. The decrease was primarily due to reduced golf course revenues of \$0.8 million resulting from the course reconfiguration project, reduced other fees of \$0.6 million due to a one-time adjustment to deposit accounts in the prior year, and reduced net cable franchise fees of \$0.7 million due to prior year under accrual of expense.

Rental income increased from prior year by \$1.3 million due to increased revenue from Enterprise and Internal Service Funds for renting space at City facilities.

All other revenue increased from prior year by \$2.9 million to \$5.5 million. The increase is due to an increase in fair value of the investment portfolio at June 30.

**Expenditures**

General Fund expenditures totaled \$134.5 million for FY 2014 compared to \$127.2 in the prior year. This amount excludes encumbrances and reappropriations. The year over year change for major functions is noted in the following table:

**GENERAL FUND**  
**Expenditures for the Year Ended June 30**  
**(in millions)**

<u>Expenditures by Function</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Administrative Services	\$ 3.0	\$ 3.1	\$ (0.1)
Public Works	11.5	11.5	-
Planning and Community Environment	13.2	11.8	1.4
Public Safety	61.7	59.5	2.2
Community Services	22.5	21.5	1.0
Library	7.3	6.9	0.4
Non-Departmental	8.0	7.4	0.6
All other	<u>7.3</u>	<u>5.5</u>	<u>1.8</u>
<b>Total Expenditures</b>	<b><u>\$ 134.5</u></b>	<b><u>\$ 127.2</u></b>	<b><u>\$ 7.3</u></b>

The increase from prior year of \$7.3 million, or 5.7 percent, is comprised mainly of the following items:

- Police salary expenditure has increased \$0.7 million primarily due to fewer vacancies in the current year.
- Police disability expenditure has increased \$0.6 million due to several significant long-term cases.
- Fire overtime expense has increased \$0.7 million due to coverage for vacancies and long-term injuries, and support for succession planning and career development.
- All other category has increased \$1.8 million due to reduced cost plan revenue from other funds, and increased Library expenditures for books of \$0.4 million.
- Planning and Community Environment expenditures have increased as a result of contract services that were necessary due to increased development activity and the complexity of development projects.

Transfers out for FY 2014 were \$18.8 million compared to \$25.1 million in the prior year. Of the \$6.3 million decrease, \$4.9 million was a decrease in the amount of year-end surplus funds transferred from the General Fund to the Infrastructure Reserve in the Capital Projects Fund.

*General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual*

*Original budget compared to final budget*

Revenues were originally budgeted at \$143.0 million and were revised upward by \$11.7 million. Of this increase, \$5.6 million was to adjust for encumbrances. Revenue categories that were adjusted are shown in the table below.

**GENERAL FUND**  
**Budgeted Revenues for the Year Ended June 30**  
(in millions)

<u>Budgeted Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>
Sales tax	\$ 23.8	\$ 27.3	\$ 3.5
Transient occupancy tax	11.5	12.3	0.8
Documentary transfer tax	5.7	7.4	1.7
Charges for services	24.3	22.7	(1.6)
Rental income	12.9	14.0	1.1
All other	<u>54.3</u>	<u>54.9</u>	<u>0.6</u>
	132.5	138.6	6.1
Charges to other funds	10.5	10.5	-
Prior year encumbrances and appropriations		<u>5.6</u>	<u>5.6</u>
<b>Total Budgeted Revenues</b>	<b><u>\$ 143.0</u></b>	<b><u>\$ 154.7</u></b>	<b><u>\$ 11.7</u></b>

Adjustments to the original budget were based on the following:

- Sales tax was increased by \$3.5 million primarily due to unexpected receipts from a single vendor in the first two quarters of the year.
- Transient occupancy tax was increased by \$0.8 million due to higher occupancy rates, increased average daily room rates, and increased business and visitor activity.
- Documentary transfer tax was increased by \$1.7 million based on increased real estate transactions and higher transaction values.
- Charges for services revenue was decreased by \$1.6 million primarily due to reduced Stanford Fire Services revenue of \$0.8 million, reduced Development Services revenue of \$0.4 million to provide for unearned revenue at June 30, and reduced Golf Course revenue of \$0.2 million due to the course reconfiguration project.
- Rental income was increased by \$1.1 million due to additional rent from various Enterprise and Internal Service Funds for space used at City facilities.

Actual revenues of \$141.4 million were \$2.8 million higher than final budgeted revenues of \$138.6 million due primarily to sales tax revenue which was \$2.1 million higher due to stronger than anticipated retail sales.

Expenditures were originally budgeted at \$145.6 million and were revised upward by \$8.0 million for a final budgeted amount of \$153.6 million, as shown in the table below.

**GENERAL FUND**  
**Budgeted Expenditures for the Year Ended June 30**  
(in millions)

<u>Budgeted Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	<u>Actuals, plus Encumbrances</u>
City Attorney	\$ 2.5	\$ 3.1	\$ 0.6	\$ 3.1
City Manager	2.5	3.1	0.6	3.1
Community Services	22.7	23.9	1.2	23.4
Public Safety	61.0	63.6	2.6	63.4
Planning and Community Environment	13.6	15.1	1.5	14.6
Public Works	13.8	14.4	0.6	14.1
All other	29.5	30.4	0.9	30.1
<b>Total Budgeted Expenditures</b>	<b><u>\$ 145.6</u></b>	<b><u>\$ 153.6</u></b>	<b><u>\$ 8.0</u></b>	<b>151.8</b>
Less: Charges to Other Funds				(10.9)
Less: Encumbrances				(6.4)
<b>Net General Fund Expenditures</b>				<b><u>\$ 134.5</u></b>

Adjustments of \$8.0 million to the original budget were primarily due to the following:

- \$5.6 million for carry-forward of encumbrances from prior year.
- \$0.5 million adjustment for Measure D Ballot Measure in November 2014.
- \$0.2 million for Community Services park maintenance.

The final budgeted expenditure amount of \$153.6 million compares to the actual expenditures plus encumbrances of \$151.8 million, a difference of \$1.8 million. The lower than budgeted expenditures were primarily due to non-salary budget savings across General Fund departments.

Transfers out were originally budgeted at \$14.1 million, with the final budget number at \$19.1 million, an increase of \$5.0 million. The increase was due to an additional \$4.0 million transfer to the Infrastructure Reserve and \$1.0 million transfer of collected Technology Enhancement Fees to the Information Technology Fund. The actual transfers out for the year were \$18.8 million, a difference of \$0.3 million from final budget.



**Capital Projects Fund**

Capital Projects Fund expenditures and other uses were \$37.4 million in FY 2014, an increase of \$6.8 million from the prior year driven by construction and renovation of Mitchell Park Library and Community Center and Main Library. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

**Non-major Funds**

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

**Financial Analysis of Enterprise Funds**

At June 30, 2014, the City's Enterprise Funds reported total net position of \$742.4 million, an increase of \$24.4 million or 3.4 percent over the prior year. The increase was primarily from the Water, Fiber Optics, Gas and Wastewater Collection Funds for \$11.0 million, \$3.1 million, \$3.3 million and \$3.5 million, respectively. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled \$264.4 million, a 1.1 percent decrease from FY 2013.

Following is a table which compares the year over year change in net position for each of the Enterprise Funds:



**ENTERPRISE FUNDS**  
**Change in Net Position for the Year Ended June 30**  
 (in millions)

<u>Fund Name</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Water	\$ 11.0	\$ 6.8	\$ 4.2
Electric	1.7	1.9	(0.2)
Fiber Optics	3.1	2.8	0.3
Gas	3.3	1.3	2.0
Wastewater Collection	3.5	2.5	1.0
Wastewater Treatment	(1.9)	0.8	(2.7)
Refuse	2.2	2.3	(0.1)
Storm Drainage	2.7	2.3	0.4
Airport	(0.5)	(0.2)	(0.3)
<b>Total Change in Net Position</b>	<u><u>\$ 25.1</u></u>	<u><u>\$ 20.5</u></u>	<u><u>\$ 4.6</u></u>



The most significant factors in the year over year change in net position for Enterprise Funds are as follows:

- Water change in net position for the year was \$11.0 million, an increase of \$4.2 million from the prior year. The increase is primarily due to a \$2.5 million increase in operating revenues resulting from a 7 percent rate increase effective July 2013 and a \$1.2 million increase in investment earnings. The ending RSR balance is \$20.1 million, an increase of \$2.9 million from prior year.



- Gas ended the year with change in net position of \$3.3 million, compared to \$1.3 million in the prior year, an increase of \$2.0 million. The increase is due to a \$0.8 million decrease in operating expenses for the cross-bore project and increased investment earnings of \$1.1 million. The ending RSR balance is \$16.0 million, an increase of \$4.7 million from prior year.
- Wastewater Collection ended the year with change in net position of \$3.5 million compared to \$2.5 million in the prior year. The increased change in net position is primarily due to decreased operating costs resulting from the RWQCP discontinuing its practice of invoicing partners for encumbrances. The ending RSR balance is \$7.3 million, an increase of \$3.2 million from prior year.
- Wastewater Treatment ended the year with a change in net position of negative \$1.9 million, compared to \$0.8 million change in net position in FY 2013. The decrease of \$2.7 million is due to the RWQCP discontinuing its practice of invoicing partners for encumbrances.

**CAPITAL ASSETS**

GASB 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-type Activities. Further detail can be found in Note 6 to the financial statements.

<b>CAPITAL ASSETS AT JUNE 30</b>			
(in millions)			
	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 79.0	\$ 79.0	\$ -
Street trees	15.2	15.4	(0.2)
Construction in progress	89.9	69.2	20.7
Buildings and improvements	134.6	133.7	0.9
Intangible assets	3.8	3.8	-
Equipment	11.9	10.9	1.0
Roadway network	291.3	282.3	9.0
Recreation and open space network	27.6	24.9	2.7
Less accumulated depreciation	(215.1)	(203.8)	(11.3)
<b>Internal Service Fund Assets</b>			
Construction in progress	3.1	1.4	1.7
Equipment	51.1	50.9	0.2
Less accumulated depreciation	(39.8)	(38.8)	(1.0)
<b>Total Governmental Activities</b>	<u><u>\$ 452.6</u></u>	<u><u>\$ 428.9</u></u>	<u><u>\$ 23.7</u></u>
<b>Business-type Activities</b>			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	122.2	118.2	4.0
Buildings and improvements	34.1	33.3	0.8
Transmission, distribution and treatment systems	675.8	642.1	33.7
Less accumulated depreciation	(291.6)	(276.4)	(15.2)
<b>Total Business-type Activities</b>	<u><u>\$ 545.5</u></u>	<u><u>\$ 522.2</u></u>	<u><u>\$ 23.3</u></u>

Governmental Activities' capital assets net of depreciation increased by \$23.7 million from the prior year. The increase was primarily due to construction of Mitchell Park Library and Community Center, improvements to the Main Library such as upgrades of structural, electrical and mechanical systems, and street and sidewalk improvements throughout the City.



In early 2010, the Palo Alto City Council established an Infrastructure Blue Ribbon Commission (IBRC) to review the City's General Fund infrastructure needs and to recommend funding mechanisms. The Commission issued a report in December 2011 in which they identified "keep up" needs and capital expenditure "new and replacement" needs. Subsequently, a Council Infrastructure Committee was formed, and they proposed a five year spending plan of \$126.0 million for infrastructure projects. In June 2014 City Council approved the Committee's project list and their funding plan which consists of projected increases in transient occupancy tax revenues from opening of new hotels, a two percent increase in the tax, and other sources such as the SUMC Development Agreement and the Infrastructure Reserve portion of the Capital Projects Fund. The City is funding "keep up" costs from the General Fund at the rate of \$2.2 million per year and, as a result of sound fiscal management and reserve policies, General Fund surpluses totaling \$20.5 million over the past three years were transferred to the Infrastructure Reserve.

Major Governmental Activities' capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Mitchell Park Library and Community Center - \$5.6 million
- Main Library - \$6.8 million
- California Avenue Transit Hub Corridor - \$0.8 million

Business-type Activities' capital assets net of depreciation increased by \$23.3 million over FY 2013. The increase is due to Water, Electric and Gas infrastructure improvements.

Major Business-type Activities' capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Seismic water system upgrade for Water Fund - \$2.4 million
- Gas main replacement project for Gas Fund - \$6.3 million
- Plant equipment replacement for Wastewater Treatment Fund - \$3.5 million
- Wastewater Collection Fund rehabilitation/augmentation project - \$1.1 million

The City depreciates its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives are in Note 6.



**DEBT ADMINISTRATION**

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. At June 30, 2014, the City's debt was comprised of the following:



**LONG-TERM DEBT AT JUNE 30**  
(in millions)

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
Certificates of Participation			
2002B Downtown Parking Improvements	\$ 1.5	\$ 1.6	\$ (0.1)
General Obligation Bonds			
2010	52.5	53.5	(1.0)
2013A	20.7	20.7	0.0
2011 Lease Purchase Agreement	2.0	2.4	(0.4)
Add: unamortized premium	4.2	4.4	(0.2)
<b>Total Governmental</b>	<u><b>\$ 80.9</b></u>	<u><b>\$ 82.6</b></u>	<u><b>\$ (1.7)</b></u>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1995 Series A	\$ 3.3	\$ 3.8	(0.5)
1999 Refunding	11.0	11.6	(0.6)
2009 Series A	31.6	32.5	(0.9)
2011 Refunding	14.3	15.2	(0.9)
Add: unamortized premium	0.9	1.0	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.8	0.9	(0.1)
Less: unamortized discount	(0.1)	(0.1)	-
State Water Resources Loan			
2007	6.8	7.2	(0.4)
2009	7.6	7.9	(0.3)
<b>Total Business-type</b>	<u><b>\$ 76.2</b></u>	<u><b>\$ 80.0</b></u>	<u><b>\$ (3.8)</b></u>



Long-term debt decreased \$5.5 million, \$5.1 million of which was due to debt retirements in accordance with repayment schedules. The remaining \$0.4 million was due to reclassification of unamortized loss on refunding of debt to deferred outflow of resources.

As noted in the Statistical Section of the CAFR, the combined direct debt ratio to assessed valuation for the General Fund is 0.32 percent compared to the allowable legal debt margin of 15 percent.



### ***SPECIAL ASSESSMENT DISTRICT DEBT***

Special assessment districts throughout different parts of the City have also issued debt to finance infrastructure and facilities construction exclusively in their districts. As of June 30, 2014, the City had no special assessment district debt with City commitment outstanding.

### ***ECONOMIC OUTLOOK***

The economy of the City is discussed in the accompanying Transmittal Letter.

### ***CONTACTING THE CITY'S FINANCIAL MANAGEMENT***

The CAFR is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Administrative Services Department, at 250 Hamilton Avenue, 4<sup>th</sup> Floor, Palo Alto, California. The Department can also be contacted by email at: [adminsvcs@cityofpaloalto.org](mailto:adminsvcs@cityofpaloalto.org). This report and other financial reports can be viewed on the City of Palo Alto website at: [www.cityofpaloalto.org](http://www.cityofpaloalto.org). On the home page, select Departments, select Administrative Services, and select Financial Reporting. Within Financial Reporting, there are links to reports by title and reporting date.

**CITY OF PALO ALTO**  
**Statement of Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 252,280	\$ 259,286	\$ 511,566
Receivables, net:			
Accounts and intergovernmental	9,985	26,640	36,625
Interest receivable	1,355	1,352	2,707
Notes and loans receivable (Note 5)	18,520	-	18,520
Internal balances (Note 4)	(1,429)	1,429	-
Net OPEB asset (Note 12)	22,610	-	22,610
Due from other government agencies	-	4,500	4,500
Inventory of materials and supplies, prepaids and deposits	4,741	488	5,229
Restricted cash and investments with fiscal agents (Note 3)	19,606	4,166	23,772
Restricted cash for post-closure landfill (Note 3)	-	5,907	5,907
Capital assets (Note 6):			
Nondepreciable	190,691	127,152	317,843
Depreciable, net of accumulated depreciation	261,912	418,343	680,255
Total assets	<u>780,271</u>	<u>849,263</u>	<u>1,629,534</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	<u>-</u>	<u>412</u>	<u>412</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	14,456	15,540	29,996
Accrued salaries and benefits	3,154	1,465	4,619
Unearned revenue	2,384	352	2,736
Accrued compensated absences (Note 1):			
Due in one year	3,912	-	3,912
Due in more than one year	6,286	-	6,286
Claims payable (Note 14):			
Due in one year	5,665	-	5,665
Due in more than one year	21,088	-	21,088
Accrued landfill closure liability and post-closure care (Note 9):			
Due in more than one year	-	11,363	11,363
Long-term debt (Note 7):			
Due in one year	2,106	3,909	6,015
Due in more than one year	78,807	72,291	151,098
Total liabilities	<u>137,858</u>	<u>104,920</u>	<u>242,778</u>
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	386,696	473,795	860,491
Restricted for:			
Special revenue programs	59,946	-	59,946
Debt service	6,940	4,166	11,106
Nonexpendable - Eyerly Family	1,445	-	1,445
Total restricted net position	<u>68,331</u>	<u>4,166</u>	<u>72,497</u>
Unrestricted	<u>187,386</u>	<u>266,794</u>	<u>454,180</u>
Total net position	<u>\$ 642,413</u>	<u>\$ 744,755</u>	<u>\$ 1,387,168</u>

See accompanying notes to the basic financial statements.

This page is left intentionally blank.

**CITY OF PALO ALTO**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
City Council	\$ 387	\$ -	\$ -	\$ -	\$ (387)	\$ -	\$ (387)
City Manager	2,180	-	-	-	(2,180)	-	(2,180)
City Attorney	1,797	-	-	-	(1,797)	-	(1,797)
City Clerk	641	-	-	-	(641)	-	(641)
City Auditor	489	-	-	-	(489)	-	(489)
Administrative Services	11,388	4,055	-	917	(6,416)	-	(6,416)
People Strategy and Operations	1,346	-	-	-	(1,346)	-	(1,346)
Public Works	24,577	1,093	3,628	-	(19,856)	-	(19,856)
Planning and Community Environment	14,926	12,896	1,289	-	(741)	-	(741)
Public Safety	62,883	14,902	366	-	(47,615)	-	(47,615)
Community Services	23,822	20,882	-	-	(2,940)	-	(2,940)
Library	7,758	166	77	-	(7,515)	-	(7,515)
Interest on long-term debt	3,367	-	-	-	(3,367)	-	(3,367)
<b>Total Governmental Activities</b>	<b>155,561</b>	<b>53,994</b>	<b>5,360</b>	<b>917</b>	<b>(95,290)</b>	<b>-</b>	<b>(95,290)</b>
<b>Business-Type Activities:</b>							
Water	31,593	40,291	549	995	-	10,242	10,242
Electric	113,004	121,916	-	-	-	8,912	8,912
Fiber Optics	1,661	4,485	-	-	-	2,824	2,824
Gas	26,869	35,737	-	-	-	8,868	8,868
Wastewater Collection	13,235	15,599	-	1,010	-	3,374	3,374
Wastewater Treatment	21,018	18,460	-	-	-	(2,558)	(2,558)
Refuse	28,413	30,297	-	-	-	1,884	1,884
Storm Drainage	3,644	6,183	-	-	-	2,539	2,539
Airport	466	-	-	-	-	(466)	(466)
<b>Total Business-Type Activities</b>	<b>239,903</b>	<b>272,968</b>	<b>549</b>	<b>2,005</b>	<b>-</b>	<b>35,619</b>	<b>35,619</b>
<b>Total</b>	<b>\$ 395,464</b>	<b>\$ 326,962</b>	<b>\$ 5,909</b>	<b>\$ 2,922</b>	<b>(95,290)</b>	<b>35,619</b>	<b>(59,671)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property tax					35,299	-	35,299
Sales tax					29,424	-	29,424
Utility user tax					11,008	-	11,008
Transient occupancy tax					12,255	-	12,255
Documentary transfer tax					7,811	-	7,811
Other taxes					1,849	-	1,849
Investment earnings					5,859	6,379	12,238
Miscellaneous					2,575	-	2,575
Transfers (Note 4)					17,103	(17,103)	-
<b>Total general revenues and transfers</b>					<b>123,183</b>	<b>(10,724)</b>	<b>112,459</b>
<b>Change in net position</b>					<b>27,893</b>	<b>24,895</b>	<b>52,788</b>
<b>Net position, beginning of year, as previously reported</b>					<b>615,574</b>	<b>720,583</b>	<b>1,336,157</b>
<b>Restatement (Note 1(m))</b>					<b>(1,054)</b>	<b>(723)</b>	<b>(1,777)</b>
<b>Net position, beginning of year, as restated</b>					<b>614,520</b>	<b>719,860</b>	<b>1,334,380</b>
<b>Net position, end of year</b>					<b>\$ 642,413</b>	<b>\$ 744,755</b>	<b>\$ 1,387,168</b>

See accompanying notes to the basic financial statements.

This page is left intentionally blank.

**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations (Note 3)	\$ 42,013	\$ 57,841	\$ 77,434	\$ 177,288
Receivables, net:				
Accounts and intergovernmental	8,761	177	412	9,350
Interest receivable	642	8	341	991
Notes and loans receivable (Note 5)	900	-	17,620	18,520
Prepaid items	352	-	-	352
Advance to other fund (Note 4)	935	-	-	935
Inventory of materials and supplies	4,001	-	-	4,001
Restricted cash and investments with fiscal agents (Note 3)	-	19,368	238	19,606
<b>Total assets</b>	<b>\$ 57,604</b>	<b>\$ 77,394</b>	<b>\$ 96,045</b>	<b>\$ 231,043</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 4,094	\$ 7,459	\$ 122	\$ 11,675
Accrued salaries and benefits	2,852	112	17	2,981
Unearned revenue	2,348	36	-	2,384
<b>Total liabilities</b>	<b>9,294</b>	<b>7,607</b>	<b>139</b>	<b>17,040</b>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Notes and loans receivable	900	-	13,424	14,324
Prepaid items	352	-	-	352
Inventories	4,001	-	-	4,001
Advance to other fund	935	-	-	935
Eyerly family	-	-	1,445	1,445
<b>Restricted for:</b>				
Transportation mitigation	-	-	10,616	10,616
Federal revenue	-	-	4,457	4,457
Street improvement	-	-	758	758
Local law enforcement	-	-	113	113
Library bond project	-	15,006	-	15,006
Public benefit	-	-	30,578	30,578
Debt service	-	-	6,940	6,940
<b>Committed for:</b>				
Developer impact fees	-	-	11,085	11,085
Housing in-lieu	-	-	14,491	14,491
Special districts	-	-	1,457	1,457
Downtown business	-	-	112	112
<b>Assigned for:</b>				
Unrealized gains on investments	672	-	430	1,102
Infrastructure	-	3,383	-	3,383
Capital projects	-	51,398	-	51,398
Other general government purposes	4,760	-	-	4,760
<b>Unassigned for:</b>				
Budget Stabilization	35,083	-	-	35,083
Reappropriations	1,607	-	-	1,607
<b>Total fund balances</b>	<b>48,310</b>	<b>69,787</b>	<b>95,906</b>	<b>214,003</b>
<b>Total liabilities and fund balances</b>	<b>\$ 57,604</b>	<b>\$ 77,394</b>	<b>\$ 96,045</b>	<b>\$ 231,043</b>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2014**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 214,003
<p>Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:</p>	
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)	452,603
Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets reported above)	58,134
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:	
Interest payable	(1,414)
Long-term debt (Note 7)	(80,913)
	(82,327)
Net position of governmental activities	\$ 642,413

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
<b>REVENUES:</b>				
Property tax	\$ 30,587	\$ -	\$ 4,712	\$ 35,299
Special assessments	-	-	94	94
Sales tax	29,424	-	-	29,424
Utility user tax	11,008	-	-	11,008
Transient occupancy tax	12,255	-	-	12,255
Documentary transfer tax	7,811	-	-	7,811
Other taxes and fines	2,136	-	2,095	4,231
Charges for services	23,962	-	-	23,962
From other agencies	768	4,324	608	5,700
Permits and licenses	6,950	-	2,040	8,990
Investment earnings	1,327	1,059	1,839	4,225
Rental income	14,215	-	5	14,220
Other revenue	1,240	741	5,490	7,471
<b>Total revenues</b>	<b>141,683</b>	<b>6,124</b>	<b>16,883</b>	<b>164,690</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
City Council	382	-	-	382
City Manager	2,125	-	-	2,125
City Attorney	1,793	-	-	1,793
City Clerk	635	-	-	635
City Auditor	487	-	-	487
Administrative Services	3,033	-	177	3,210
People Strategy and Operations	1,329	-	-	1,329
Public Works	11,548	-	891	12,439
Planning and Community Environment	13,209	-	1,552	14,761
Public Safety	61,742	-	286	62,028
Community Services	22,511	-	133	22,644
Library	7,340	-	-	7,340
Non-Departmental	7,984	-	151	8,135
Capital outlay	-	37,035	-	37,035
<b>Debt service:</b>				
Principal	374	-	1,150	1,524
Interest and fiscal charges	55	82	3,059	3,196
<b>Total expenditures</b>	<b>134,547</b>	<b>37,117</b>	<b>7,399</b>	<b>179,063</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,136</b>	<b>(30,993)</b>	<b>9,484</b>	<b>(14,373)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (Note 4)	17,912	23,086	685	41,683
Transfers out (Note 4)	(18,815)	(260)	(5,100)	(24,175)
<b>Total other financing sources (uses)</b>	<b>(903)</b>	<b>22,826</b>	<b>(4,415)</b>	<b>17,508</b>
<b>Change in fund balances</b>	<b>6,233</b>	<b>(8,167)</b>	<b>5,069</b>	<b>3,135</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>42,077</b>	<b>77,954</b>	<b>90,837</b>	<b>210,868</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 48,310</b>	<b>\$ 69,787</b>	<b>\$ 95,906</b>	<b>\$ 214,003</b>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities - Governmental Activities**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ 3,135

Amounts reported for governmental activities in the statement of activities are different from those reported in the governmental funds because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. Therefore, the activities associated with capital assets are as follows:

Capital outlay added back to fund balance for current year additions	37,589
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$2,544 (Note 6), which has already been allocated through the internal service fund activities below	(11,229)
Disposal of capital assets	(3,502)

Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt and amortization of bond issuance costs and premiums do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with long-term debt are as follows:

Principal paid during the year	1,524
Change in interest payable	(329)
Amortization of bond premium	158

Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net revenue of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

	<u>547</u>
Change in net position of governmental activities	<u>\$ 27,893</u>

**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	<u>Budgeted Amounts</u>		Actual, plus Encumbrances	Variance with Final Budget Positive
	<u>Original</u>	<u>Final</u>		(Negative)
<b>REVENUES:</b>				
Sales tax	\$ 23,846	\$ 27,352	\$ 29,424	\$ 2,072
Property tax	29,613	30,251	30,587	336
Transient occupancy tax	11,545	12,318	12,255	(63)
Documentary transfer tax	5,699	7,395	7,811	416
Utility user tax	11,013	11,386	11,008	(378)
Other taxes, fines and penalties	2,107	2,107	2,136	29
Charges for services	24,379	22,741	23,962	1,221
Permits and licenses	8,346	7,952	6,950	(1,002)
Investment earnings	769	769	1,042	273
Rental income	12,891	14,004	14,215	211
From other agencies	252	345	768	423
Other revenues	2,010	2,000	1,240	(760)
	<u>132,470</u>	<u>138,620</u>	<u>141,398</u>	<u>2,778</u>
Charges to other funds	10,574	10,574	10,947	373
Prior year encumbrances and reappropriations	-	5,571	5,584	13
	<u>143,044</u>	<u>154,765</u>	<u>157,929</u>	<u>3,164</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
City Attorney	2,453	3,137	3,111	26
City Auditor	1,088	1,058	1,027	31
City Clerk	1,258	1,282	1,122	160
City Council	497	709	580	129
City Manager	2,499	3,092	3,078	14
Administrative Services	7,280	7,363	7,244	119
Community Services	22,700	23,888	23,402	486
Public Safety	60,962	63,628	63,403	225
People Strategy and Operations	3,265	3,761	3,622	139
Library	7,793	8,254	8,072	182
Planning and Community Environment	13,608	15,150	14,637	513
Public Works	13,751	14,380	14,138	242
Non-Departmental	8,496	7,907	8,413	(506)
	<u>145,650</u>	<u>153,609</u>	<u>151,849</u>	<u>1,760</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,606)</u>	<u>1,156</u>	<u>6,080</u>	<u>4,924</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	17,529	17,910	17,912	2
Transfers out	(14,069)	(19,139)	(18,815)	324
	<u>3,460</u>	<u>(1,229)</u>	<u>(903)</u>	<u>326</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS</b>	<u>\$ 854</u>	<u>\$ (73)</u>	<u>5,177</u>	<u>\$ 5,250</u>
<b>Adjustment to Budgetary Basis:</b>				
Unrealized gain/loss on investments			285	
Current year encumbrances/reappropriations			6,355	
Prior year encumbrances/reappropriations			(5,584)	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>			<u>6,233</u>	
<b>FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS</b>			<u>42,077</u>	
<b>FUND BALANCE AT END OF YEAR, GAAP BASIS</b>			<u>\$ 48,310</u>	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2014**  
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>ASSETS:</b>				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 35,770	\$ 133,501	\$ 19,616	\$ 28,113
Accounts receivable, net	5,012	11,225	443	2,386
Interest receivable	180	677	91	158
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents (Note 3)	3,331	-	-	835
Restricted cash for landfill closure (Note 3)	-	-	-	-
Total current assets	<u>44,293</u>	<u>145,403</u>	<u>20,150</u>	<u>31,492</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposit	-	113	-	-
Prepaid expense	125	-	-	-
Capital assets (Note 6):				
Nondepreciable	51,100	18,562	1,256	13,523
Depreciable, net	61,826	158,603	6,259	83,902
Net OPEB asset (Note 12)	-	-	-	-
Total noncurrent assets	<u>113,051</u>	<u>177,278</u>	<u>7,515</u>	<u>97,425</u>
Total assets	<u>157,344</u>	<u>322,681</u>	<u>27,665</u>	<u>128,917</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	155	-	-	202
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	3,911	4,575	185	2,349
Accrued salaries and benefits	204	476	32	224
Unearned revenue	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of revenue bonds (Note 7)	1,404	100	-	536
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	<u>5,519</u>	<u>5,151</u>	<u>217</u>	<u>3,109</u>
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill closure and post-closure care (Note 9)	-	-	-	-
Utility revenue bonds, net of unamortized discounts/premiums (Note 7)	37,822	657	-	7,906
Total noncurrent liabilities	<u>37,822</u>	<u>657</u>	<u>-</u>	<u>7,906</u>
Total liabilities	<u>43,341</u>	<u>5,808</u>	<u>217</u>	<u>11,015</u>
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	73,700	176,408	7,515	88,983
Restricted for debt service	3,331	-	-	835
Unrestricted (deficit)	37,127	140,465	19,933	28,286
Total net position	<u>\$ 114,158</u>	<u>\$ 316,873</u>	<u>\$ 27,448</u>	<u>\$ 118,104</u>

Some amounts reported for Business-type Activities in the statement of net position are different because certain Internal Service Fund net positions are included with Business-type Activities:  
Net position reported in Business-type Activities:

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 15,465	\$ 13,760	\$ 5,148	\$ 7,802	\$ 111	\$ 259,286	\$ 74,992
1,798	2,100	3,035	641	-	26,640	635
74	81	53	37	1	1,352	364
-	300	-	-	-	300	-
-	-	-	-	-	-	388
-	-	-	-	-	4,166	-
-	-	5,907	-	-	5,907	-
<u>17,337</u>	<u>16,241</u>	<u>14,143</u>	<u>8,480</u>	<u>112</u>	<u>297,651</u>	<u>76,379</u>
-	4,200	-	-	-	4,200	-
-	-	-	-	-	113	-
-	250	-	-	-	375	-
20,563	7,925	5,875	8,348	-	127,152	3,094
54,278	31,449	244	21,782	-	418,343	11,259
-	-	-	-	-	-	22,610
<u>74,841</u>	<u>43,824</u>	<u>6,119</u>	<u>30,130</u>	<u>-</u>	<u>550,183</u>	<u>36,963</u>
<u>92,178</u>	<u>60,065</u>	<u>20,262</u>	<u>38,610</u>	<u>112</u>	<u>847,834</u>	<u>113,342</u>
-	-	-	55	-	412	-
605	1,200	2,330	336	49	15,540	1,367
135	273	76	39	6	1,465	173
-	-	-	352	-	352	-
-	-	-	-	-	-	3,912
77	1,252	-	540	-	3,909	-
-	-	-	-	-	-	5,665
<u>817</u>	<u>2,725</u>	<u>2,406</u>	<u>1,267</u>	<u>55</u>	<u>21,266</u>	<u>11,117</u>
-	-	-	-	-	-	6,286
-	-	-	-	-	-	21,088
-	-	-	-	935	935	-
-	-	11,363	-	-	11,363	-
901	18,490	-	6,515	-	72,291	-
901	18,490	11,363	6,515	935	84,589	27,374
<u>1,718</u>	<u>21,215</u>	<u>13,769</u>	<u>7,782</u>	<u>990</u>	<u>105,855</u>	<u>38,491</u>
73,863	24,132	6,119	23,075	-	473,795	14,353
-	-	-	-	-	4,166	-
16,597	14,718	374	7,808	(878)	264,430	60,498
<u>\$ 90,460</u>	<u>\$ 38,850</u>	<u>\$ 6,493</u>	<u>\$ 30,883</u>	<u>\$ (878)</u>	<u>742,391</u>	<u>\$ 74,851</u>
					<u>2,364</u>	
					<u>\$ 744,755</u>	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales of utilities:				
Customers	\$ 36,387	\$ 106,056	\$ 3,598	\$ 33,990
City departments	2,061	3,225	749	852
Surplus energy	-	336	-	-
Service connection charges and miscellaneous	982	2,327	131	654
Charges for services	-	-	-	-
Other	861	9,972	7	241
Total operating revenues	<u>40,291</u>	<u>121,916</u>	<u>4,485</u>	<u>35,737</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail	15,705	68,089	-	14,325
Surplus energy	-	697	-	-
Administrative and general	4,044	6,172	399	4,041
Engineering (operating)	381	1,280	-	352
Resource management and energy efficiency	570	6,726	-	1,012
Operations and maintenance	4,986	9,489	909	4,119
Rent	2,192	3,860	51	429
Depreciation and amortization	1,734	7,504	303	2,282
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Compensated absences and other benefits	-	-	-	-
Total operating expenses	<u>29,612</u>	<u>103,817</u>	<u>1,662</u>	<u>26,560</u>
Operating income (loss)	10,679	18,099	2,823	9,177
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	975	3,122	433	706
Interest expense	(1,915)	(8,924)	-	(282)
Loss on disposal of capital assets	(66)	(271)	-	(27)
Other nonoperating revenues	549	-	-	-
Total nonoperating revenues (expenses)	<u>(457)</u>	<u>(6,073)</u>	<u>433</u>	<u>397</u>
Income (loss) before transfers and capital contributions	10,222	12,026	3,256	9,574
Capital contributions	995	-	-	-
Transfers in (Note 4)	271	1,089	-	151
Transfers out (Note 4)	(530)	(11,460)	(134)	(6,417)
Change in net position	<u>10,958</u>	<u>1,655</u>	<u>3,122</u>	<u>3,308</u>
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	103,595	315,262	24,326	114,901
RESTATEMENT (Note 1(m))	(395)	(44)	-	(105)
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED	<u>103,200</u>	<u>315,218</u>	<u>24,326</u>	<u>114,796</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 114,158</u>	<u>\$ 316,873</u>	<u>\$ 27,448</u>	<u>\$ 118,104</u>

Some amounts reported for Business-type Activities in the statement of activities are different because certain Internal Service Fund activities are included with Business-type Activities  
Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	Activities- Internal Service Funds
\$ 14,518	\$ 11,292	\$ 26,045	\$ 5,717	\$ -	\$ 237,603	\$ -
69	6,915	790	346	-	15,007	-
-	-	-	-	-	336	-
693	-	-	-	-	4,787	-
-	-	-	-	-	-	77,167
319	253	3,462	120	-	15,235	472
15,599	18,460	30,297	6,183	-	272,968	77,639
6,863	-	13,943	-	-	118,925	-
-	-	-	-	-	697	-
1,322	-	1,889	559	417	18,843	10,766
310	1,801	225	410	-	4,759	-
-	-	-	305	-	8,613	-
2,570	15,589	9,103	955	-	47,720	21,481
217	-	2,629	33	-	9,411	-
1,907	2,858	13	897	-	17,498	2,544
-	-	-	-	-	-	3,232
-	-	-	-	-	-	71
-	-	-	-	-	-	40,337
13,189	20,248	27,802	3,159	417	226,466	78,431
2,410	(1,788)	2,495	3,024	(417)	46,502	(792)
339	364	257	178	5	6,379	1,634
(54)	(573)	(617)	(436)	(49)	(12,850)	-
-	-	-	-	-	(364)	(155)
-	-	-	-	-	549	42
285	(209)	(360)	(258)	(44)	(6,286)	1,521
2,695	(1,997)	2,135	2,766	(461)	40,216	729
1,010	-	-	-	-	2,005	-
42	59	124	14	-	1,750	1,413
(241)	-	(29)	(42)	-	(18,853)	(1,818)
3,506	(1,938)	2,230	2,738	(461)	25,118	324
86,972	40,906	4,263	28,188	(417)		74,527
(18)	(118)	-	(43)	-		-
86,954	40,788	4,263	28,145	(417)		74,527
\$ 90,460	\$ 38,850	\$ 6,493	\$ 30,883	\$ (878)		\$ 74,851
					(223)	
					\$ 24,895	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 37,939	\$ 111,361	\$ 4,639	\$ 34,689
Cash refunds to customers	-	-	-	-
Cash payments to suppliers for goods and services	(25,910)	(87,661)	(1,015)	(21,911)
Cash payments to employees	(4,011)	(6,097)	(398)	(4,018)
Internal activity- receipts (payment) from (to) other funds	2,061	3,225	749	852
Other receipts	861	9,972	7	241
Net cash provided by (used in) operating activities	<u>10,940</u>	<u>30,800</u>	<u>3,982</u>	<u>9,853</u>
Cash flows from noncapital financing activities:				
Receipt of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bond	549	-	-	-
Transfers in	271	1,089	-	151
Transfers out	(530)	(11,460)	(134)	(6,417)
Cash flows provided by (used in) noncapital financing activities	<u>290</u>	<u>(10,371)</u>	<u>(134)</u>	<u>(6,266)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(8,149)	(12,175)	(507)	(8,879)
Proceeds from sale of capital assets	-	24	-	-
Capital grants and contributions	995	-	-	-
Principal paid on long-term debt	(1,360)	(100)	-	(520)
Interest paid on long-term debt	(1,905)	(8,923)	-	(282)
Cash flows used in capital and related financing activities	<u>(10,419)</u>	<u>(21,174)</u>	<u>(507)</u>	<u>(9,681)</u>
Cash flows from investing activities:				
Interest received	982	3,228	428	758
Cash flows from investing activities	<u>982</u>	<u>3,228</u>	<u>428</u>	<u>758</u>
Net change in cash and cash equivalents	1,793	2,483	3,769	(5,336)
Cash and cash equivalents, beginning of year	37,308	131,018	15,847	34,284
Cash and cash equivalents, end of year	<u>\$ 39,101</u>	<u>\$ 133,501</u>	<u>\$ 19,616</u>	<u>\$ 28,948</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 35,770	\$ 133,501	\$ 19,616	\$ 28,113
Cash and investments with fiscal agent	3,331	-	-	835
Cash and cash equivalents, end of year	<u>\$ 39,101</u>	<u>\$ 133,501</u>	<u>\$ 19,616</u>	<u>\$ 28,948</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 10,679	\$ 18,099	\$ 2,823	\$ 9,177
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,734	7,504	303	2,282
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	570	2,642	910	45
Inventory of materials and supplies	-	-	-	-
Deposit	-	(45)	-	-
Net OPEB asset	-	-	-	-
Accounts payable and accruals	(2,076)	2,525	(55)	(1,674)
Accrued salaries and benefits	33	75	1	23
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 10,940</u>	<u>\$ 30,800</u>	<u>\$ 3,982</u>	<u>\$ 9,853</u>

See accompanying notes to the basic financial statements.



Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 15,434	\$ 13,480	\$ 26,423	\$ 5,445	\$ -	\$ 249,410	\$ 77,945
-	-	-	-	-	-	(71)
(9,961)	(18,789)	(25,589)	(1,823)	-	(192,659)	(21,697)
(1,295)	-	(1,885)	(554)	(395)	(18,653)	(52,575)
69	6,915	790	346	-	15,007	(4,224)
319	253	3,630	120	-	15,403	42
4,566	1,859	3,369	3,534	(395)	68,508	(580)
-	-	-	-	325	325	-
-	-	-	-	-	549	-
42	59	124	14	-	1,750	1,413
(241)	-	(29)	(42)	-	(18,853)	(1,818)
(199)	59	95	(28)	325	(16,229)	(405)
(5,075)	(3,253)	(1,661)	(1,451)	-	(41,150)	(3,652)
-	-	-	-	-	24	150
1,010	300	-	-	-	2,305	-
(74)	(1,216)	-	(510)	-	(3,780)	-
(53)	(556)	(618)	(435)	(49)	(12,821)	-
(4,192)	(4,725)	(2,279)	(2,396)	(49)	(55,422)	(3,502)
354	381	256	180	5	6,572	1,657
354	381	256	180	5	6,572	1,657
529	(2,426)	1,441	1,290	(114)	3,429	(2,830)
14,936	16,186	9,614	6,512	225	265,930	77,822
\$ 15,465	\$ 13,760	\$ 11,055	\$ 7,802	\$ 111	\$ 269,359	\$ 74,992
\$ 15,465	\$ 13,760	\$ 5,148	\$ 7,802	\$ 111	\$ 259,286	\$ 74,992
-	-	5,907	-	-	10,073	-
\$ 15,465	\$ 13,760	\$ 11,055	\$ 7,802	\$ 111	\$ 269,359	\$ 74,992
\$ 2,410	\$ (1,788)	\$ 2,495	\$ 3,024	\$ (417)	\$ 46,502	\$ (792)
1,907	2,858	13	897	-	17,498	2,544
-	-	-	-	-	-	42
223	2,188	378	21	-	6,977	306
-	-	-	-	-	-	204
-	-	-	-	-	(45)	-
-	-	-	-	-	-	(759)
(1)	(1,440)	311	(120)	21	(2,509)	(918)
27	41	4	5	1	210	18
-	-	-	-	-	-	(233)
-	-	-	(293)	-	(293)	-
-	-	168	-	-	168	-
-	-	-	-	-	-	(992)
\$ 4,566	\$ 1,859	\$ 3,369	\$ 3,534	\$ (395)	\$ 68,508	\$ (580)

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Statement of Fiduciary Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	Agency Funds
<b>ASSETS:</b>	
Cash and investments available for operations (Note 3)	\$ 2,919
Restricted cash and investments with fiscal agents (Note 3)	2,541
Account receivable	9
Interest receivable	14
Total assets	\$ 5,483
 <b>LIABILITIES:</b>	
Due to bondholders	\$ 4,724
Due to other governments	759
Total liabilities	\$ 5,483

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

	<i>Page</i>
1. Summary of Significant Accounting Policies .....	47
2. Budgets and Budgetary Accounting .....	56
3. Cash and Investments .....	57
4. Interfund Transactions .....	61
5. Notes and Loans Receivable.....	63
6. Capital Assets .....	69
7. General Long-Term Obligations .....	73
8. Special Assessment Debt.....	80
9. Landfill Closure and Post-Closure Care .....	81
10. Net Position and Fund Balances.....	82
11. Pension Plans.....	84
12. Retiree Health Benefits .....	88
13. Deferred Compensation Plan .....	91
14. Risk Management.....	92
15. Joint Ventures.....	93
16. Commitments and Contingencies .....	96
17. Subsequent Event.....	99

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

This page is left intentionally blank.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Palo Alto (the City) 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, fiber optics, water, gas, wastewater, storm drain, refuse, golf course, planning and zoning, general administration services, library, open space and science, recreational and human services.

**(a) 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. The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although a separate legal entity, a blended component unit is, in substance, part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit described below is blended.

**The Palo Alto Public Improvement Corporation** (the Corporation) provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt that allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects that are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Board of Directors of the Corporation is composed of the same members as the City Council. 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 Downtown Parking Improvement Debt Service Fund.

Financial statements for the Corporation may be obtained from the City of Palo Alto, Administrative Services Department, 4<sup>th</sup> Floor, 250 Hamilton Avenue, Palo Alto, CA 94301.

**(b) Basis of Presentation**

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These standards require that the financial statements described below be presented:

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund goods and services transactions have not been eliminated in the consolidation process. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Basis of Presentation (Continued)**

other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) charges paid by the recipients for goods and services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including fiduciary funds and its blended component unit. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and internal service funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as utilities sales and charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

**(c) Major Funds and Other Funds**

The City's major governmental and enterprise funds need to be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund type.

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to at least 10 percent of their fund type total and at least 5 percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds on a qualitative basis.

The City reported the following major governmental funds in the accompanying financial statements:

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

**General Fund** – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Projects Fund** – This fund accounts for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

The City reported all of its enterprise funds as major funds in the accompanying financial statements. These funds are:

**Water Services Fund** – 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 the City.

**Electric Services Fund** – 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 the City.

**Fiber Optics Fund** – This fund accounts for all financial transactions relating to the City’s fiber optics service. Services are on a user-charge basis to licensees located in the City.

**Gas Services Fund** – 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 the City.

**Wastewater Collection Services Fund** – This fund accounts for all financial transactions relating to the City’s wastewater collection service. Services are on a user-charge basis to residents and business owners located in the City.

**Wastewater Treatment Services Fund** – 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 the City.

**Refuse Services Fund** – 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 the City.

**Storm Drainage Services Fund** – This fund accounts for all financial transactions relating to the City’s storm drainage service. Services are on a user-charge basis to residents and business owners located in the City.

**Airport Fund** – This fund accounts for all financial transactions relating to the Palo Alto Airport (PAO). The City assumed control over operation of PAO from the County of Santa Clara, effective August 11, 2014.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

The City also reports the following funds:

**Internal Service Funds** – These funds account for fleet replacement and maintenance, technology, central duplicating, printing and mailing services, administration of compensated absences and health benefits, and the City’s self-insured workers’ compensation and general liability programs, all of which are provided to other departments on a cost-reimbursement basis. Also included is the Retiree Health Benefits Internal Service Fund, which accounts for benefits to retirees.

*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 from reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

*Technology* – This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is from reimbursement of costs for support provided to other departments.

*Printing and Mailing Services* – This fund accounts for central duplicating, printing and mailing services provided to all City departments. The source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

*General Benefits* – This fund accounts for the administration of compensated absences and health benefits.

*Workers’ Compensation Insurance Program* – This fund accounts for the administration of the City’s self-insured workers’ compensation program.

*General Liability Insurance Program* – This fund accounts for the administration of the City’s self-insured general liability program.

*Retiree Health Benefits* – This fund accounts for retiree health benefits.

**Fiduciary Funds** – These funds account for assets held by the City, an agent for assessment districts, and members of the Cable Joint Powers Authority. These funds are custodial in nature and do not involve measurement of results of operations. The City maintains three agency funds. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements. Agency funds apply the accrual basis of accounting but do not have a measurement focus.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

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

*Cable Joint Powers Authority* – This fund accounts for the activities of the cable television system on behalf of the members.

*University Avenue Area Off-Street Parking Assessment District* – This fund accounts for the receipts and disbursements associated with the 2012 Limited Obligation Refunding Improvement Bonds.

**(d) Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers revenues susceptible to accrual reported in the governmental funds to be available if the revenues are collected within ninety days after year-end, except for property taxes, which are available if collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities. Transactions representing the exchange of interfund goods and services have also been included.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) *Cash and Cash Equivalents***

Restricted and unrestricted pooled cash and investments held in the City Treasury, and other unrestricted investments invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City's cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities of less than three months at the time of purchase are considered cash equivalents for purposes of the statement of cash flows.

**(f) *Investments***

The City's investments are carried at fair value, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year-end, and reports the effects of these adjustments in investment earnings for that fiscal year.

**(g) *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 expenditures at the time inventory items are used, rather than purchased.

**(h) *Prepaid items***

Prepaid items are recorded at cost. Using the consumption method, prepaid items are recorded as expenditures over the period that service is provided.

**(i) *Compensated Absences***

The liability for compensated absences includes the vested portion of vacation, sick leave, and overtime compensation pay. The City's liability for accrued compensated absences is recorded in the General Benefits Internal Service Fund. The fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay are 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, is specified in employment agreements.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) *Compensated Absences (Continued)***

During the fiscal year ended June 30, 2014, changes to the compensated absences were as follows (in thousands):

Beginning balance	\$ 10,431
Additions	6,484
Payments	<u>(6,717)</u>
Ending balance	<u>\$ 10,198</u>
Current portion	<u>\$ 3,912</u>

**(j) *Property Tax***

Santa Clara County (the 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.

The County assesses property values, levies bills and collects taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	January 01	January 01
Levy Dates	October 01	July 01
Due Dates	50% on November 01 50% on February 01	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

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 previously within sixty days after year-end.

**(k) *Deferred Outflows of Resources and Deferred Inflows of Resources***

A deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period. Furthermore, GASB No. 65 reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources. Refer to Note 1(m) for the impact of this statement on the City’s financial statements.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(l) Rounding**

All amounts included in the basic financial statements and footnotes are presented to the nearest thousand.

**(m) Effects of New Pronouncements**

As of July 1, 2013, the City implemented the following GASB Statements:

GASB Statement No. 65 issued March 2012, *Items Previously Reported as Assets and Liabilities* amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statements No. 4, *Elements of Financial Statements*. It also provides other financial reporting guidance related to deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. Gains or losses between the net book value of debt and funds placed in escrow to defease that debt are considered as deferred inflows or outflows of resources, respectively, and are amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

As of July 1, 2013, the City implemented this Statement and restated beginning net position by \$1.1 million and \$0.7 million to write off unamortized bond issuance costs that were previously reported as assets in governmental activities and business-type activities, respectively. Further, unamortized loss on refunding of debts of \$0.4 million was reclassified from contra liabilities to deferred outflows of resources in three major enterprise funds – Water, Gas and Storm Drainage.

GASB Statement No. 66 was issued in March 2012, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. As of July 1, 2013, the City adopted this Statement, which does not have a significant impact on the City's financial statements.

GASB issued Statement No. 70 in April 2013, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Nonexchange financial guarantees are financial guarantees from a government for obligations of another entity. Statement No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Statement No. 70 also specifies the information required to be disclosed by governments that extend nonexchange financial guarantees and also new disclosure requirements. As of July 1, 2013, the City adopted this Statement, which does not have a significant impact on the City's financial statements.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Effects of New Pronouncements (Continued)**

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 68 issued June 2012, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, establishes accounting and financial reporting requirements for pension plans that are administered through trusts. Statement No. 68 requires governments participating in single and agent multiple employer defined benefit plans to recognize a liability equal to net pension liability. Net pension liability is required to be measured as of a date no later than the end of the employer’s prior fiscal year (the measurement date), consistently applied from period to period. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of net pension liability—that is, changes in the total pension liability and in the pension plan’s fiduciary net position. It requires that most changes in net pension liability be included in pension expense in the period of change. The effects of certain other changes in the net pension liability are required to be included in pension expense over current and future periods. It also requires that notes to financial statements of single and agent employers include descriptive information, such as types of benefits provided and number and classes of employees covered by the benefit terms, sources of changes in net pension liability for the current year, significant assumptions and other inputs used in valuations and the valuation date. The Statement also requires the government to present required supplementary information for each of the ten most recent fiscal years. Requirements of this Statement are effective for the City’s fiscal year ending June 30, 2015.

During January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. It establishes accounting related to government combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. Statement No. 69 also establishes the required financial statement disclosure for government combinations and disposals of government operations. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2015.

During November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This Statement improves the accounting and financial reporting by addressing an issue in Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2015.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Use of Estimates**

The accompanying basic financial statements have been prepared on the modified accrual and accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

1. The City Manager submits proposed operating and capital budgets to the City Council 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 comments on the proposed budgets.
3. The Budget is approved with the adoption of a budget ordinance for all funds except Agency Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Additional appropriations to departments in the General Fund, or to total appropriations for all other budgeted funds, or transfers of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Adjusted Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Special Revenue and Debt Service Funds.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses are not recognized as investment earnings on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 3 – CASH AND INVESTMENTS**

The City pools cash from all sources and all funds, except restricted bond proceeds with fiscal agents, and invests its pooled idle cash according to State of California law and the City’s Investment Policy. The basic principles underlying the City’s investment philosophy are to ensure the safety of public funds, ensure that sufficient funds are available to meet current expenditures, and achieve a reasonable rate of return on investments.

**Policies**

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable 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 increase security, the City employs the trust department of a bank as the custodian of certain City managed investments.

**Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 252,280	\$ 259,286	\$ 2,919	\$ 514,485
Restricted for post-closure landfill	-	5,907	-	5,907
Held with fiscal agents	19,606	4,166	2,541	26,313
Total cash and investments	<u>\$ 271,886</u>	<u>\$ 269,359</u>	<u>\$ 5,460</u>	<u>\$ 546,705</u>

**Investments Authorized by the City’s Investment Policy and Debt Agreements**

The table below identifies the investment types that are authorized by the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk and concentration of credit risk. The table addresses investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City’s Investment Policy.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

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 of these funds have been invested as permitted under the Code and the investment policy approved by the City Council.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
				10% of the par value of
Certificates of Deposit	10 years (*)	N/A	20%	portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
				\$50 million per
Local Agency Investment Fund	N/A	N/A	No Limit	account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California				
Municipal Agencies	10 years (*)	AA/AA2	10%	No Limit

(A) Callable and multi-step securities are limited to no more than 25% of the par value of the portfolio, provided that: 1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, 3) the entire face value of the security is redeemable at the call date.

(B) The lesser of \$3 million or 10% of outstanding commercial paper of any one institution.

**Debt Agreements:**

(C) Utility Revenue Bonds 2011 Refunding and 1999 Refunding allow general obligations of states with a minimum credit quality rating of A2/A by Moody's and Standard & Poor's.

(D) Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of A-1/P-1 by Moody's and Standard & Poor's and maturing after no more than 360 days. Utility Revenue Bonds 1995 Series A limit the maximum maturity to 365 days.

(E) Water Revenue Bonds 2009 Series A, Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of AAAM or AAAM-G by Standard & Poor's.

(F) Utility Revenue Bonds 2011 Refunding and University Avenue Parking Bond 2012 are allowed to invest in the California Asset Management Program.

(\*) The maximum maturity is based on the Investment Policy that is approved by the City Council and is less restrictive than the California Government Code.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates.

Information about the sensitivity of the fair values of the City’s investments (including investments held by bond trustees) to market rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity or earliest call date (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 55,445	\$ 113,015	\$ 142,698	\$ 138,181	\$ 449,339
U.S. Treasury Notes	-	-	6,891	4,345	11,236
Local Government Bonds	-	-	-	5,711	5,711
Money Market Mutual Funds	7,336	-	-	-	7,336
Negotiable Certificates of Deposit	-	245	9,364	1,465	11,074
California Asset Management Program	21,885	-	-	-	21,885
Local Agency Investment Fund	38,043	-	-	-	38,043
Total Investments	<u>\$ 122,709</u>	<u>\$ 113,260</u>	<u>\$ 158,953</u>	<u>\$ 149,702</u>	<u>544,624</u>
Cash in bank and on hand					2,081
Total Cash and Investments					<u>\$ 546,705</u>

**Local Agency Investment Fund**

The City is a 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. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City’s position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2014, LAIF had a weighted average maturity of 232 days.

**California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2014, the fair value approximated the City’s cost. CAMP had a weighted average maturity of 41 days.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Money market mutual funds are available for withdrawal on demand and at June 30, 2014, had a weighted average maturity of 34 days.

**Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations**

At June 30, 2014, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities in the amount of \$121.1 million that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided in the previous page). These securities are subject to early redemption at par in a period of declining interest rates.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as provided by Standard & Poor's investment rating system as of June 30, 2014, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 449,339
Local Government Bonds	AAA	5,711
Money Market Mutual Funds	AAAm	7,336
Total Investments		462,386
Not Applicable:		
U.S. Treasury Notes		11,236
Not Rated:		
California Asset Management Program		21,885
Local Agency Investment Fund		38,043
Negotiable Certificates of Deposit		11,074
Cash in bank and on hand		2,081
Total Cash and Investments		\$ 546,705

**Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2014 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Home Loan Bank	U.S. Federal Agency Securities	\$ 156,621
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	85,624
Federal National Mortgage Corporation	U.S. Federal Agency Securities	73,129
Federal Farm Credit Bank	U.S. Federal Agency Securities	54,575
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	47,270

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk**

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City’s Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third-party custodian.

**NOTE 4 – INTERFUND TRANSACTIONS**

**Transfers Between Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during FY 2014 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 424 A
	Electric Services Fund	11,203 A
	Gas Services Fund	5,811 A
	Internal Service Funds	474 A
Capital Projects Fund	General Fund	17,235 B
	Nonmajor Governmental Funds	4,676 B
	Water Services Fund	142 B
	Electric Services Fund	134 B
	Fiber Optics Fund	133 B
	Gas Services Fund	134 B
	Wastewater Collection Fund	133 B
	Internal Service Funds	499 B
Nonmajor Governmental Funds	General Fund	384 A
	Capital Projects Fund	260 B
	Water Services Fund	27 A
	Internal Service Funds	14 A
	Subtotal	41,683

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 4 – INTERFUND TRANSACTIONS (Continued)**

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
Water Services Fund	Gas Services Fund	92 B	
	Wastewater Collection Fund	92 B	
	Internal Service Funds	87 C	
Electric Services Fund	General Fund	33 D	
	Water Services Fund	333 B	
	Gas Services Fund	333 B	
Gas Services Fund	Internal Service Funds	390 C	
	Internal Service Funds	151 C	
	Storm Drainage Services Fund	36 D	
Refuse Services Fund	Internal Service Funds	88 C	
	Internal Service Funds	42 C	
Wastewater Collection Fund	Internal Service Funds	59 C	
Wastewater Treatment Fund	Internal Service Funds	14 C	
Storm Drainage Services Fund	Internal Service Funds	14 C	
Internal Service Funds	General Fund	1,163 E	
	Water Services Fund	28 B	
	Electric Services Fund	123 B	
	Gas Services Fund	47 B	
	Wastewater Collection Fund	16 B	
	Refuse Services Fund	29 B	
	Storm Drainage Services Fund	6 B	
	Fiber Optics Fund	1 B	
		Subtotal	3,163
		Total	\$ 44,846

The reasons for these transfers are set forth below:

- (A) Transfer to reimburse governmental funds for costs incurred for the benefit of funds making the transfer.
- (B) Allocation of funds to construct capital assets.
- (C) Transfer to refund replacement charges.
- (D) Transfer to reimburse the Utility Funds for costs incurred for the benefit of funds making the transfer.
- (E) Transfer to reimburse Internal Service Funds for costs incurred for the benefit of the fund making the transfer.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 4 – INTERFUND TRANSACTIONS (Continued)**

**Long-Term Interfund Advance**

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from County of Santa Clara to the City. The Council approved a General Fund loan of \$300,000 to the Airport Enterprise Fund for environmental analysis, and legal and personnel costs related to the transition. According to the agreement, the Airport Fund will repay the \$300,000, with interest equal to the average return yield on the City’s investment portfolio, after six years. On July 1, 2012, the City Council approved an additional \$310,000 short-term loan from the General Fund with the same interest and repayment terms for transition costs. A further \$325,000 was loaned on July 1, 2013 with the same interest terms and repayment terms of ten years. As of June 30, 2014, the total outstanding principal amount is \$935,000.

**Internal Balances**

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2014, the City’s notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Oak Manor Townhouse	\$ 334
Tree House Apartments	5,343
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,248
Oak Court Apartments, L.P.	7,835
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	750
Home Rehabilitation Loans	66
Executive Relocation Assistance Loans	900
Below Market Rate Assessment Loans	53
Stevenson Housing Fire Alarm	48
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,290
Palo Alto Family Housing, 801 Alma Street	<u>6,810</u>
Total Notes and Loans	33,205
Less: Valuation Allowance	<u>(14,685)</u>
Total Notes and Loans, Net	<u>\$ 18,520</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**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 homeowners or developers who agree to spend these funds in accordance with the City's terms. These loans have been offset by nonspendable, restricted or committed fund balances, as they are not expected to be repaid immediately.

Some of these loans contain forgiveness clauses that provide for the amount loaned to be forgiven if the third party maintains compliance with the terms of the loan and associated regulatory agreements. Since some of these loans are secured by trust deeds that are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result of the forgiveness clauses and nature of these housing projects and associated cash flows, a portion of the outstanding balances of the loans has been offset by a valuation allowance.

**Oak Manor Townhouse**

On January 7, 1991, the City loaned \$2.1 million to Palo Alto Housing Corporation Apartments, Inc. (PAHCA, Inc.) 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 3 percent, is due in annual installments until 2017 and is collateralized by a subordinated deed of trust. Under the terms of the loan agreement, annual loan payments are forgiven if the Corporation meets the objective of this project. During the year ended June 30, 2014, the objective was met. The annual loan payment was forgiven for the calendar year ended December 31, 2013.

**Tree House Apartments**

In March 2009, the City agreed to loan \$2.8 million to Tree House Apartments, L.P. for the purchase of the real property located at 488 West Charleston Road. The loan shall accrue simple interest at the rate of three percent per annum. The loan consists of \$1.8 million funded by Community Development Block Grant funds and \$1 million funded by residential funds. An additional development loan in the amount of \$2.5 million was approved by the City on October 18, 2010. As of June 30, 2014, the outstanding balance for Tree House Apartments in aggregate is \$5.3 million. Principal and interest payments will be deferred for 55 years. However, if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is March 23, 2064.

**Emerson Street Project**

On November 8, 1994, the City loaned \$375,000 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 interest at 3 percent after 2010.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Alma Single Room Occupancy Development**

On December 13, 1996, the City loaned \$2.2 million to Alma Place Associates, L.P. for development of a 107-unit single room occupancy development. This loan bears interest at 3 percent and is collateralized by a subordinated deed of trust. Loan payments were deferred until May 2014. The principal balance is due in 2041.

**Barker Hotel**

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670,000 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.

In July 2004, the City agreed to loan up to \$41,000 to Palo Alto Housing Corporation to rehabilitate the interior of the Barker Hotel. The loan is funded entirely by Community Development Block Grant funds and is collateralized by a deed of trust on the property. Annual loan payments are deferred until certain criteria defined in the loan agreement are reached. The loan will be forgiven if the borrower satisfactorily complies with all terms and conditions of the loan agreement.

**Sheridan Apartments**

On December 8, 1998, the City loaned \$2.5 million to 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 \$1.6 million in Community Development Block Grant funds, and \$825,000 in Housing In-Lieu funds. The note bears interest at 9 percent when available surplus cash from the project equals or exceeds 25 percent of interest calculated using 9 percent. When available surplus cash falls below this level, the note bears interest at 3 percent. The note is collateralized by a second deed of trust and an affordability reserve account held by Palo Alto Housing Corporation. Annual loan payments were deferred until Palo Alto Housing Corporation accumulated \$1 million in the affordability reserve account. Two principal payments totaling \$202,438 have been made, and interest has also been paid. The remaining principal balance is due in 2033.

**Oak Court Apartments, L.P.**

On August 18, 2003, in connection with the loan to Oak Court Apartments, L.P. discussed in the next section, the City loaned \$5.9 million to Palo Alto Housing Corporation for the purchase of land on which Oak Court Apartments, L.P. constructed a 53-unit rental apartment complex for low and very low income households with children. The note bears interest of 5 percent and is secured by a deed of trust. Note payments are due annually after 55 years, or beginning in 2058, unless Palo Alto Housing Corporation elects to extend the note until 2102, as defined in the regulatory agreement.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

On August 18, 2003, the City loaned \$1.9 million to Oak Court Apartments, L.P. for the construction of a 53-unit rental apartment complex for low and very low-income households with children, which was completed in April 2005. The note bears no interest until certain criteria defined in the note are satisfied, at which time the note will bear an interest rate not to exceed 3 percent. The note is secured by a subordinate deed of trust. The principal balance is due in 2060.

**Maybell Apartments**

On November 28, 2012, the City agreed to loan Palo Alto Housing Corporation \$3.2 million for the purpose of acquisition and development of an affordable rental housing project at 567-595 Maybell Ave. The loan bears simple interest at the rate of 3 percent per annum commencing with the date of the permanent closing. On April 28, 2014, the City collected the outstanding amount of \$3.2 million for the Maybell loan.

**Palo Alto Gardens Apartments**

On April 22, 1999, the City loaned \$1 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. This loan is funded by \$659,000 in Community Development Block Grant funds and \$341,000 in Housing In-Lieu funds. The two notes bear interest at 3 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. Principal and interest payments began in FY 2008. The principal balance of \$100,000 is due in 2039.

**Community Working Group, Inc.**

On May 13, 2002, the City loaned \$1.3 million to Community Working Group, Inc. for predevelopment, relocation and acquisition of land for development of an 89-unit complex and homeless service center for very low income households. The loan is funded by \$1.3 million of Community Development Block Grant funds. The note bears no interest and is secured by a first deed of trust. No repayment of the \$1.3 million will be required, provided that compliance with the City's agreement is maintained. After 89 years of compliance with the regulatory agreement, the City's loan would convert to a grant and its deed of trust would be re-conveyed.

**Opportunity Center Associates, L.P.**

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan is funded by \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term.

**Home Rehabilitation Loans**

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 trust, 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.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**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 invested funds of the City for the year ended June 30 plus one-quarter of 1 percent. Principal and interest payments are due bi-weekly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. As of June 30, 2014, the City had two outstanding home loans, one from the previous City Manager and one from the current City Manager.

The original purchase cost for the previous City Manager's home was \$1.4 million and the City holds a 60 percent equity share. The loan balance owed as of June 30, 2014 was approximately \$356,000. The home suffered substantial fire damage on May 3, 2014. The loss is covered by insurance and an assessment is being made as to whether the home will be rebuilt.

The original purchase cost for the current City Manager's home was \$1.9 million and the City holds a 75 percent equity share. The loan balance owed as of June 30, 2014 is approximately \$427,000. During FY 2011, the Council authorized a capital improvement loan of \$125,000. Loans for capital improvements are made on a dollar for dollar matching basis, with an equal equity contribution made by the City Manager. The loan balance owed as of June 30, 2014 was approximately \$117,000.

**Below Market Rate Assessment Loans**

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3 percent and are secured by a deed of trust on each property. Loan payments are deferred until 2032. In 2014, the City did not receive interest payments.

**Stevenson Housing Fire Alarm**

In December 2006, the City agreed to loan up to \$48,000 to Palo Alto Senior Housing Project, Inc. to repair and upgrade the existing fire alarm system at Stevenson House Senior Housing facility. The loan is funded entirely by Community Development Block Grant funds and bears simple interest of 6 percent. Principal and interest payments are deferred until July 1, 2014, as long as the borrower continues to comply with all terms and conditions of the agreement.

**Oak Manor Townhouse Water System**

On May 12, 2003, the City Council approved an allocation of \$113,672 to Palo Alto Housing Corporation Apartments, Inc (PAHCA, Inc) to replace the water pipes. Repayment of the loan will not be required unless the property is sold, the program is terminated or purpose of the program is changed without City's approval prior to July 1, 2033. The loan for this project is subordinated to the existing City loan with PAHCA, Inc dated January 7, 1991 for the acquisition of the project site, which is discussed earlier in this section.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Lytton Gardens Assisted Living**

In June 2005, the City loaned \$101,000 to Community Housing, Inc. to upgrade and modernize the existing kitchens at the senior residential facility known as Lytton Gardens Assisted Living. The loan is funded entirely by Community Development Block Grant funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

**Emergency Housing Consortium**

In November 2005, the City agreed to loan up to \$75,000 to Emergency Housing Consortium to cover architectural expenses that will be incurred in rehabilitating and expanding the property. The loan is funded entirely by Community Development Block Grant funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

**Alma Garden Apartments**

In March 2006, the City agreed to loan up to \$1.2 million to Community Working Group, Inc. to acquire a 10-unit multi-family housing complex known as Alma Garden Apartments. The loan is funded entirely by Community Development Block Grant funds. Principal and interest payments are deferred until July 1, 2061, as long as the borrower complies with all terms and conditions of the agreement.

**2811-2825 Alma Street Acquisition**

On October 9, 2011, the City agreed to loan \$1.3 million to PAHC Properties Corporation (PAHC) to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. The loan bears simple interest of 3 percent, with an option to forgive the loan at maturity as long as PAHC maintains the affordability restrictions. Provided PAHC is not in default of the agreement, no principal payments shall be due and interest shall not begin to accrue until the closing of the project's permanent funding. Principal and interest payments are payable during the term of the agreement on a "residual receipt" basis as described in the agreement.

**Palo Alto Family Housing, 801 Alma Street**

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a "residual receipt" basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2014, the outstanding amount is \$6.8 million.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

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

The City has recorded all its public domain capital assets, consisting of roadway and recreation and open space, in its government-wide financial statements. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed unless they are additions or improvements. The City has elected to use the depreciation method for its capital assets. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of those assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of capital 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 statement of net position as a reduction in the book value of capital assets.

Depreciation is calculated 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 capital assets.

<u>Governmental Activities</u>	<u>Years</u>
Buildings and structures	20 - 30
Equipment:	
Computer equipment	3 - 5
Office machinery and equipment	5
Machinery and equipment	5 - 30
Intangible assets - software	5-20
Roadway network:	
Includes pavement, striping and legends, curbs, gutters and sidewalks, parking lots, traffic signage, and bridges	5 - 40
Recreation and open space network:	
Includes major park facilities, park trails, bike paths and medians	25 - 40
 <u>Business-type Activities</u>	
Buildings and structures	25 - 60
Vehicles and heavy equipment	3 - 10
Machinery and equipment	10 - 50
Transmission, distribution and treatment systems	10 - 100

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**General Capital Assets**

Changes in the City's general capital assets during the year ended June 30, 2014 were (in thousands):

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 79,047	\$ -	\$ -	\$ -	\$ 79,047
Street trees	15,319	102	(244)	-	15,177
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	69,218	37,035	(3,258)	(13,189)	89,806
Total nondepreciable capital assets	<u>167,151</u>	<u>37,137</u>	<u>(3,502)</u>	<u>(13,189)</u>	<u>187,597</u>
Depreciable capital assets:					
Buildings and structures	133,711	95	-	794	134,600
Intangible assets - Software	279	-	-	-	279
Equipment	10,912	357	-	649	11,918
Roadway network	282,298	-	-	9,002	291,300
Recreation and open space network	24,888	-	-	2,744	27,632
Total depreciable capital assets	<u>452,088</u>	<u>452</u>	<u>-</u>	<u>13,189</u>	<u>465,729</u>
Less accumulated depreciation:					
Buildings and structures	(68,191)	(3,171)	-	-	(71,362)
Intangible assets - Software	(76)	(65)	-	-	(141)
Equipment	(7,108)	(386)	-	-	(7,494)
Roadway network	(120,383)	(6,734)	-	-	(127,117)
Recreation and open space network	(8,089)	(873)	-	-	(8,962)
Total accumulated depreciation	<u>(203,847)</u>	<u>(11,229)</u>	<u>-</u>	<u>-</u>	<u>(215,076)</u>
Depreciable capital assets, net	<u>248,241</u>	<u>(10,777)</u>	<u>-</u>	<u>13,189</u>	<u>250,653</u>
Internal service fund capital assets					
Construction in progress	1,413	1,683	(2)	-	3,094
Equipment	50,919	1,975	(1,764)	-	51,130
Less accumulated depreciation	(38,782)	(2,544)	1,455	-	(39,871)
Net internal service fund capital assets	<u>13,550</u>	<u>1,114</u>	<u>(311)</u>	<u>-</u>	<u>14,353</u>
Governmental activities capital assets, net	<u>\$ 428,942</u>	<u>\$ 27,474</u>	<u>\$ (3,813)</u>	<u>\$ -</u>	<u>\$ 452,603</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Business-type Capital Assets**

Changes in the City's enterprise fund capital assets during the year ended June 30, 2014 were (in thousands):

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,971	\$ -	\$ -	\$ -	\$ 4,971
Construction in progress	118,176	41,058	-	(37,053)	122,181
Total nondepreciable capital assets	123,147	41,058	-	(37,053)	127,152
Depreciable capital assets:					
Buildings and structures	33,380	-	-	731	34,111
Transmission, distribution and treatment systems	642,149	63	(2,676)	36,322	675,858
Total depreciable capital assets	675,529	63	(2,676)	37,053	709,969
Less accumulated depreciation:					
Buildings and structures	(9,199)	(649)	-	-	(9,848)
Transmission, distribution and treatment systems	(267,224)	(16,869)	2,315	-	(281,778)
Total accumulated depreciation	(276,423)	(17,518)	2,315	-	(291,626)
Depreciable capital assets, net	399,106	(17,455)	(361)	37,053	418,343
Business-type activities capital assets, net	\$ 522,253	\$ 23,603	\$ (361)	\$ -	\$ 545,495

**Capital Asset Contributions**

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. Generally accepted accounting principles require that these contributions be accounted for as revenues at the time the capital assets are contributed.

**Depreciation Allocation**

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 42	Water	\$ 1,759
City Attorney	2	Electric	7,498
Administrative Services	1	Fiber Optics	303
Community Services	1,117	Gas	2,313
Public Safety	331	Wastewater Collection	1,907
Public Works	9,225	Wastewater Treatment	2,855
Planning and Community Environment	135	Refuse	13
Library	376	Storm Drainage	870
Internal Service Funds	2,544		
	<u>\$ 13,773</u>		<u>\$ 17,518</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Construction In Progress**

Construction in progress as of June 30, 2014 is comprised of the following (in thousands):

<u>Governmental Activities</u>	<u>Expended to June 30, 2014</u>
Mitchell Park Library & Community Center	\$ 40,218
Main Library Construction & Improvements	18,366
Art Center Electrical & Mech Upgrades	8,015
Civic Center Infrastructure Improvements	6,528
Telephone Infrastructure and Network	1,698
California Avenue-Transit Hub Corridor	1,471
VRF	1,396
Transportation and Parking Improvements	996
Furniture/Technology for Library Bond Prj	969
Street Maintenance	969
Highway 101 Pedestrian/Bicycle Overpass	961
Eleanor Pardee Park Improvement	738
Golf Reconfig and Baylands Athletic Center	737
Curb & Gutter Improvement	662
Library & Comm Center Temp Facilities	630
Magical Bridge Playground	613
Park Restroom Installation	569
City Hall First Floor Renovation	524
Other Construction In Progress	6,840
Total Governmental Activities Construction In Progress	<u>\$ 92,900</u>
<u>Business-type Activities</u>	<u>Expended to June 30, 2014</u>
Water system extension replacements and improvements	\$ 40,590
Gas system extension replacements and improvements	7,306
Sewer system rehabilitation and extensions	5,256
Electric distribution system improvements	4,503
Water quality control plant equipment replacement and lab facilities	3,713
Storm drainage structural and water quality improvements	2,239
Other electrical improvements projects	821
Other construction in progress	57,753
Total Business-type Activities Construction In Progress	<u>\$ 122,181</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Construction In Progress**

Allocations of business-type activity administration and general expenses of \$11.4 million have been capitalized and included in amounts expended to June 30, 2014.

Major governmental capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- California Avenue Transit Hub Corridor - \$0.8 million
- Main Library - \$6.8 million
- Mitchell Park Library and Community Center - \$5.6 million

Major business-type capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Seismic water system upgrade for Water Fund - \$2.4 million
- Gas main replacement project for Gas Fund - \$6.3 million
- Plant equipment replacement for Wastewater Treatment Fund - \$3.5 million
- Wastewater Collection Fund rehabilitation/augmentation project - \$1.1 million

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS**

**Long-Term Obligations**

Bond premiums and discounts of long-term debt issues are amortized over the life of the related debt.

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

	Original Issue Amount	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Governmental Activities Debt:						
<i>General Long-Term Obligations:</i>						
2002B Downtown Parking Improvements, Certificates of Participation, 2 - 4%, due 03/01/2022	\$ 3,555	\$ 1,560	\$ -	\$ 130	\$ 1,430	\$ 145
General Obligation Bonds 2010, 2 - 5%, due 08/01/2040	55,305	53,540	-	1,020	52,520	1,050
2011 Lease-Purchase Agreement General Obligation Bonds 2013A, 2 - 5%, due 08/01/2043	3,222	2,400	-	374	2,026	383
Add: Unamortized Premium	20,695	20,695	-	-	20,695	370
Add: Unamortized Premium	-	4,400	-	158	4,242	158
Total Governmental Activities Debt	<u>\$ 82,777</u>	<u>\$ 82,595</u>	<u>\$ -</u>	<u>\$ 1,682</u>	<u>\$ 80,913</u>	<u>\$ 2,106</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

	Original Issue Amount	Balance July 1, 2013, as reclassified	Additions	Retirements	Balance, June 30, 2014	Current Portion
Business-type Activities Debt:						
<i>Enterprise Long-Term Obligations:</i>						
<b>Utility Revenue Bonds</b>						
1995 Series A, 5.00-6.25%, due 06/01/2020	\$ 8,640	\$ 3,779	\$ -	\$ 445	\$ 3,334	\$ 475
1999 Refunding, 3.25-5.25%, due 06/01/2024	17,735	11,585	-	605	10,980	635
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	32,500	-	885	31,615	915
2011 Refunding, 1.80-5.95%, due 06/01/2035	17,225	15,240	-	945	14,295	975
Add: Unamortized Premium	-	980	-	70	910	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	900	-	100	800	100
Less: Unamortized Discount		(49)	-	(6)	(43)	-
<b>State Water Resources Loans</b>						
2007, 0%, due 06/30/2029	9,000	7,200	-	450	6,750	450
2009, 2.6%, due 11/30/2030	8,500	7,909	-	350	7,559	359
Total Business-type Activities Debt	<u>\$ 97,615</u>	<u>\$ 80,044</u>	<u>\$ -</u>	<u>\$ 3,844</u>	<u>\$ 76,200</u>	<u>\$ 3,909</u>

**Description of Long-Term Debt Issues**

**2002B Downtown Parking Improvements Project Certificates of Participation (COPs)** – On January 16, 2002, the City issued \$3.6 million of COPs to finance the construction of certain improvements to the non-parking area contained in the City’s Bryant/Florence Garage complex. Principal payments are due annually on March 1 and interest payments semi-annually on March 1 and September 1, and are payable from lease revenues received by the Corporation from the City’s available funds.

**2010 General Obligation Bonds (GO bonds)** – On June 30, 2010, the City issued \$55.3 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Main Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$52.5 million principal and \$40.6 million interest as the remaining debt service on the GO bonds, which is scheduled to occur in FY 2041.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**2013A General Obligation Bonds** – On June 30, 2013, the City issued \$20.7 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Main Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$20.7 million principal and \$15.2 million interest as the remaining debt service on the GO bonds, which is scheduled to occur in FY 2044.

**2011 Lease-Purchase Agreement** – On August 2, 2011, the City entered into a master lease-purchase agreement with JP Morgan Chase Bank, N.A. to finance redemption of the 1998 Golf Course COPs. The lease is secured by a first priority security interest in twenty-one Fire Department emergency vehicles. Lease proceeds were \$3.2 million. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1 at a rate of 2.49 percent, payable from General Fund revenues.

**1995 Utility Revenue Bonds, Series A** – The City issued \$8.6 million of 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 Services Fund, Fiber Optics Fund and Airport Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.9 million 6.3 percent term bond is due June 1, 2020.

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$685,340 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

On May 1, 2013, Ambac Financial emerged from bankruptcy protection, which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. Ambac Assurance remains subject to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$3.3 million principal and \$0.8 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2014, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$243.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$179.4 million. Net Revenues available for debt service amounted to \$64.5 million, which represented coverage of 94.7 times over the \$0.7 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**1999 Utility Revenue and Refunding Bonds** – The City issued \$17.7 million of 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 two Wastewater Treatment sludge incinerators. The 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, were subsequently retired.

The 1999 Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon certain net revenues derived by the City’s sewer system and its storm and surface water system (the “Storm Drain System”). As of June 30, 2001, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds: Wastewater Collection (10.2 percent), Wastewater Treatment (64.6 percent) and Storm Drainage (25.2 percent). Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$3.1 million 5.3 percent term bond, and a \$5.1 million 5.3 percent term bond are due June 1, 2021 and 2024, respectively.

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$1,647,300 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

On May 1, 2013, Ambac Financial emerged from bankruptcy protection, which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. Ambac Assurance remains subject to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$11.0 million principal and \$3.8 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2014, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$41.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$30.9 million. Net Revenues available for debt service amounted to \$10.2 million, which represents coverage of 8.44 times over the \$1.2 million in debt service.

**2007 Electric System Clean Renewable Energy Tax Credit Bonds, Series A** – In October 2007, the City issued \$1.5 million of Electric Utility Clean Renewable Energy Tax Credit Bonds (CREBs), 2007 Series A, to finance the City’s photovoltaic solar panel project. The CREBs do not bear interest. In lieu of receiving periodic interest payments, bondholders are allowed annual federal income tax credits in an amount equal to a credit rate for such CREBs multiplied by the outstanding principal amount of the CREBs owned by the bondholders. The CERBs are payable solely from and secured solely by a pledge of the Net Revenues of the Electric system and the other funds pledged under the Indenture.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.8 million remaining debt service on the bonds, which is scheduled to occur in FY 2022. For FY 2014, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$125.0 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$96.3 million. Net Revenues available for debt service amounted to \$28.7 million, which represented coverage of 287 times over the \$0.1 million in debt service.

**2009 Water Revenue Bonds, Series A** – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to \$549 thousand, which represents 33.5 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$31.6 million principal and \$22.2 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2014, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$41.3 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$27.9 million. Net Revenues available for debt service amounted to \$13.4 million, which represented coverage of 5.22 times over the \$2.6 million in debt service.

**2011 Utility Revenue Refunding Bonds** – On September 8, 2011, the City issued \$17.2 million in Lease Revenue Bonds (2011 Bonds) to refund the outstanding 2002 Series A Utility Revenue Bonds (2002 Bonds) on a current basis. The 2002 Bonds were issued to finance improvement to the City’s municipal water utility system and the natural gas utility system. Principal of the 2011 Bonds is payable annually on June 1, and interest on the 2011 Bonds is payable semi-annually on June 1 and December 1. The 2011 Bonds are secured by net revenues generated by the Water Services and Gas Services Funds.

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$14.3 million principal and \$3.2 million interest as remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2014, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$77.7 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$52.2 million. Net Revenues available for debt service amounted to \$25.5 million, which represented coverage of 17.6 times over the \$1.5 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**2007 State Water Resources Loan** – In October 2007, the City approved a \$9 million loan agreement with State Water Resources Control Board (SWRCB) to finance the City’s Mountain View/Moffett Area reclaimed water pipeline project. Under the terms of the contract, the City has agreed to repay \$9 million to the State in exchange for receiving \$7.5 million in proceeds to be used to fund the Project. The difference between the repayment obligation and proceeds amounts to \$1.5 million and represents in-substance interest on the outstanding balance. Principal payments are payable annually on June 30.

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements.

**2009 State Water Resources Loan** – In October 2009, the City approved an \$8.5 million loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30.

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

Debt service requirements are shown below for all long-term debt.

For the Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,948	\$ 3,402	\$ 5,350	\$ 3,909	\$ 3,109	\$ 7,018
2016	1,995	3,337	5,332	4,049	2,972	7,021
2017	2,066	3,260	5,326	4,198	2,818	7,016
2018	2,156	3,170	5,326	4,363	2,656	7,019
2019	2,251	3,073	5,324	4,533	2,445	6,978
2020-2024	9,940	14,055	23,995	25,285	9,602	34,887
2025-2029	11,620	11,616	23,236	15,291	5,471	20,762
2030-2034	14,625	8,571	23,196	11,285	2,649	13,934
2035-2039	18,160	4,938	23,098	2,420	144	2,564
2040-2044	11,910	887	12,797	-	-	-
Total	<u>\$ 76,671</u>	<u>\$ 56,309</u>	<u>\$ 132,980</u>	<u>\$ 75,333</u>	<u>\$ 31,866</u>	<u>\$ 107,199</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**Debt Call Provisions**

Long-term debt as of June 30, 2014 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<b><i>Governmental Activities Long-Term Debt</i></b>		
2002B Certificates of Participation	03/01/11	(2)
2010 General Obligation Bonds		
\$6.595 million due 08/01/2032	08/01/31	(3)
\$4.890 million due 08/01/2034	08/01/33	(3)
\$17.725 million due 08/01/2040	08/01/35	(3)
<b><i>Business-Type Activities Long-Term Debt</i></b>		
Utility Revenue Bonds		
1999 Refunding	06/01/09	(1)
2011 Refunding	06/01/21	(1)

- (1) Callable in inverse numerical order of maturity at par plus a premium of 2 percent 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 1 percent beginning on the initial call date. The call price declines subsequent to the initial date.
- (3) Callable in any order specified by the City at par value plus any accrued interest beginning on the initial call date.

**Leasing Arrangements**

COPs 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 in that they allow investors to participate in a share of guaranteed payments made by the City. Because they are similar to debt, the present value of the total 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 basic financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 2014, the amount of bonds outstanding was \$3.2 million.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

The California Avenue Parking Assessment District No. 92-13 issued Assessment Bonds of 1993, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2014, the District's outstanding debt amounted to \$330 thousand.

On February 29, 2012, the University Avenue Area Off-Street Parking Assessment District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2014, the District's outstanding debt amounted to \$29.4 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 9 – LANDFILL CLOSURE AND POST-CLOSURE CARE**

State and federal laws and regulations require the City to close the Palo Alto Refuse Disposal Site (Palo Alto Landfill) after it stops accepting waste by constructing a final cover on top of the approximately 126 acre landfill to cap the wastes, and by performing certain maintenance and monitoring activities at the site for a minimum of thirty years after closure. The first section of the landfill closed in 1991 was a 29-acre section designated “Phase I” costing \$1.6 million. Phase I was subsequently converted to a pastoral park (Byxbee Park) and opened to the public. The remaining sections of the landfill are designated as Phase IIA (22.5 acres closed in 1992 at a cost of \$0.9 million), Phase IIB (23.2 acres closed in 2000 at a cost of \$1.2 million) and Phase IIC, a 51.2 acre active area that is currently filled to capacity and ceased accepting waste after July 28, 2011. Phase IIC closure is under way and is expected to be completed by late summer 2015. The 30 years of post-closure maintenance costs will be paid after the state certifies the Phase IIC closure.

In accordance with state regulations, a final closure and post-closure maintenance plan was approved by state and local regulatory agencies in 2014. As part of this plan, the City’s consultant updated cost forecasts for both the remaining Phase IIC closure and for the 30 year post-closure maintenance activities.

Landfill closure and post-closure liabilities for FY 2014 and FY 2013 were \$11.4 and \$11.2 million, respectively. Changes in the liability for landfill closure and post-closure costs are the result of an annual inflation factor that is applied to the estimated costs.

The City is required by state and federal laws and regulations to make annual funding contributions to finance closure and post-closure care. The City’s financial assurance for the \$5.5 million post-closure maintenance is a pledge of revenue agreement with California Integrated Waste Management Board. The \$5.9 million closure liability is under the enterprise fund mechanism. The City is in compliance with these requirements for the year ended June 30, 2014.

The landfill closure balance as of June 30, 2014 comprised the following (in thousands):

		<u><b>Funding Mechanism</b></u>
Closure	\$ 5,907	Cash on hand
Post-closure care	<u>5,456</u>	Future revenues
Balance	<u><u>\$ 11,363</u></u>	

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 10 – NET POSITION AND FUND BALANCES**

**Net Position**

Net Position is the excess of the City's assets and deferred outflows of resources over its liabilities. Net position is divided into three categories that are described below:

*Net Investment in Capital Assets* describes the portion of net position, which is represented by current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net position that is reduced by liabilities related to restricted assets. Generally a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted* describes the portion of net position which is not restricted as to use.

**Fund Balances**

As prescribed by GASB Statement No. 54, governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

*Nonspendable* – This category is comprised of amounts that are: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: prepaid items, and long-term notes receivable. The corpus of the permanent fund is contractually required to be maintained intact.

*Restricted* – This category is comprised of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

*Committed* – This category is comprised of amounts that can only be used for the specific purposes determined by the action that constitutes the most binding constraint (i.e. ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

*Assigned* – This category is comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or the City Manager, to whom the City Council has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned* – This category is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may report negative unassigned fund balance, which occurs when a fund has a residual deficit after allocation of fund balance to the nonspendable, restricted or committed categories.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

The fund balances of all governmental funds are presented by the above mentioned categories on the face of the financial statements. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance categories, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

The General Fund Budget Stabilization Reserve (BSR) is established by authority of the General Fund Reserve Policy, which is approved by the City Council and included in the City’s annual adopted budget. The BSR is maintained in the range of 15 to 20 percent of General Fund expenditures and operating transfers, with a target of 18.5 percent. Any reserve level below 15 percent requires City Council approval. At the discretion of the City Manager, a reserve balance above 18.5 percent may be transferred to the Infrastructure Reserve within the Capital Projects Fund. The purpose of the General Fund BSR is to fund unbudgeted, unanticipated one-time costs. The BSR is not meant to fund ongoing, recurring General Fund expenditures.

The Capital Projects Fund Infrastructure Reserve (IR) is the portion of capital projects assigned fund balance not yet adopted for a specific project. It does not include potential outside funding for adopted projects.

As of June 30, 2014 total outstanding encumbrances related to governmental activities were \$6.4 million for the General Fund, \$28.1 million for the Capital Projects Fund, and \$0.7 million for the Special Revenue Funds. General Fund encumbrances are reserved for the following governmental activities: Planning & Community Environment \$1.8 million, Public Works \$1.1 million, Community Services \$1.2 million, Public Safety \$1.0 million, Library \$0.7 million, and administrative departments \$1.7 million.

**Enterprise Funds**

At June 30, 2014, Enterprise Fund unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ 61,679	\$ -	\$ 5,924	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,603
Distribution	-	8,369	-	10,057	-	-	-	-	-	18,426
Operations	20,132	-	18,415	-	7,285	5,483	(1,640)	1,601	(1,039)	50,237
	20,132	70,048	18,415	15,981	7,285	5,483	(1,640)	1,601	(1,039)	136,266
Emergency plant replacement	1,000	1,000	1,000	1,000	1,000	1,980	-	-	-	6,980
Electric special projects	-	51,838	-	-	-	-	-	-	-	51,838
Reappropriations	10,847	8,715	301	1,488	6,858	2,118	61	4,493	50	34,931
Commitments	5,148	5,737	217	9,817	1,454	4,578	985	1,714	111	29,761
Underground loan	-	734	-	-	-	-	-	-	-	734
Notes and loans	-	-	-	-	-	559	-	-	-	559
Landfill corrective action	-	-	-	-	-	-	701	-	-	701
Public benefit program	-	2,064	-	-	-	-	-	-	-	2,064
Central Valley Project	-	329	-	-	-	-	-	-	-	329
Geng Road Reserve	-	-	-	-	-	-	267	-	-	267
<b>Total</b>	<b>\$ 37,127</b>	<b>\$ 140,465</b>	<b>\$ 19,933</b>	<b>\$ 28,286</b>	<b>\$ 16,597</b>	<b>\$ 14,718</b>	<b>\$ 374</b>	<b>\$ 7,808</b>	<b>\$ (878)</b>	<b>\$ 264,430</b>

The City Council has set aside unrestricted net position for general contingencies, and future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

**Internal Service Funds**

At June 30, 2014, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 1,689	\$ 1,990	\$ 87	\$ 47	\$ 77	\$ 25	\$ -	\$ 3,915
Future catastrophic losses	-	-	-	-	124	1,560	-	1,684
Retiree health care	-	-	-	-	-	-	26,837	26,837
Capital projects	3,458	6,651	-	-	-	-	-	10,109
Available	6,358	10,281	(83)	1,397	-	-	-	17,953
Total	\$ 11,505	\$ 18,922	\$ 4	\$ 1,444	\$ 201	\$ 1,585	\$ 26,837	\$ 60,498

**Commitments** represent the portion of net position set aside for open purchase orders.

**Future catastrophic losses** represent the portion of net position to be used for unforeseen future losses.

**Retiree health care** represents the portion of net position set aside to defer future costs of retiree health care coverage.

**Capital projects** represent the portion of net position set aside for adopted capital projects.

**NOTE 11 – 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 for multiple employer defined benefit pension plans 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 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, age at retirement and final compensation salary. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 11 – PENSION PLANS (Continued)**

The Plans' provisions and benefits in effect at June 30, 2014, as determined by the valuation dated June 30, 2011, are summarized as follows:

	Safety Plan Fire Fighters, Fire Chiefs Association, Police Officers, Police Management Hire Date Before 6/8/12	Safety Plan Fire Fighters, Fire Chiefs Association Hire Date on or After 6/8/12	Safety Plan Police Officers, Police Management Hire Date on or After 12/8/12
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Full retirement age	50	55 <sup>1</sup>	55 <sup>1</sup>
Monthly benefits, as a % of annual salary	3%	3%	3%
Required employee contribution rates	9%	9%	9%
Required employer contribution rates	34.716%	34.716%	34.716%

<sup>1</sup> Employees can retire at age 50 with reduced benefits of 2.4% - 2.88%.

	Miscellaneous Plan Hire Date Before 7/17/10	Miscellaneous Plan Hire Date on or After 7/17/10
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Full retirement age <sup>2</sup>	55	60
Monthly benefits, as a % of annual salary <sup>2</sup>	2.7%	2.0% - 2.418%
Required employee contribution rates	8%	7%
Required employer contribution rates	25.536%	25.536%

<sup>2</sup> Employees can retire at age 50 with reduced benefits of 2.0% - 2.56% if hired before 7/17/10, or 1.092% - 1.874% if hired on or after 7/17/10.

Contributions are collected through payroll deductions and the City remits those contributions to CalPERS.

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.

Actuarially determined employer and employee contributions for all plans for fiscal years 2014, 2013 and 2012 were \$31.9, \$28.6 and \$27.7 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.

The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 11 – PENSION PLANS (Continued)**

Annual Pension Costs representing the payment of annual required contributions determined by CalPERS for the last three fiscal years were as follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<b><i>Safety Plan</i></b>			
June 30, 2012	\$ 7,324	100%	\$ -
June 30, 2013	7,871	100%	-
June 30, 2014	8,323	100%	-
<b><i>Miscellaneous Plan</i></b>			
June 30, 2012	\$ 15,687	100%	\$ -
June 30, 2013	15,801	100%	-
June 30, 2014	16,209	100%	-

CalPERS uses the 15 year smoothed market method of valuing the Plan assets. An investment rate of return of 7.50 percent is assumed, including inflation at 2.75 percent. 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 tracked and amortized over a 30 year rolling period, except for special gains and losses in fiscal years 2009 through 2011 which are being amortized over fixed and declining 30 year periods.

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial value (which differs from market value) and funding progress of the Plans over the most recently available three years is set forth below at their actuarial valuation date of June 30 (in thousands):

<b><i>Safety Plan:</i></b>		<u>Actuarial</u>				Annual Covered Payroll	Unfunded Liability as a % of Payroll
<u>Valuation Date</u>	<u>Entry Age</u>	<u>Accrued Liability</u>	<u>Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>		
June 30,							
2011	\$	313,184	\$ 254,305	\$ 58,879	81.2%	\$ 22,774	258.5%
2012		327,608	258,661	68,947	79.0%	20,920	329.6%
2013		338,666	233,417	105,249	68.9%	21,258	495.1%
<b><i>Miscellaneous Plan:</i></b>		<u>Actuarial</u>				Annual Covered Payroll	Unfunded Liability as a % of Payroll
<u>Valuation Date</u>	<u>Entry Age</u>	<u>Accrued Liability</u>	<u>Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>		
June 30,							
2011	\$	552,716	\$ 434,985	\$ 117,731	78.7%	\$ 60,298	195.2%
2012		576,182	447,819	128,363	77.7%	62,910	204.0%
2013		602,540	412,228	190,312	68.4%	64,440	295.3%

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 11 – PENSION PLANS (Continued)**

The significant actuarial assumptions adopted by CalPERS' Board of Administration that were used to prepare the City's actuarial valuations for both the Safety and Miscellaneous Plans are as follows:

**Safety Plan**

Valuation Date	6/30/2013*	6/30/2011**
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll	Level percent of payroll
Average Remaining Period	Not available	30 Years as of the Valuation Date
Asset Valuation Method	Market Value	15 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**Miscellaneous Plan**

Valuation Date	6/30/2013*	6/30/2011**
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll	Level percent of payroll
Average Remaining Period	Not available	21 Years as of the Valuation Date
Asset Valuation Method	Market Value	15 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

\* The June 30, 2013 valuations, which are the most recent valuations, were used to disclose the funded status.

\*\* The June 30, 2011 valuations were used to determine the contribution requirements for FY 2014.

Audited annual financial statements and six-year trend information are available from CalPERS at P.O. Box 942703, Sacramento, CA 94229-2709.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 12 – 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. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits provided to retirees are noted in the following tables:

Unit	Hired Before	Retiree Coverage <sup>1</sup>	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional <sup>2</sup>	1/1/2004	100%	100%	5/1/2011	10%
Police Management <sup>2</sup>	1/1/2004	100%	100%	5/1/2011	10%
Fire Fighters <sup>2</sup>	1/1/2004	100%	100%	12/1/2011	10%
Fire Chiefs Association <sup>2</sup>	1/1/2004	100%	100%	1/1/2013	10%
SEIU	1/1/2005	100%	100%	5/1/2011	Flat rate <sup>4</sup>
Police Officers <sup>3</sup>	1/1/2006	100%	100%	N/A	0%
Utilities Managers & Professional <sup>2</sup>	1/1/2004	100%	100%	5/1/2011	10%

<sup>1</sup> 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.

<sup>2</sup> Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.

<sup>3</sup> Effective 3/1/2009 plan capped at the second highest CalPERS Bay Area Basic plan premium.

<sup>4</sup> Effective 4/1/2014 City pays \$688 for employee, \$1,375 for employee +1, \$1,788 for family.

Retiree contributions for units with the following hire dates are determined by Government Code Section 22893, 20 year graduated schedule:

Unit	Hired on or After	Retiree Coverage <sup>1</sup>	Dependent Coverage <sup>2</sup>
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

<sup>1</sup> Employees with ten years of CalPERS service, at least five of which are at the City of Palo Alto, receive 50% of the specified employer contribution, with the City portion increasing by 5% for each additional year of service credit.

<sup>2</sup> Maximum of 90% once employee completes 20 years of service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

During FY 2008, the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The Trust, California Employers’ Retirees Benefit Trust (CERBT), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council. This Trust is not considered a component unit of the City.

**Funding Policy and Actuarial Assumptions**

The City’s policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution. The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions include: (a) 7.61 percent investment rate of return, (b) 3.25 percent projected annual salary increase, (c) actuarial value of assets, (d) inflation rate of 3 percent, and (e) health care cost trend data as noted in the following table:

<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>
2013	9.0%	9.4%
2014	8.5%	8.9%
2015	8.0%	8.0%
2016	7.5%	7.8%
2017	7.0%	7.2%
2018	6.5%	6.7%
2019	6.0%	6.1%
2020	5.5%	5.6%
2021+	5.0%	5.0%

The most current funded status of the plan was determined as part of the June 30, 2013 actuarial valuation. Actuarial assumptions used for the June 30, 2013 actuarial valuation were the same as those used for the June 30, 2011 actuarial valuation.

The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the City and Plan members to that point. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City’s unfunded actuarial accrued liability for retiree health benefits is being amortized as a level percentage of projected payroll using a 30 year closed amortization period.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

Generally accepted accounting principles permit assets to be treated as other post employment benefit (OPEB) assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the year ended June 30, 2014, the City made contributions and amortized the Net OPEB asset to fund the current year ARC. As a result, the City has calculated and recorded the Net OPEB Asset, representing the difference between the ARC, amortization and contributions, as presented below (in thousands):

Annual required contribution	\$ 13,035
Amortization on the Net OPEB Asset	1,989
Interest on the Net OPEB Asset	<u>(1,769)</u>
Annual OPEB Cost	<u>13,255</u>
Contributions made:	
Contributions to OPEB Trust	6,697
Contributions to Retirees	4,056
City portion of current year premiums paid*	<u>3,261</u>
Total contributions made	<u>14,014</u>
Change in Net OPEB Asset	759
Net OPEB Asset, beginning of year	<u>21,851</u>
Net OPEB Asset, end of year	<u>\$ 22,610</u>

\* FY 2014 premiums for 905 retirees.

Shortly after year-end, the City contributed an additional \$2.8 million to the Trust.

The Plan’s annual OPEB cost and actual contributions for the past three years ended June 30 are set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost	Net OPEB Obligation (Asset)
June 30, 2012	\$ 13,058	\$ 11,323	87%	\$ (21,271)
June 30, 2013	13,194	13,774	104%	(21,851)
June 30, 2014	13,255	14,014	106%	(22,610)



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below (in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Payroll
January 1, 2011	\$ 165,660	\$ 40,213	\$ 125,447	24.3%	\$ 80,664	155.5%
June 30, 2011 *	168,053	44,774	123,279	26.6%	81,785	150.7%
June 30, 2013	203,642	60,070	143,572	29.5%	81,785	175.5%

\* In accordance with GASB Statement No. 57, the CERBT required all trust participants to use a common valuation date. Therefore, the City is required to conduct its biennial valuation on June 30, rather than January 1, effective for 2011.

Retiree activities in the City’s Retiree Health Benefit Internal Service Fund consist of the following for the year ended June 30 (in thousands):

Retiree Health Benefits	2014	2013
Net Position, beginning of year	\$ 27,233	\$ 26,265
Interest earnings	51	78
Unrealized gain/(loss) on investments	12	(142)
Interdepartmental charges	11,635	12,986
Retiree health benefits	(12,094)	(11,954)
Net Position, end of year	<u>\$ 26,837</u>	<u>\$ 27,233</u>

**NOTE 13 – 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 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

The City provides dental coverage to employees through a City plan, which is administered by a third party service agent. The City is self-insured for the dental claims.

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 \$500,000 in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5,000 deductible and coverage up to \$1.0 million per loss.

The City's property, boiler, and machinery insurance policy has various deductibles and various coverage based on the type of property.

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability, including auto liability, insurance coverage up to \$100 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

ACCEL was established for the purpose of creating a risk management pool for central California municipalities. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. The board controls the operations of ACCEL, including selection of claims management, general administration 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 year ended June 30, 2014, the City paid \$0.8 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, California 94110.

**Claims Liability**

The City provides for the uninsured portion of claims and judgments in the General Benefits and Insurance Internal Service Funds. Claims and judgments, including a provision for claims incurred but not reported, and claim adjustment expenses 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 14 – RISK MANAGEMENT (Continued)**

The City’s liability for uninsured claims is limited to dental, general liability, and workers’ compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense. General and workers’ compensation liabilities are based on the results of actuarial studies, and include amounts for claims incurred but not reported as follows as of June 30 (in thousands):

	Year Ended June 30	
	2014	2013
Beginning balance	\$ 27,745	\$ 27,466
Liability for current and prior fiscal years claims and claims incurred but not reported (IBNR)	3,232	3,531
Claims paid	(4,224)	(3,252)
Ending balance	\$ 26,753	\$ 27,745
Current portion	\$ 5,665	\$ 6,663

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, nor have there been any significant reductions in insurance coverage.

**NOTE 15 – 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 15 – JOINT VENTURES (Continued)**

During the year ended June 30, 2014, the City incurred expenses totaling \$71.7 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$7.5 million at June 30, 2014. 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 (GOR) 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. The GOR funds of \$1.5 million are left on deposit 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 6.2 percent and 6.2 percent, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steampowered 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, 2014 is \$85.6 million. The City's participation in this project was 6.2 percent, or \$5.3million.

**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 22.9 percent of this Project's debt service and operating costs. At June 30, 2014, the book value of this Project's plant, equipment and other assets was \$465 million, while its long-term debt totaled \$398.6 million and other liabilities totaled \$60.9 million. The City's share of the Project's long-term debt amounted to \$91.2 million at that date.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 15 – JOINT VENTURES (Continued)**

**Geothermal Public Power Line**

In 1983, NCPA, the 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 percent share of this Project and the City has an 11.1 percent 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 Pacific Gas & Electric (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 million 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 11.1 percent 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, 2014, the book value of this Project's plant, equipment and other assets was zero, and its long-term debt totaled zero.

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 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 was obligated to pay 4 percent of TANC's debt-service and operating costs. However, a Resolution was approved authorizing the execution of a Long-Term Layoff Agreement (LTLA) between the Cities of Palo Alto and Roseville. These two agencies desired to "layoff" their entitlement rights to the California-Oregon Transmission Project (COTP) (and Roseville's South of Tesla entitlement rights) for a period of 15 years to those acquiring Members (Sacramento Municipal Utility District, Turlock Irrigation District, and Modesto Irrigation District). The effective date of this Agreement was February 1, 2009. As a result, the City is not obligated to pay TANC's debt-service and operating costs starting February 1, 2009, for a period of fifteen years.

TANC has issued four series of Revenue Bonds and Commercial Paper Notes totaling \$421.4 million as of June 30, 2014 and \$93.8 million of Commercial Paper debt backed by a Letter of Credit. The City's share of these debts is zero due to the LTLA mentioned above.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 15 – JOINT VENTURES (Continued)**

**Bay Area Water Supply and Conservation Agency (BAWSCA)**

The City is a member of a regional water district with 26 other entities, the Bay Area Water Supply and Conservation Agency (BAWSCA). BAWSCA was created on May 27, 2003 to represent the interests of 24 cities and water districts and two private utilities in Alameda, Santa Clara and San Mateo counties that purchase water on a wholesale basis from the San Francisco regional water system. It has the power to issue debt and plan, finance, construct, and operate water supply, transmission, reclamation, and conservation projects on behalf of its members.

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the San Francisco Public Utilities Commission (SFPUC) water supply contract. The City's share of the annual debt service is approximately \$1.9 million per year, but will vary based on annual water purchases of the City compared to other BAWSCA agencies.

BAWSCA's financial statements can be obtained from BAWSCA, 155 Bovet Road, Suite 650, San Mateo, California 94402.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Palo Alto Unified School District** – The City leases a portion of the former Cubberley School site and twelve extended day care sites from 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 PAUSD. The lease term expired on December 31, 2004, upon which the City exercised its first option to extend for 10 years, for a new expiration date of 12/31/2014. The lease provides for two more five-year options to extend, 1/1/2015 to 12/31/2019, and 1/1/2020 to 12/31/2024. The City's rent for the facilities is \$7.1 million per year plus insurance, repairs and maintenance. The rent may vary from year to year depending on the actual number of days used. Should any new law or regulation require the expenditure of work in excess of \$250,000, per the terms of the lease, the City and PAUSD may renegotiate the lease. 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, 2014, amounted to \$7.3 million. Future minimum annual lease and covenant payments for the year ending June 30, 2015 is \$3.6 million.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

**GreenWaste of Palo Alto** – GreenWaste of Palo Alto continues as the City’s contractor for waste collection, transportation, and processing services. The agreement has a term of eight years, expiring June 30, 2017, with an option to extend the contract to 2021. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In FY 2014 payments to GreenWaste were \$10.9 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 Treatment Enterprise Fund’s capital assets balance at June 30, 2014. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the capital assets.

**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 a capacity share of 21.3 percent 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 \$24.6 million in revenue bonds to finance the design and construction costs of the SMaRT Station. During the fiscal year ended June 30, 2003, the 1992 bonds were refunded by issuing the 2003 Solid Waste Revenue Bonds in the amount of \$20.6 million. 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 21.3 percent 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, 2014, is \$1.5 million. During the year ended June 30, 2014, the City paid \$0.4 million as its portion of current debt service.

In FY 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. The City’s portion of the Bonds amounts to \$1.4 million as of June 30, 2014. During the year ended June 30, 2014, the City paid \$0.2 million as its portion of current debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

**UTILITIES ENERGY RESOURCE MANAGEMENT**

**Electric Power Supply Purchase Agreements** – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2014, the approximate minimum obligations for the contracts, assuming the energy or gas is delivered over the next five years, are as follows:

Year	Projected Obligation
2015	\$71.3 million
2016	\$61.3 million
2017	\$62.1 million
2018	\$62.5 million
2019	\$62.9 million

**Contractual Commitments beyond 2019 (Electricity)** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2021 and 2046 and provide for power under various terms and conditions. The City estimates that its annual minimum commitments under the contracts, assuming the energy is delivered, ranges between \$63.4 million in 2020 and \$3.1 million in 2046. The City’s largest purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements. The Western contract expires on December 31, 2024.

**San Francisco Public Utilities Commission** – The City purchases water for delivery to its customers from San Francisco Public Utilities Commission (SFPUC) under a contract terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of SFPUC. The City is prohibited from purchasing from other water suppliers under this contract, though it is not prohibited from using ground water. The City’s cost of water under this contract is projected to increase from \$2.93 per hundred cubic feet (CCF) in FY 2015 to \$4.31 per CCF in FY 2021 as SFPUC completes an upgrade to its regional water system facilities under its Water System Improvement Program (WSIP).

**Contingent Liabilities**

Many of the uncertainties faced by the Utilities Department as an aftermath of the 2000-2001 energy crisis have been resolved. The Ninth Circuit Court determined that Federal Energy Regulatory Commission (FERC) lacked authority under the Federal Power Act to grant refund relief against governmental agencies, and the United States Supreme Court declined to review that decision. Nonetheless a number of entities (“the California Parties”) filed suit against the NCPA and other municipal utilities seeking refunds for sales made to the CAISO and Power Exchange during the energy crisis. The suit was filed in Superior Court in Los Angeles in April 2007. In March 2010, the issue was resolved in a settlement agreement and the City made a payment to the California Parties and no further claims are expected.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

On April 29, 2010, FERC issued an order approving the settlement between NCPA and the California Parties. Another dispute between the Western Area Power Administration and PG&E regarding PG&E's claim to recover certain CAISO related costs has not been resolved.

**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, claims or assessments that are likely to have a materially adverse effect on the City's financial condition.

**Grant Programs**

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

**NOTE 17 – SUBSEQUENT EVENT**

**Assumption of Control of the Palo Alto Municipal Airport**

On August 11, 2014, sponsorship, operation and management of the Palo Alto Airport was transferred to the City from the County of Santa Clara. The Airport is situated on City land and the City is taking over various agreements with airport tenants, licensees, permit holders and users, the Federal Aviation Administration and the State Lands Commission.

This page is left intentionally blank.

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
<b>ASSETS:</b>				
Cash and investments:				
Available for operations	\$ 69,320	\$ 6,675	\$ 1,439	\$ 77,434
Cash and investments with fiscal agents	-	238	-	238
Receivables, net:				
Accounts	385	27	-	412
Interest	334	-	7	341
Notes	17,620	-	-	17,620
Total assets	<u>\$ 87,659</u>	<u>\$ 6,940</u>	<u>\$ 1,446</u>	<u>\$ 96,045</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ 121	\$ -	\$ 1	\$ 122
Accrued salaries and benefits	17	-	-	17
Total liabilities	<u>138</u>	<u>-</u>	<u>1</u>	<u>139</u>
Fund balances:				
Nonspendable				
Notes and loans receivable	13,424	-	-	13,424
Eyerly family	-	-	1,445	1,445
Restricted				
Transportation mitigation	10,616	-	-	10,616
Federal revenue	4,457	-	-	4,457
Street improvement	758	-	-	758
Local law enforcement	113	-	-	113
Debt service	-	6,940	-	6,940
Public benefit	30,578	-	-	30,578
Committed				
Developer impact fee	11,085	-	-	11,085
Housing In-Lieu	14,491	-	-	14,491
Special districts	1,457	-	-	1,457
Downtown business	112	-	-	112
Assigned				
Unrealized gain on investment	430	-	-	430
Total fund balances	<u>87,521</u>	<u>6,940</u>	<u>1,445</u>	<u>95,906</u>
Total liabilities and fund balances	<u>\$ 87,659</u>	<u>\$ 6,940</u>	<u>\$ 1,446</u>	<u>\$ 96,045</u>

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
<b>REVENUES:</b>				
Property tax	\$ -	\$ 4,712	\$ -	\$ 4,712
Special assessments	94	-	-	94
Other taxes and fines	2,095	-	-	2,095
From other agencies:				
Community Development Block Grants	468	-	-	468
State of California	140	-	-	140
Permits and licenses				
University Avenue Parking	1,762	-	-	1,762
California Avenue Parking	206	-	-	206
Other permits and licenses	72	-	-	72
Investment earnings	1,806	-	33	1,839
Rental income	5	-	-	5
Other:				
Housing In-Lieu - residential	1,640	-	-	1,640
Other fees	3,850	-	-	3,850
Total revenues	<u>12,138</u>	<u>4,712</u>	<u>33</u>	<u>16,883</u>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	177	-	-	177
Public Works	891	-	-	891
Planning and Community Environment	1,552	-	-	1,552
Public safety	286	-	-	286
Community Services	133	-	-	133
Non-Departmental	145	-	6	151
Debt service:				
Principal retirement	-	1,150	-	1,150
Interest and fiscal charges	-	3,059	-	3,059
Total expenditures	<u>3,184</u>	<u>4,209</u>	<u>6</u>	<u>7,399</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>8,954</u>	<u>503</u>	<u>27</u>	<u>9,484</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	454	231	-	685
Transfers out	(5,100)	-	-	(5,100)
Total other financing sources (uses)	<u>(4,646)</u>	<u>231</u>	<u>-</u>	<u>(4,415)</u>
Change in fund balances	4,308	734	27	5,069
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>83,213</u>	<u>6,206</u>	<u>1,418</u>	<u>90,837</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 87,521</u>	<u>\$ 6,940</u>	<u>\$ 1,445</u>	<u>\$ 95,906</u>

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

#### **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.

#### **Asset 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.

#### **Developer Impact Fee**

This fund accounts for fees imposed on new developments to be used for parks, community centers and libraries.

#### **Downtown Business Development District**

The Downtown Business Development District Fund was established to account for the activities of the Palo Alto Downtown Business Development District, which was established to enhance the viability of the downtown business district.

#### **Public Benefit**

This fund accounts for the activities of the SUMC Parties Development Agreement (DA) whereby SUMC will enhance and expand their facilities and the City will grant SUMC the right to develop the facilities in accordance with the DA.

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>	<u>Special Districts</u>
<b>ASSETS:</b>				
Cash and investments:				
Available for operations	\$ 559	\$ 162	\$ 14,561	\$ 1,478
Receivables:				
Accounts	199	158	-	-
Interest	3	-	63	6
Notes	-	4,196	13,424	-
Total assets	<u>\$ 761</u>	<u>\$ 4,516</u>	<u>\$ 28,048</u>	<u>\$ 1,484</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 59	\$ 47	\$ 10
Accrued salaries and benefits	-	-	-	17
Total liabilities	<u>-</u>	<u>59</u>	<u>47</u>	<u>27</u>
Fund balances:				
Nonspendable				
Notes and loans receivables	-	-	13,424	-
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	4,457	-	-
Street improvement	758	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	14,491	-
Special districts	-	-	-	1,457
Downtown business	-	-	-	-
Assigned				
Unrealized gain on investment	3	-	86	-
Total fund balances	<u>761</u>	<u>4,457</u>	<u>28,001</u>	<u>1,457</u>
Total liabilities and fund balances	<u>\$ 761</u>	<u>\$ 4,516</u>	<u>\$ 28,048</u>	<u>\$ 1,484</u>

<u>Transportation Mitigation</u>	<u>Local Law Enforcement</u>	<u>Asset Seizure</u>	<u>Developer Impact Fee</u>	<u>Downtown Business Development District</u>	<u>Public Benefit</u>	<u>Total</u>
\$ 10,631	\$ 83	\$ 2	\$ 11,101	\$ 112	\$ 30,631	\$ 69,320
-	28	-	-	-	-	385
49	1	-	53	1	158	334
-	-	-	-	-	-	17,620
<u>\$ 10,680</u>	<u>\$ 112</u>	<u>\$ 2</u>	<u>\$ 11,154</u>	<u>\$ 113</u>	<u>\$ 30,789</u>	<u>\$ 87,659</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 121
-	-	-	-	-	-	17
-	-	-	-	-	5	138
-	-	-	-	-	-	13,424
10,616	-	-	-	-	-	10,616
-	-	-	-	-	-	4,457
-	-	-	-	-	-	758
-	111	2	-	-	-	113
-	-	-	-	-	30,578	30,578
-	-	-	11,085	-	-	11,085
-	-	-	-	-	-	14,491
-	-	-	-	-	-	1,457
-	-	-	-	112	-	112
64	1	-	69	1	206	430
<u>10,680</u>	<u>112</u>	<u>2</u>	<u>11,154</u>	<u>113</u>	<u>30,784</u>	<u>87,521</u>
<u>\$ 10,680</u>	<u>\$ 112</u>	<u>\$ 2</u>	<u>\$ 11,154</u>	<u>\$ 113</u>	<u>\$ 30,789</u>	<u>\$ 87,659</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,083	-	-	12
From other agencies:				
Community Development Block Grants	-	468	-	-
State of California	-	-	-	-
Permits and licenses				
University Avenue Parking	-	-	-	1,762
California Avenue Parking	-	-	-	206
Other permits and licenses	-	-	-	72
Investment earnings	11	(5)	496	29
Rental income	-	-	5	-
Other				
Housing In-Lieu - residential	-	-	1,640	-
Other fees	-	205	-	-
Total revenues	<u>2,094</u>	<u>668</u>	<u>2,141</u>	<u>2,081</u>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	-	-	-	177
Public Works	-	-	-	891
Planning and Community Environment	-	667	374	101
Public safety	-	-	-	-
Community Services	-	-	-	-
Non-Departmental	-	22	31	7
Total expenditures	<u>-</u>	<u>689</u>	<u>405</u>	<u>1,176</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,094</u>	<u>(21)</u>	<u>1,736</u>	<u>905</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	194
Transfers out	<u>(1,917)</u>	<u>(2)</u>	<u>-</u>	<u>(764)</u>
Total other financing sources (uses)	<u>(1,917)</u>	<u>(2)</u>	<u>-</u>	<u>(570)</u>
Change in fund balances	177	(23)	1,736	335
FUND BALANCES, BEGINNING OF YEAR	<u>584</u>	<u>4,480</u>	<u>26,265</u>	<u>1,122</u>
FUND BALANCES, END OF YEAR	<u>\$ 761</u>	<u>\$ 4,457</u>	<u>\$ 28,001</u>	<u>\$ 1,457</u>



Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total
\$ -	\$ -	\$ -	\$ -	\$ 94	\$ -	\$ 94
-	-	-	-	-	-	2,095
-	-	-	-	-	-	468
-	140	-	-	-	-	140
-	-	-	-	-	-	1,762
-	-	-	-	-	-	206
-	-	-	-	-	-	72
222	5	-	284	3	761	1,806
-	-	-	-	-	-	5
-	-	-	-	-	-	1,640
<u>2,008</u>	<u>-</u>	<u>-</u>	<u>1,637</u>	<u>-</u>	<u>-</u>	<u>3,850</u>
<u>2,230</u>	<u>145</u>	<u>-</u>	<u>1,921</u>	<u>97</u>	<u>761</u>	<u>12,138</u>
-	-	-	-	-	-	177
-	-	-	-	-	-	891
410	-	-	-	-	-	1,552
-	286	-	-	-	-	286
-	-	-	5	-	128	133
-	-	-	-	85	-	145
<u>410</u>	<u>286</u>	<u>-</u>	<u>5</u>	<u>85</u>	<u>128</u>	<u>3,184</u>
<u>1,820</u>	<u>(141)</u>	<u>-</u>	<u>1,916</u>	<u>12</u>	<u>633</u>	<u>8,954</u>
-	-	-	260	-	-	454
<u>(435)</u>	<u>-</u>	<u>-</u>	<u>(782)</u>	<u>-</u>	<u>(1,200)</u>	<u>(5,100)</u>
<u>(435)</u>	<u>-</u>	<u>-</u>	<u>(522)</u>	<u>-</u>	<u>(1,200)</u>	<u>(4,646)</u>
1,385	(141)	-	1,394	12	(567)	4,308
<u>9,295</u>	<u>253</u>	<u>2</u>	<u>9,760</u>	<u>101</u>	<u>31,351</u>	<u>83,213</u>
<u>\$ 10,680</u>	<u>\$ 112</u>	<u>\$ 2</u>	<u>\$ 11,154</u>	<u>\$ 113</u>	<u>\$ 30,784</u>	<u>\$ 87,521</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Street Improvement			Federal Revenue		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	1,905	2,083	178	-	-	-
Charges for services	-	-	-	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	455	468	13
State of California	-	-	-	-	-	-
Other revenue from other agencies	-	-	-	112	-	(112)
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	23	11	(12)	-	(5)	(5)
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	-	205	205
Total revenues	<u>1,928</u>	<u>2,094</u>	<u>166</u>	<u>567</u>	<u>668</u>	<u>101</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	847	667	180
Public safety - Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	22	(22)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>847</u>	<u>689</u>	<u>158</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,928</u>	<u>2,094</u>	<u>166</u>	<u>(280)</u>	<u>(21)</u>	<u>259</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	(1,917)	(1,917)	-	(2)	(2)	-
Total other financing sources (uses)	<u>(1,917)</u>	<u>(1,917)</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>-</u>
Change in fund balances	<u>\$ 11</u>	<u>177</u>	<u>\$ 166</u>	<u>\$ (282)</u>	<u>(23)</u>	<u>\$ 259</u>
FUND BALANCES, BEGINNING OF YEAR		<u>584</u>			<u>4,480</u>	
FUND BALANCES, END OF YEAR		<u>\$ 761</u>			<u>\$ 4,457</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	43	12	(31)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,518	1,762	244	-	-	-
-	-	-	195	206	11	-	-	-
-	-	-	37	72	35	-	-	-
161	496	335	23	29	6	174	222	48
-	5	5	-	-	-	-	-	-
4,120	1,640	(2,480)	-	-	-	-	-	-
-	-	-	-	-	-	625	2,008	1,383
<u>4,281</u>	<u>2,141</u>	<u>(2,140)</u>	<u>1,816</u>	<u>2,081</u>	<u>265</u>	<u>799</u>	<u>2,230</u>	<u>1,431</u>
-	-	-	204	177	27	-	-	-
-	-	-	1,138	891	247	-	-	-
725	374	351	175	101	74	410	410	-
-	-	-	-	-	-	-	-	-
-	-	-	26	-	26	-	-	-
178	31	147	143	7	136	-	-	-
<u>903</u>	<u>405</u>	<u>498</u>	<u>1,686</u>	<u>1,176</u>	<u>510</u>	<u>410</u>	<u>410</u>	<u>-</u>
3,378	1,736	(1,642)	130	905	775	389	1,820	1,431
-	-	-	194	194	-	-	-	-
-	-	-	(763)	(764)	(1)	(435)	(435)	-
-	-	-	(569)	(570)	(1)	(435)	(435)	-
<u>\$ 3,378</u>	<u>1,736</u>	<u>\$ (1,642)</u>	<u>\$ (439)</u>	<u>335</u>	<u>\$ 774</u>	<u>\$ (46)</u>	<u>1,385</u>	<u>\$ 1,431</u>
	26,265			1,122			9,295	
	<u>\$ 28,001</u>			<u>\$ 1,457</u>			<u>\$ 10,680</u>	

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2014**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
Revenues:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	-	-	-
State of California	-	140	140	-	-	-
Other revenue from other agencies	-	-	-	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Return on investments	6	5	(1)	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	-	-	-
Total revenues	<u>6</u>	<u>145</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	-	-	-
Public safety - Police	319	286	33	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	3	-	3	-	-	-
Total expenditures	<u>322</u>	<u>286</u>	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(316)</u>	<u>(141)</u>	<u>175</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances	<u>\$ (316)</u>	<u>(141)</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year		<u>253</u>			<u>2</u>	
Fund balances, end of year		<u>\$ 112</u>			<u>\$ 2</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 154	\$ 94	\$ (60)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
137	284	147	2	3	1	679	761	82
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
947	1,637	690	6	-	(6)	-	-	-
1,084	1,921	837	162	97	(65)	679	761	82
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
5	5	-	-	-	-	289	128	161
-	-	-	230	85	145	-	-	-
5	5	-	230	85	145	289	128	161
1,079	1,916	837	(68)	12	80	390	633	243
260	260	-	-	-	-	-	-	-
(782)	(782)	-	-	-	-	(1,200)	(1,200)	-
(522)	(522)	-	-	-	-	(1,200)	(1,200)	-
\$ 557	1,394	\$ 837	\$ (68)	12	\$ 80	\$ (810)	(567)	\$ 243
	9,760			101			31,351	
	\$ 11,154			\$ 113			\$ 30,784	

This page is left intentionally blank.

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **DEBT SERVICE FUNDS**

#### **Downtown Parking Improvement**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2002B Downtown Parking Improvement Certificate of Participation as they become due.

#### **Library Projects**

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2010 and 2013A General Obligation Bonds as they become due.

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2014**  
**(Amounts in thousands)**

	Downtown Parking Improvement	Library Projects	Total
<b>ASSETS:</b>			
Cash and investments:			
Available for operations	\$ 13	\$ 6,662	\$ 6,675
Cash and investments with fiscal agents	238	-	238
Receivables:			
Accounts	-	27	27
Total assets	\$ 251	\$ 6,689	\$ 6,940
<b>FUND BALANCES:</b>			
Debt service	\$ 251	\$ 6,689	\$ 6,940



**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Downtown Parking Improvement	Library Projects	Total
REVENUES:			
Property tax	\$ -	\$ 4,712	\$ 4,712
EXPENDITURES:			
Debt service:			
Principal retirement	130	1,020	1,150
Interest and fiscal charges	101	2,958	3,059
Total expenditures	231	3,978	4,209
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(231)	734	503
OTHER FINANCING SOURCES (USES):			
Transfers in	231	-	231
Change in fund balances	-	734	734
FUND BALANCES, BEGINNING OF YEAR	251	5,955	6,206
FUND BALANCES, END OF YEAR	\$ 251	\$ 6,689	\$ 6,940

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Downtown Parking Improvement			Library Projects		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ 3,938	\$ 4,712	\$ 774
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,938</u>	<u>4,712</u>	<u>774</u>
EXPENDITURES:						
Debt service:						
Principal retirement	130	130	-	1,020	1,020	-
Interest and fiscal charges	101	101	-	3,023	2,958	65
Total expenditures	<u>231</u>	<u>231</u>	<u>-</u>	<u>4,043</u>	<u>3,978</u>	<u>65</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(231)</u>	<u>(231)</u>	<u>-</u>	<u>(105)</u>	<u>734</u>	<u>839</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	<u>231</u>	<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>231</u>	<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (105)</u>	<u>734</u>	<u>\$ 839</u>
FUND BALANCES, BEGINNING OF YEAR		<u>251</u>			<u>5,955</u>	
FUND BALANCES, END OF YEAR		<u>\$ 251</u>			<u>\$ 6,689</u>	

**NON-MAJOR GOVERNMENTAL FUNDS**

**PERMANENT FUND**

**Eyerly Family**

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.

**CITY OF PALO ALTO**  
**Non-major Permanent Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 34	\$ 33	\$ (1)
EXPENDITURES:			
Current:			
Non-Departmental	-	6	(6)
Excess (deficiency) of revenues over (under) expenditures	34	27	(7)
Change in fund balance	\$ 34	27	\$ (7)
FUND BALANCE, BEGINNING OF YEAR		1,418	
FUND BALANCE, END OF YEAR		\$ 1,445	

## **INTERNAL SERVICE FUNDS**

### **INTRODUCTION**

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City 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 on reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

### **Technology**

This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is on reimbursement of costs for support provided to other departments.

### **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**

This fund accounts for the administration of compensated absences and health benefits.

### **Workers' Compensation Insurance Program**

This fund accounts for the administration of the City's self-insured workers' compensation programs.

### **General Liabilities Insurance Program**

This fund accounts for the administration of the City's self-insured general liability programs.

### **Retiree Health Benefits**

This fund accounts for the retiree health benefits.

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2014**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
<b>ASSETS:</b>								
Current Assets:								
Cash and investments:								
Available for operations	\$ 11,078	\$ 19,229	\$ 12	\$ 12,665	\$ 20,964	\$ 6,899	\$ 4,145	\$ 74,992
Accounts receivable, net	31	-	-	35	-	473	96	635
Interest receivable	55	102	-	57	95	30	25	364
Inventory of materials and supplies	388	-	-	-	-	-	-	388
Total current assets	11,552	19,331	12	12,757	21,059	7,402	4,266	76,379
Noncurrent Assets:								
Capital assets:								
Nondepreciable	1,396	1,698	-	-	-	-	-	3,094
Depreciable, net	10,977	279	3	-	-	-	-	11,259
Net OPEB asset	-	-	-	-	-	-	22,610	22,610
Total noncurrent assets	12,373	1,977	3	-	-	-	22,610	36,963
Total assets	23,925	21,308	15	12,757	21,059	7,402	26,876	113,342
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts payable and accruals	-	263	8	989	68	-	39	1,367
Accrued salaries and benefits	39	133	-	1	-	-	-	173
Accrued compensated absences	8	13	-	3,891	-	-	-	3,912
Accrued claims payable - current	-	-	-	146	3,230	2,289	-	5,665
Total current liabilities	47	409	8	5,027	3,298	2,289	39	11,117
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	6,286	-	-	-	6,286
Accrued claims payable	-	-	-	-	17,560	3,528	-	21,088
Total noncurrent liabilities	-	-	-	6,286	17,560	3,528	-	27,374
Total liabilities	47	409	8	11,313	20,858	5,817	39	38,491
<b>NET POSITION:</b>								
Net Investment in capital assets	12,373	1,977	3	-	-	-	-	14,353
Unrestricted	11,505	18,922	4	1,444	201	1,585	26,837	60,498
Total net position	\$ 23,878	\$ 20,899	\$ 7	\$ 1,444	\$ 201	\$ 1,585	\$ 26,837	\$ 74,851

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
<b>OPERATING REVENUES:</b>								
Charges for services	\$ 7,335	\$ 11,300	\$ 1,328	\$ 41,870	\$ 3,239	\$ 460	\$ 11,635	\$ 77,167
Other	-	-	-	-	-	472	-	472
Total operating revenues	<u>7,335</u>	<u>11,300</u>	<u>1,328</u>	<u>41,870</u>	<u>3,239</u>	<u>932</u>	<u>11,635</u>	<u>77,639</u>
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,157	6,207	848	249	737	1,051	517	10,766
Operations and maintenance	3,582	5,234	477	126	485	-	11,577	21,481
Depreciation and amortization	2,116	425	3	-	-	-	-	2,544
Claim payments and change in estimated self-insured liability	-	-	-	1,491	2,451	(710)	-	3,232
Refund of charges for services	62	9	-	-	-	-	-	71
Compensated absences and other benefits	-	-	-	40,337	-	-	-	40,337
Total operating expenses	<u>6,917</u>	<u>11,875</u>	<u>1,328</u>	<u>42,203</u>	<u>3,673</u>	<u>341</u>	<u>12,094</u>	<u>78,431</u>
Operating income (loss)	418	(575)	-	(333)	(434)	591	(459)	(792)
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	262	485	1	266	434	123	63	1,634
Loss on disposal of capital assets	(110)	(45)	-	-	-	-	-	(155)
Other nonoperating revenues	42	-	-	-	-	-	-	42
Total nonoperating revenues (expenses)	<u>194</u>	<u>440</u>	<u>1</u>	<u>266</u>	<u>434</u>	<u>123</u>	<u>63</u>	<u>1,521</u>
Income (loss) before transfers	612	(135)	1	(67)	-	714	(396)	729
Transfers in	-	1,413	-	-	-	-	-	1,413
Transfers out	-	(1,818)	-	-	-	-	-	(1,818)
Change in net position	612	(540)	1	(67)	-	714	(396)	324
NET POSITION, BEGINNING OF YEAR	<u>23,266</u>	<u>21,439</u>	<u>6</u>	<u>1,511</u>	<u>201</u>	<u>871</u>	<u>27,233</u>	<u>74,527</u>
NET POSITION, END OF YEAR	<u>\$ 23,878</u>	<u>\$ 20,899</u>	<u>\$ 7</u>	<u>\$ 1,444</u>	<u>\$ 201</u>	<u>\$ 1,585</u>	<u>\$ 26,837</u>	<u>\$ 74,851</u>

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
<b>Cash flows from operating activities:</b>								
Cash received from customers	\$ 7,489	\$ 11,300	\$ 1,328	\$ 41,861	\$ 3,239	\$ 959	\$ 11,769	\$ 77,945
Cash refunds to customers	(62)	(9)	-	-	-	-	-	(71)
Cash payments to suppliers for goods and services	(3,330)	(5,771)	(492)	(42)	(485)	-	(11,577)	(21,697)
Cash payments to employees	(1,147)	(6,196)	(852)	(40,818)	(706)	(1,051)	(1,805)	(52,575)
Cash payments for judgments and claims	-	-	-	(1,488)	(1,964)	(772)	-	(4,224)
Other cash receipts	42	-	-	-	-	-	-	42
Cash flows provided by (used in) operating activities	<u>2,992</u>	<u>(676)</u>	<u>(16)</u>	<u>(487)</u>	<u>84</u>	<u>(864)</u>	<u>(1,613)</u>	<u>(580)</u>
<b>Cash flows from noncapital financing activities:</b>								
Transfers in	-	1,413	-	-	-	-	-	1,413
Transfers out	-	(1,818)	-	-	-	-	-	(1,818)
Cash flows provided by noncapital financing activities	<u>-</u>	<u>(405)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(405)</u>
<b>Cash flows from capital and related financing activities:</b>								
Acquisition of capital assets	(2,734)	(918)	-	-	-	-	-	(3,652)
Proceeds from sale of capital assets	150	-	-	-	-	-	-	150
Cash flows (used in) capital and related financing activities	<u>(2,584)</u>	<u>(918)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,502)</u>
<b>Cash flows from investing activities:</b>								
Interest received	263	492	1	268	442	126	65	1,657
Net change in cash and cash equivalents	671	(1,507)	(15)	(219)	526	(738)	(1,548)	(2,830)
Cash and cash equivalents, beginning of year	10,407	20,736	27	12,884	20,438	7,637	5,693	77,822
Cash and cash equivalents, end of year	<u>\$ 11,078</u>	<u>\$ 19,229</u>	<u>\$ 12</u>	<u>\$ 12,665</u>	<u>\$ 20,964</u>	<u>\$ 6,899</u>	<u>\$ 4,145</u>	<u>\$ 74,992</u>
<b>Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:</b>								
Operating income (loss)	\$ 418	\$ (575)	\$ -	\$ (333)	\$ (434)	\$ 591	\$ (459)	\$ (792)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,116	425	3	-	-	-	-	2,544
Other	42	-	-	-	-	-	-	42
Change in assets and liabilities:								
Accounts receivable	154	-	-	(9)	-	27	134	306
Inventory of materials and supplies	281	(77)	-	-	-	-	-	204
Net OPEB asset	-	-	-	-	-	-	(759)	(759)
Accounts payable and accruals	(29)	(460)	(15)	84	31	-	(529)	(918)
Accrued salaries and benefits	5	16	(4)	1	-	-	-	18
Accrued compensated absences	5	(5)	-	(233)	-	-	-	(233)
Accrued claims payable	-	-	-	3	487	(1,482)	-	(992)
Cash flows provided by (used in) operating activities	<u>\$ 2,992</u>	<u>\$ (676)</u>	<u>\$ (16)</u>	<u>\$ (487)</u>	<u>\$ 84</u>	<u>\$ (864)</u>	<u>\$ (1,613)</u>	<u>\$ (580)</u>



## **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.

Fiduciary Funds are presented separately from the Citywide and Fund financial statements.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains three 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.

#### **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 Area Off-Street Parking Assessment District**

The fund accounts for the receipts and disbursements associated with the Series 2012 Limited Obligation Refunding Improvement Bonds.

**CITY OF PALO ALTO**  
**All Agency Funds**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2014**  
**(Amounts in thousands)**

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<u>California Avenue Parking Assessment District</u>				
ASSETS:				
Cash and investments available for operations	\$ 189	\$ -	\$ 9	\$ 180
LIABILITIES:				
Due to bondholders	\$ 189	\$ -	\$ 9	\$ 180
<u>Cable Joint Powers Authority</u>				
ASSETS:				
Cash and investments available for operations	\$ 869	\$ -	\$ 114	\$ 755
Interest receivable	5	-	1	4
Total assets	<u>\$ 874</u>	<u>\$ -</u>	<u>\$ 115</u>	<u>\$ 759</u>
LIABILITIES:				
Due to other governments	<u>\$ 874</u>	<u>\$ -</u>	<u>\$ 115</u>	<u>\$ 759</u>
<u>University Avenue Area Off-Street Parking Assessment District</u>				
ASSETS:				
Cash and investments available for operations	\$ 2,015	\$ -	\$ 31	\$ 1,984
Cash and investments with fiscal agents	2,542	-	1	2,541
Accounts receivable	30	-	21	9
Interest receivable	11	-	1	10
Total assets	<u>\$ 4,598</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 4,544</u>
LIABILITIES:				
Due to bondholders	<u>\$ 4,598</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 4,544</u>
<u>Total Agency Funds</u>				
ASSETS:				
Cash and investments available for operations	\$ 3,073	\$ -	\$ 154	\$ 2,919
Cash and investments with fiscal agents	2,542	-	1	2,541
Accounts receivable	30	-	21	9
Interest receivable	16	-	2	14
Total assets	<u>\$ 5,661</u>	<u>\$ -</u>	<u>\$ 178</u>	<u>\$ 5,483</u>
LIABILITIES:				
Due to bondholders	\$ 4,787	\$ -	\$ 63	\$ 4,724
Due to other governments	874	-	115	759
Total liabilities	<u>\$ 5,661</u>	<u>\$ -</u>	<u>\$ 178</u>	<u>\$ 5,483</u>

## **STATISTICAL SECTION**

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, and demographics. 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.

### **Financial Trends**

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time:

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

### **Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and electric charges:

- Electric Operating Revenue by Source
- Supplemental Disclosure for Water Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratio of Outstanding Debt by Type
- Computation of Direct and Overlapping Debt
- Computation of Legal Bonded Debt Margin
- Revenue Bond Coverage

## **STATISTICAL SECTION**

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Taxable Transactions by Type of Business
- Demographic and Economic Statistics
- Principal Employers

### **Operating Information**

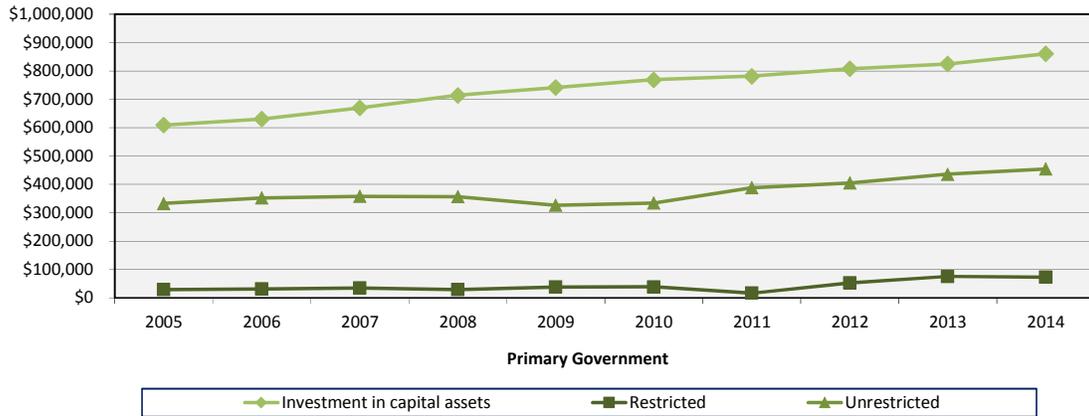
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

**CITY OF PALO ALTO**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**



	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities</b>										
Investment in capital assets	\$ 305,225	\$ 311,335	\$ 326,411	\$ 343,537	\$ 356,657	\$ 369,499	\$ 364,747	\$ 370,111	\$ 378,047	\$ 386,696
Restricted	27,273	29,885	32,576	27,428	36,632	34,323	16,437	52,934	71,717	68,331
Unrestricted	117,301	123,823	127,190	130,460	118,133	102,199	134,722	142,102	165,810	187,386
<b>Total Governmental Activities Net Position</b>	<b>\$ 449,799</b>	<b>\$ 465,043</b>	<b>\$ 486,177</b>	<b>\$ 501,425</b>	<b>\$ 511,422</b>	<b>\$ 506,021</b>	<b>\$ 515,906</b>	<b>\$ 565,147</b>	<b>\$ 615,574</b>	<b>\$ 642,413</b>
<b>Business-type Activities</b>										
Investment in capital assets	\$ 303,473	\$ 318,738	\$ 342,922	\$ 370,303	\$ 384,313	\$ 399,317	\$ 416,418	\$ 437,151	\$ 446,597	\$ 473,795
Restricted	1,750	1,732	1,732	1,732	1,732	4,300	-	-	4,060	4,166
Unrestricted	215,128	228,032	230,912	226,539	208,025	232,420	253,740	262,602	269,926	266,794
<b>Total Business-type Activities Net Position</b>	<b>\$ 520,351</b>	<b>\$ 548,502</b>	<b>\$ 575,566</b>	<b>\$ 598,574</b>	<b>\$ 594,070</b>	<b>\$ 636,037</b>	<b>\$ 670,158</b>	<b>\$ 699,753</b>	<b>\$ 720,583</b>	<b>\$ 744,755</b>
<b>Primary Government</b>										
Investment in capital assets	\$ 608,698	\$ 630,073	\$ 669,333	\$ 713,840	\$ 740,970	\$ 768,816	\$ 781,165	\$ 807,262	\$ 824,644	\$ 860,491
Restricted	29,023	31,617	34,308	29,160	38,364	38,623	16,437	52,934	75,777	72,497
Unrestricted	332,429	351,855	358,102	356,999	326,158	334,619	388,462	404,704	435,736	454,180
<b>Total Primary Government Net Position</b>	<b>\$ 970,150</b>	<b>\$ 1,013,545</b>	<b>\$ 1,061,743</b>	<b>\$ 1,099,999</b>	<b>\$ 1,105,492</b>	<b>\$ 1,142,058</b>	<b>\$ 1,186,064</b>	<b>\$ 1,264,900</b>	<b>\$ 1,336,157</b>	<b>\$ 1,387,168</b>

Source: Annual Financial Statements, Statement of Net Position

**CITY OF PALO ALTO**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**

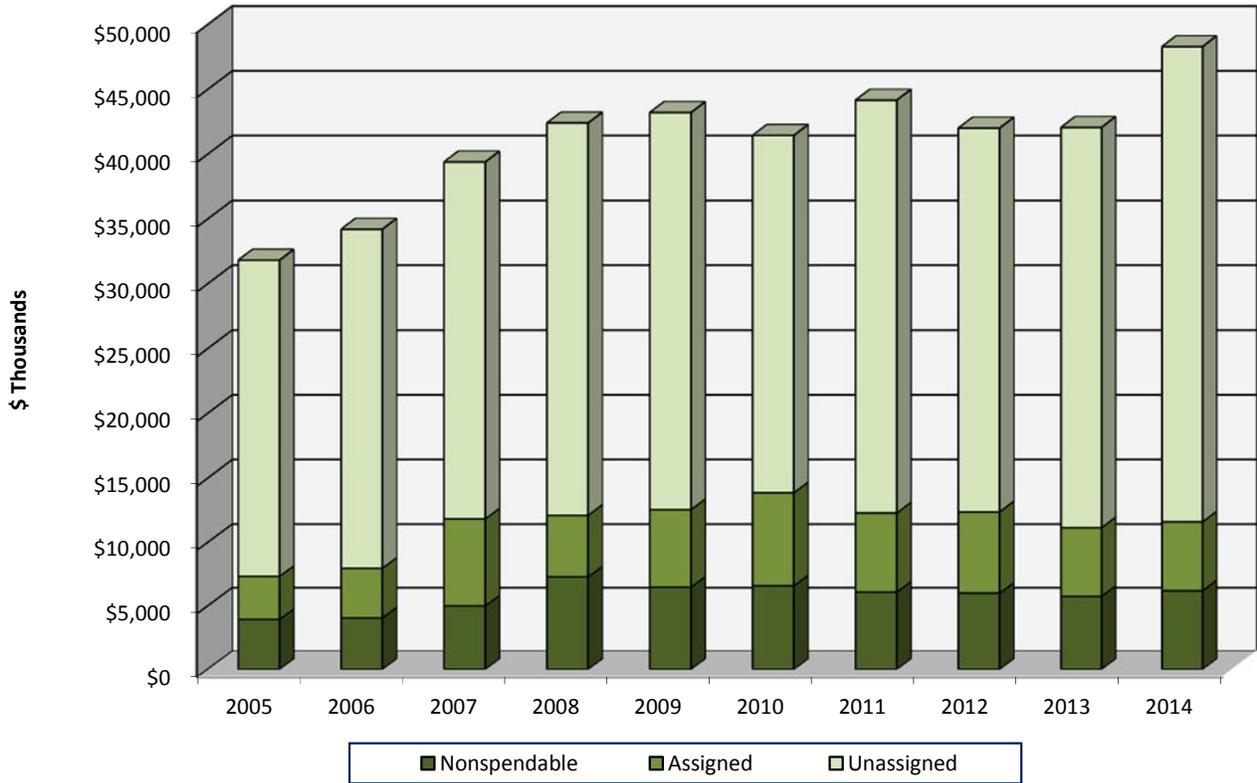
	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>PROGRAM REVENUES</b>										
<b>Governmental Activities</b>										
Charges for services										
City Attorney	\$ 22	\$ 22	\$ 13	\$ 16	\$ 12	\$ 53	\$ -	\$ -	\$ -	\$ -
City Clerk	-	2	-	-	-	-	-	-	-	-
Administrative Services	480	627	835	870	726	984	2,889	1,647	15,629	4,055
People Strategy and Operations	-	-	11	-	-	-	-	-	-	-
Public Works	573	805	968	1,310	1,169	1,258	2,419	1,008	1,314	1,093
Planning & Community Environment	4,090	5,509	6,267	5,498	4,704	4,813	7,237	31,491	28,768	12,896
Public Safety	12,356	13,256	13,789	13,692	14,670	14,337	15,274	15,658	16,139	14,902
Community Services	7,592	10,803	9,128	10,314	8,522	8,729	7,724	11,365	13,808	20,882
Library	133	129	146	176	177	199	480	1,600	187	166
Operating grants and contributions	3,677	3,976	5,642	4,029	3,599	4,829	2,884	3,441	5,038	5,360
Capital grants and contributions	804	3,156	1,756	1,930	3,810	1,280	1,903	1,064	515	917
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<b>29,727</b>	<b>38,285</b>	<b>38,555</b>	<b>37,835</b>	<b>37,389</b>	<b>36,482</b>	<b>40,810</b>	<b>67,274</b>	<b>81,398</b>	<b>60,271</b>
<b>Business-type Activities</b>										
Charges for services										
Water	21,041	21,108	23,495	26,510	27,120	26,259	26,624	31,467	37,746	40,291
Electric	88,737	119,418	102,549	103,833	119,320	121,900	122,109	118,886	121,805	121,916
Fiber Optics <sup>1</sup>	-	-	-	-	3,336	3,105	3,322	3,662	4,382	4,485
Gas	31,206	36,977	42,221	49,021	47,838	44,450	43,584	41,774	34,633	35,737
Wastewater Collection	12,041	13,801	14,848	15,102	14,486	15,136	15,094	14,942	16,077	15,599
Wastewater Treatment	15,982	18,778	16,957	22,889	28,425	16,915	18,830	22,200	21,528	18,460
Refuse	23,387	24,795	25,532	28,805	29,101	28,568	30,469	30,645	30,583	30,297
Storm Drainage	2,484	5,174	5,181	5,450	5,505	5,647	5,796	5,892	6,053	6,183
External Services	766	854	789	112	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	361	610	605	572	549
Capital grants and contributions	-	-	756	1,594	639	475	3,004	1,526	2,224	2,005
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<b>195,644</b>	<b>240,905</b>	<b>232,328</b>	<b>253,316</b>	<b>275,770</b>	<b>262,816</b>	<b>269,442</b>	<b>271,599</b>	<b>275,603</b>	<b>275,522</b>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<b>\$ 225,371</b>	<b>\$ 279,190</b>	<b>\$ 270,883</b>	<b>\$ 291,151</b>	<b>\$ 313,159</b>	<b>\$ 299,298</b>	<b>\$ 310,252</b>	<b>\$ 338,873</b>	<b>\$ 357,001</b>	<b>\$ 335,793</b>
<b>EXPENSES</b>										
<b>Governmental Activities</b>										
City Council	\$ 130	\$ 141	\$ 180	\$ 323	\$ 394	\$ 455	\$ 15	\$ 345	\$ 94	\$ 387
City Manager	1,725	1,563	1,760	2,273	2,085	2,399	1,842	1,960	1,237	2,180
City Attorney	2,653	2,598	2,390	2,653	2,575	2,621	953	1,656	1,642	1,797
City Clerk	770	945	900	1,241	1,098	1,369	803	908	330	641
City Auditor	764	843	838	1,379	2,053	2,601	138	235	464	489
Administrative Services <sup>2</sup>	6,982	6,972	6,419	15,477	17,784	17,893	9,888	10,100	7,614	11,388
People Strategy and Operations	2,410	2,546	2,472	2,806	3,448	3,707	1,346	1,071	1,420	1,346
Public Works	16,400	17,596	16,645	18,565	21,270	18,658	19,357	14,568	20,816	24,577
Planning & Community Environment	10,162	9,931	12,929	16,388	12,940	12,114	15,031	12,074	13,549	14,926
Public Safety	40,543	42,158	43,391	50,126	52,487	55,799	58,996	62,817	59,452	62,883
Community Services	17,240	17,296	15,729	17,736	19,862	17,171	22,845	21,915	22,705	23,822
Library	4,835	5,323	5,347	6,321	6,244	6,143	6,920	7,323	7,319	7,758
Non-departmental <sup>2</sup>	12,474	10,400	12,133	-	-	-	-	-	-	-
Interest on long term debt	693	512	477	438	404	370	2,742	2,575	2,562	3,367
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<b>117,781</b>	<b>118,824</b>	<b>121,610</b>	<b>135,726</b>	<b>142,644</b>	<b>141,300</b>	<b>140,876</b>	<b>137,547</b>	<b>139,204</b>	<b>155,561</b>
<b>Business-type Activities</b>										
Water	14,969	15,881	16,794	18,842	20,271	21,037	24,268	29,093	30,707	31,593
Electric	73,051	91,570	99,294	108,032	122,268	107,910	100,130	102,030	106,438	113,004
Fiber Optics <sup>1</sup>	-	-	-	-	1,284	1,407	1,561	1,489	1,437	1,661
Gas	26,656	29,107	30,690	37,211	34,603	32,498	32,051	28,878	26,749	26,869
Wastewater Collection	8,907	11,005	10,085	12,023	14,875	10,696	12,275	14,825	14,313	13,235
Wastewater Treatment	17,457	16,747	15,901	18,902	36,896	13,466	19,731	20,712	20,635	21,018
Refuse	24,959	26,989	25,372	28,827	37,217	28,119	30,684	31,900	28,542	28,413
Storm Drainage	3,336	2,673	2,517	3,202	2,943	2,491	3,229	3,103	3,703	3,644
Airport	-	-	-	-	-	-	31	153	246	466
External Services	760	868	767	984	-	-	-	-	-	-
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<b>170,095</b>	<b>194,840</b>	<b>201,420</b>	<b>228,023</b>	<b>270,357</b>	<b>217,624</b>	<b>223,960</b>	<b>232,183</b>	<b>232,770</b>	<b>239,903</b>
<b>Total Primary</b>										
<b>Government Expenses</b>	<b>\$ 287,876</b>	<b>\$ 313,664</b>	<b>\$ 323,030</b>	<b>\$ 363,749</b>	<b>\$ 413,001</b>	<b>\$ 358,924</b>	<b>\$ 364,836</b>	<b>\$ 369,730</b>	<b>\$ 371,974</b>	<b>\$ 395,464</b>

	<b>Fiscal Year Ended June 30</b>									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (88,054)	\$ (80,539)	\$ (83,055)	\$ (97,891)	\$ (105,255)	\$ (104,818)	\$ (100,066)	\$ (70,273)	\$ (57,806)	\$ (95,290)
Business-type Activities	25,549	46,065	30,908	25,293	5,413	45,192	45,482	39,416	42,833	35,619
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<u>\$ (62,505)</u>	<u>\$ (34,474)</u>	<u>\$ (52,147)</u>	<u>\$ (72,598)</u>	<u>\$ (99,842)</u>	<u>\$ (59,626)</u>	<u>\$ (54,584)</u>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b>										
<b>Governmental Activities</b>										
Taxes										
Property tax	\$ 16,657	\$ 18,731	\$ 21,466	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,156	\$ 30,104	\$ 31,929	\$ 35,299
Sales tax	19,308	20,315	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424
Utility user tax	7,269	8,759	9,356	10,285	11,030	11,295	10,851	10,834	10,861	11,008
Transient occupancy tax	5,686	6,393	6,709	7,976	7,111	6,858	8,082	9,664	10,794	12,255
Other taxes	5,580	7,033	6,293	6,261	3,364	4,055	8,156	8,173	10,504	9,660
Investment earnings	4,988	2,567	8,747	12,313	8,525	6,514	3,500	6,238	(1,228)	5,859
Rents and miscellaneous	12,997	10,440	13,670	11,896	15,682	12,729	12,377	14,943	518	2,575
Transfers	14,064	21,545	15,754	18,701	24,020	13,994	17,083	17,426	19,249	17,103
<b>Total Governmental Activities</b>	<u>86,549</u>	<u>95,783</u>	<u>104,189</u>	<u>113,139</u>	<u>115,253</u>	<u>99,417</u>	<u>109,951</u>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>
<b>Business-type Activities</b>										
Investment earnings	8,093	3,631	11,910	16,416	14,103	10,769	5,722	7,605	(2,754)	6,379
Special item	(21,500)	-	-	-	-	-	-	-	-	-
Transfers	(14,064)	(21,545)	(15,754)	(18,701)	(24,020)	(13,994)	(17,083)	(17,426)	(19,249)	(17,103)
<b>Total Business-type Activities</b>	<u>(27,471)</u>	<u>(17,914)</u>	<u>(3,844)</u>	<u>(2,285)</u>	<u>(9,917)</u>	<u>(3,225)</u>	<u>(11,361)</u>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>
<b>Total Primary Government</b>	<u>\$ 59,078</u>	<u>\$ 77,869</u>	<u>\$ 100,345</u>	<u>\$ 110,854</u>	<u>\$ 105,336</u>	<u>\$ 96,192</u>	<u>\$ 98,590</u>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>
<b>CHANGE IN NET POSITION</b>										
Governmental Activities	\$ (1,505)	\$ 15,244	\$ 21,134	\$ 15,248	\$ 9,998	\$ (5,401)	\$ 9,885	\$ 49,241	\$ 50,427	\$ 27,893
Business-type Activities	(1,922)	28,151	27,064	23,008	(4,504)	41,967	34,121	29,595	20,830	24,895
<b>Total Primary Government</b>										
<b>Change in Net Position</b>	<u>\$ (3,427)</u>	<u>\$ 43,395</u>	<u>\$ 48,198</u>	<u>\$ 38,256</u>	<u>\$ 5,494</u>	<u>\$ 36,566</u>	<u>\$ 44,006</u>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>

Notes: <sup>1</sup>Prior to 2009, Fiber Optics was included in Electric.  
<sup>2</sup>Beginning in 2008, includes Non-departmental expenses.

Source: Annual Financial Statements, Statement of Activities

**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (General Fund)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**

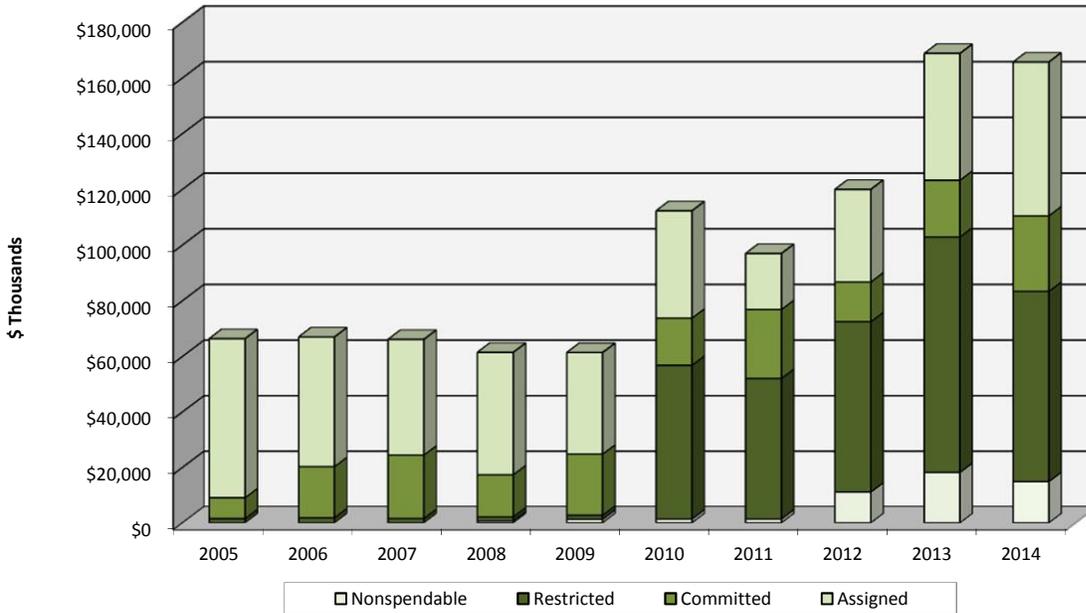


	<b>Fiscal Year Ended June 30</b>									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>General Fund</b>										
Nonspendable	\$ 3,931	\$ 4,052	\$ 5,002	\$ 7,286	\$ 6,476	\$ 6,581	\$ 6,085	\$ 6,007	\$ 5,749	\$ 6,188
Assigned	3,401	3,914	6,855	4,851	6,100	7,295	6,235	6,400	5,415	5,432
Unassigned	24,498	26,251	27,551	30,278	30,648	27,581	31,859	29,616	30,913	36,690
<b>Total General Fund</b>	<b>\$ 31,830</b>	<b>\$ 34,217</b>	<b>\$ 39,408</b>	<b>\$ 42,415</b>	<b>\$ 43,224</b>	<b>\$ 41,457</b>	<b>\$ 44,179</b>	<b>\$ 42,023</b>	<b>\$ 42,077</b>	<b>\$ 48,310</b>

Source: Annual Financial Statements, Balance Sheet



**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (All Other Governmental Funds)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>All Other Governmental Funds</b>										
Nonspendable	\$ -	\$ -	\$ -	\$ 731	\$ 1,308	\$ 1,402	\$ 1,422	\$ 11,112	\$ 18,189	\$ 14,869
Restricted	1,522	1,822	1,540	1,406	1,412	55,400	50,646	61,324	84,688	68,468
Committed	7,521	18,430	22,883	15,207	22,043	16,962	24,775	14,284	20,400	27,145
Assigned	57,336	46,723	41,684	44,116	36,629	38,538	20,114	33,264	45,514	55,211
<b>Total All Other Governmental Funds</b>	<u>\$ 66,379</u>	<u>\$ 66,975</u>	<u>\$ 66,107</u>	<u>\$ 61,460</u>	<u>\$ 61,392</u>	<u>\$ 112,302</u>	<u>\$ 96,957</u>	<u>\$ 119,984</u>	<u>\$ 168,791</u>	<u>\$ 165,693</u>

Source: Annual Financial Statements, Balance Sheet

**CITY OF PALO ALTO**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Revenues</b>										
Property tax	\$ 16,657	\$ 18,731	\$ 21,466	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,248	\$ 30,216	\$ 32,040	\$ 35,393
Sales tax	19,308	20,315	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424
Other taxes and fines	22,037	25,840	26,215	27,385	24,843	25,063	27,890	29,231	32,141	35,305
Charges for services	17,159	18,672	19,929	19,610	19,837	19,775	22,311	46,273	38,976	23,962
From other agencies	2,757	5,931	3,448	4,300	5,984	3,035	1,614	1,116	4,109	5,700
Permits and licenses	3,183	4,305	4,711	4,761	4,033	4,408	5,433	7,136	8,218	8,990
Interest and rentals	14,968	13,776	17,750	20,507	19,183	19,045	16,553	18,583	12,136	18,445
Other revenue	4,269	4,058	7,503	4,713	6,223	4,724	8,624	12,739	17,570	7,471
<b>Total Revenues</b>	<b>100,338</b>	<b>111,628</b>	<b>123,216</b>	<b>126,983</b>	<b>125,624</b>	<b>120,022</b>	<b>132,419</b>	<b>167,426</b>	<b>170,796</b>	<b>164,690</b>
<b>Expenditures</b>										
Administration <sup>1</sup>	14,509	14,299	14,399	16,250	16,002	17,353	8,351	9,412	8,291	9,961
Public Works	9,060	9,036	9,256	10,072	10,064	9,787	11,317	11,304	11,489	12,439
Planning and Community Environment	9,692	9,292	11,874	9,861	10,462	9,480	10,309	11,966	13,474	14,761
Public Safety	38,732	40,393	42,451	48,650	48,957	51,022	58,874	62,418	59,537	62,028
Community Services	16,298	19,740	16,533	17,138	17,451	16,451	20,029	20,860	21,661	22,644
Library	4,800	5,170	5,260	6,219	5,985	5,900	6,509	7,072	6,902	7,340
Non-departmental	9,028	10,389	12,122	14,089	10,765	10,149	7,352	6,819	4,567	8,135
Special revenue and capital projects	21,317	13,243	17,478	21,626	21,485	22,006	35,486	29,154	29,542	37,035
Debt service - principal payments	785	810	850	885	800	840	870	1,743	1,489	1,524
Debt service - interest and fiscal fees	583	523	489	451	416	382	1,815	2,757	2,659	3,196
Payment to bond refunding escrow	-	-	-	-	-	-	-	586	540	-
<b>Total Expenditures</b>	<b>124,804</b>	<b>122,895</b>	<b>130,712</b>	<b>145,241</b>	<b>142,387</b>	<b>143,370</b>	<b>160,912</b>	<b>164,091</b>	<b>160,151</b>	<b>179,063</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(24,466)</b>	<b>(11,267)</b>	<b>(7,496)</b>	<b>(18,258)</b>	<b>(16,763)</b>	<b>(23,348)</b>	<b>(28,493)</b>	<b>3,335</b>	<b>10,645</b>	<b>(14,373)</b>
<b>Other Financing Sources (Uses)</b>										
Transfers in	60,429	26,640	27,701	33,437	39,903	34,835	30,323	47,200	50,343	41,683
Transfers out	(46,622)	(12,390)	(15,882)	(16,819)	(22,399)	(21,415)	(14,352)	(29,782)	(33,833)	(24,175)
Other	-	-	-	-	-	-	(101)	-	-	-
Proceeds from long term debt	-	-	-	-	-	59,071	-	3,222	21,706	-
Payments to refund bond escrow	(1,038)	-	-	-	-	-	-	(3,104)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>12,769</b>	<b>14,250</b>	<b>11,819</b>	<b>16,618</b>	<b>17,504</b>	<b>72,491</b>	<b>15,870</b>	<b>17,536</b>	<b>38,216</b>	<b>17,508</b>
<b>Net Change in Fund Balances</b>	<b>\$ (11,697)</b>	<b>\$ 2,983</b>	<b>\$ 4,323</b>	<b>\$ (1,640)</b>	<b>\$ 741</b>	<b>\$ 49,143</b>	<b>\$ (12,623)</b>	<b>\$ 20,871</b>	<b>\$ 48,861</b>	<b>\$ 3,135</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	1.3%	1.2%	1.2%	1.1%	1.0%	1.0%	2.2%	3.5%	3.2%	3.3%

Notes: <sup>1</sup> Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and PS&O.

Source: Annual Financial Statements, Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances

**CITY OF PALO ALTO**  
**Electric Operating Revenue by Source**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

Fiscal Year	Commercial and			Total
	Residential	Industrial	City of Palo Alto	
2005	\$ 13,009	\$ 56,683	\$ 2,289	\$ 71,981
2006	14,973	67,389	2,492	84,854
2007	15,150	68,214	2,466	85,830
2008	16,109	72,632	2,571	91,312
2009	17,939	83,710	2,823	104,472
2010	19,898	89,315	2,890	112,103
2011	19,848	88,076	2,991	110,915
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388

**Top Ten Electric Customers by Revenue\***

Customer (alphabetical order)	Type of Business
529 Bryant Street LLC	Technology
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
Hewlett-Packard Company	Computer
Space Systems/Loral	Satellite & Satellite Systems
Stanford University	Property Management
Stanford Hospital & Clinics	Hospital
Varian Medical Systems, Inc.	Manufacturing
Veterans Admin Hospital	Hospital
VMware, Inc.	Computer

\*The top ten customers accounted for approximately 39.5% of total kWh consumption (375,172,708 kWh) and 35.7% of revenue (\$40,928,901). The largest customer accounted for 8.3% of total kWh consumption and 7.4% of revenue. The smallest customer accounted for 1.4% of total kWh consumption and 1.3% of revenue.

	Number of Customers	Kilowatt-hour Sales (kWh)	Revenue
Residential	26,439	182,227,583	\$ 18,744
Commercial	2,556	470,229,174	65,244
Industrial	120	213,768,135	23,175
CPA/Other	224	84,559,258	3,225
<b>Total</b>	<b>29,339</b>	<b>950,784,150</b>	<b>\$ 110,388</b>

**City of Palo Alto Power Purchase**

Western Area Power Administration	27%
Forward Market Purchases	43%
Wind Energy	11%
Landfill Gas Energy	8%
Northern California Power Agency Hydroelectric	5%
Short-Term Market	6%

Note: Revenue includes all utilities (metered and non-metered), revenue adjustments, and Primary Voltage discount. Revenue does not include CEC surcharge, UUT, Solar and Rap discounts and deposits. Parts of this schedule are provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and are not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities and Accounting Departments

**CITY OF PALO ALTO**  
**Supplemental Disclosure for Water Utilities**  
**Fiscal Year 2014**

**Top Ten Largest Water Utility Customers (alphabetical order)**

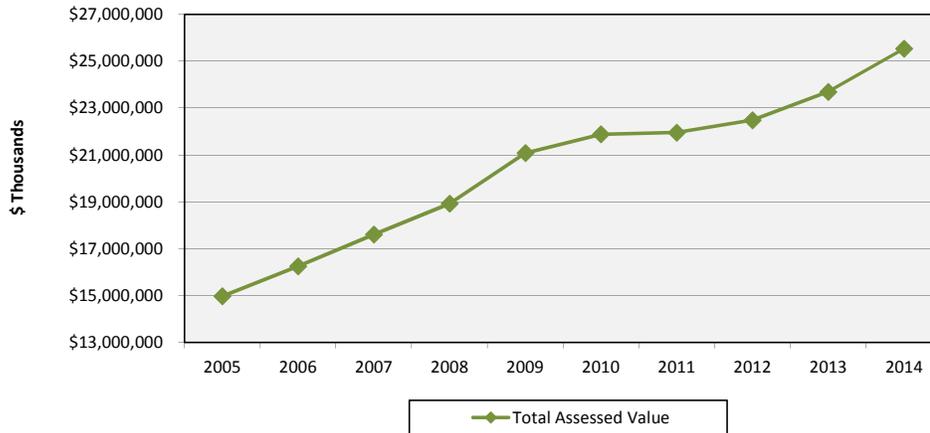
City of Palo Alto  
Hewlett-Packard Company  
Oak Creek Apartments  
Palo Alto Hills Golf & Country Club  
Palo Alto Unified School District  
Space Systems/Loral, Inc.  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Admin Hospital  
VMware Inc.

The top ten customers total consumption is 846,932 CCF with revenue of \$6,628,575. This amount accounts for approximately 16.8% of total consumption and 16.3% of revenue. The largest customer (other than the City of Palo Alto) accounted for 2.1% of consumption and 2.1% of revenue. The smallest customer accounted for 0.8% of consumption and 0.7% of revenue.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO  
Assessed Value of Taxable Property  
Last Ten Fiscal Years  
(Amounts in thousands)**

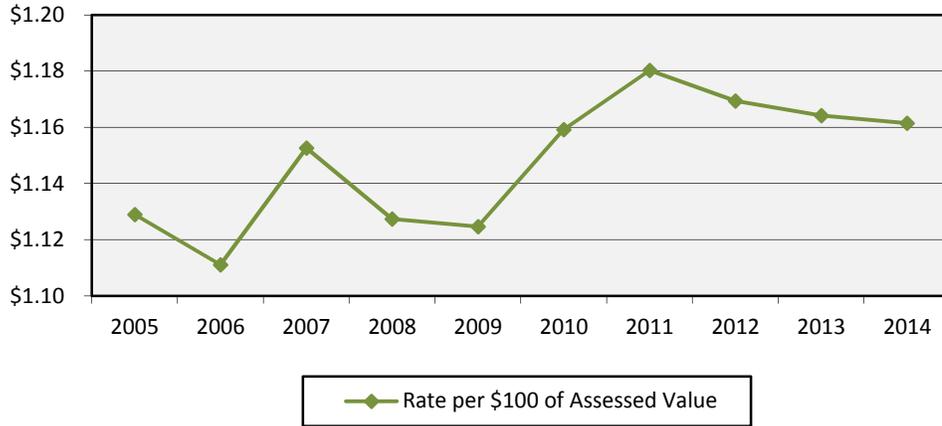


	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Net Local Secured Roll</b>										
Land	\$ 7,075,300	\$ 7,941,482	\$ 8,725,485	\$ 9,497,746	\$ 10,420,139	\$ 11,007,650	\$ 11,011,160	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851
Improvements	7,722,660	8,364,668	8,915,623	9,453,436	10,527,617	10,752,671	10,962,928	11,703,597	12,381,306	12,984,735
Personal property	220,585	174,666	213,154	228,875	303,688	288,148	241,280	257,436	287,296	307,499
	<u>15,018,545</u>	<u>16,480,816</u>	<u>17,854,262</u>	<u>19,180,057</u>	<u>21,251,444</u>	<u>22,048,469</u>	<u>22,215,368</u>	<u>23,314,026</u>	<u>24,924,117</u>	<u>26,650,085</u>
<b>Less:</b>										
Exemptions net of state aid	(1,402,039)	(1,595,871)	(1,639,856)	(1,797,327)	(1,871,292)	(1,809,119)	(1,757,241)	(2,346,728)	(2,589,653)	(2,610,521)
<b>Total Net Local Secured Roll</b>	<u>13,616,506</u>	<u>14,884,945</u>	<u>16,214,406</u>	<u>17,382,730</u>	<u>19,380,152</u>	<u>20,239,350</u>	<u>20,458,127</u>	<u>20,967,298</u>	<u>22,334,464</u>	<u>24,039,564</u>
Public utilities	4,150	4,084	3,923	3,174	2,573	2,573	2,573	2,573	2,573	2,573
Unsecured property	1,354,310	1,361,117	1,391,284	1,536,584	1,702,884	1,638,436	1,495,574	1,516,837	1,355,970	1,493,922
<b>Total Assessed Value</b>	<u>\$ 14,974,966</u>	<u>\$ 16,250,146</u>	<u>\$ 17,609,613</u>	<u>\$ 18,922,488</u>	<u>\$ 21,085,609</u>	<u>\$ 21,880,359</u>	<u>\$ 21,956,274</u>	<u>\$ 22,486,708</u>	<u>\$ 23,693,007</u>	<u>\$ 25,536,059</u>
<b>Total Direct Tax Rate</b>	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara Assessor's Office

**CITY OF PALO ALTO  
Property Tax Rates  
All Overlapping Governments  
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A) <sup>1</sup>	City Library G.O. Bond (Measure N) <sup>2</sup>	Santa Clara Valley Water District	School District	Community College	Total Direct and Overlapping Rates
2005	1.00	0.0388	-	-	0.0092	0.0680	0.0129	1.13
2006	1.00	0.0388	-	-	0.0078	0.0526	0.0119	1.11
2007	1.00	0.0388	-	-	0.0072	0.0720	0.0346	1.15
2008	1.00	0.0388	-	-	0.0071	0.0702	0.0113	1.13
2009	1.00	0.0388	-	-	0.0061	0.0674	0.0123	1.12
2010	1.00	0.0388	0.0122	-	0.0074	0.0686	0.0322	1.16
2011	1.00	0.0388	0.0095	0.0171	0.0072	0.0751	0.0326	1.18
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297	1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287	1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290	1.16

Notes: <sup>1</sup>The County General Obligation Bond (Measure A) was passed in 2008 to fund the seismic upgrade of the Santa Clara Valley Medical Center. Rates were first levied for the 2009-10 fiscal year.

<sup>2</sup>The City of Palo Alto General Obligation Bond (Measure N) was passed in 2008 to fund the construction and renovation of three of the City's libraries. Rates were first levied for the 2010-11 fiscal year.

Source: County of Santa Clara, Tax Rates and Information

**CITY OF PALO ALTO**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

Fiscal Year Ended June 30	Total Tax Levy <sup>1</sup> for FY	Collected within the Fiscal Year of the Levy			Total Collections to Date		
		Amount	Percentage of Levy	Collections in Subsequent Years <sup>2</sup>	Amount	Percentage of Levy	
2005	\$ 16,657	\$ 16,657	100%	\$ -	\$ 16,657	100%	
2006	18,731	18,731	100%	-	18,731	100%	
2007	21,466	21,466	100%	-	21,466	100%	
2008	23,084	23,084	100%	-	23,084	100%	
2009	25,432	25,432	100%	-	25,432	100%	
2010	25,981	25,981	100%	-	25,981	100%	
2011	25,688	25,688	100%	-	25,688	100%	
2012	26,494	26,494	100%	-	26,494	100%	
2013	28,742	28,742	100%	-	28,742	100%	
2014	30,587	30,587	100%	-	30,587	100%	

Notes: <sup>1</sup>During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the county to keep all interest and delinquency charges collected.

<sup>2</sup>Effective fiscal year 1994, 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 that fiscal year.

Source: Annual Financial Statements, Government Funds, Statement of Revenues, Expenditures and Changes in Fund Balances.

**CITY OF PALO ALTO**  
**Principal Property Taxpayers**  
**Current Year and Nine Years Ago**  
**(Amounts in thousands)**

Taxpayer	Fiscal Year 2014			Fiscal Year 2005		
	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value
	Value			Value		
Leland Stanford Jr. University	\$ 3,689,653	1	14.4%	\$ 2,508,150	1	16.7%
Loral Space & Communications	252,085	2	1.0%	196,954	2	1.3%
EOSII Palo Alto Technology Center LLC	118,769	3	0.5%			
Whisman Ventures, LLC	109,311	4	0.4%			
Pacific Hotel Development Venture LP	81,729	5	0.3%			
Ronald & Ann Williams Charitable Foundation	61,179	6	0.2%			
PPC Forest Towers LLC	55,323	7	0.2%			
Blackhawk Parent, LLC	52,224	8	0.2%			
529 Bryant St. LLC	44,358	9	0.2%			
Park Village Peninsula LLC	39,008	10	0.2%			
Agilent Technologies				70,688	3	0.5%
Harbor Investment Partners				61,997	4	0.4%
Hamilton Associates				37,335	5	0.2%
505 Hamilton Avenue Partners				36,358	6	0.2%
California Pacific Commercial Corp.				34,492	7	0.2%
Thoits Bros Inc.				28,596	8	0.2%
Hyatt Equities LLC				25,944	9	0.2%
Inspire Real Estate Holdings				22,500	10	0.2%
<b>Total</b>	<u>\$ 4,503,639</u>		<u>17.6%</u>	<u>\$ 3,023,014</u>		<u>20.2%</u>

**Total City Taxable Assessed Value:**

FY 2014	\$ 25,536,059
FY 2005	\$ 14,974,966

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2014**

	<b>2013-2014</b>						
	<b>Assessed</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	
	<b>Valuation<sup>1</sup></b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>	<b>Taxable</b>	<b>% of</b>	
					<b>Parcels</b>	<b>Total</b>	
<b><u>Non-Residential:</u></b>							
Agricultural/forest	\$ 34,972,534	0.15 %	48	0.23 %	32	0.16 %	
Commercial	1,217,725,581	5.07	459	2.23	454	2.25	
Professional/office	2,963,762,320	12.33	520	2.53	503	2.49	
Industrial/research & development	1,759,861,882	7.32	189	0.92	182	0.90	
Recreational	41,605,067	0.17	14	0.07	12	0.06	
Government/social/institutional	35,141,795	0.15	113	0.55	45	0.22	
Miscellaneous	<u>6,840,061</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>	
Subtotal Non-Residential	\$ 6,059,909,240	25.21 %	1,361	6.62 %	1,245	6.17 %	
<b><u>Residential:</u></b>							
Single family residence	\$ 14,208,622,113	59.11 %	14,926	72.60 %	14,879	73.72 %	
Condominium/townhouse	1,911,246,785	7.95	3,006	14.62	3,000	14.86	
Mobile Home	56,727	0.00	7	0.03	7	0.03	
2-4 Residential units	375,813,638	1.56	512	2.49	512	2.54	
5+ Residential units	<u>1,316,514,149</u>	<u>5.48</u>	<u>335</u>	<u>1.63</u>	<u>310</u>	<u>1.54</u>	
Subtotal Residential	\$ 17,812,253,412	74.10 %	18,786	91.38 %	18,708	92.70 %	
<b>Vacant Parcels</b>	\$ 167,401,061	0.70 %	412	2.00 %	229	1.13 %	
<b>Total</b>	\$ 24,039,563,713	100 %	20,559	100 %	20,182	100 %	

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's General Obligation 2010 and 2013A Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<sup>1</sup>Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Per Parcel Assessed Valuation of Single Family Residential**  
**As of June 30, 2014**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2013-2014 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	14,879	\$14,208,622,113	\$954,945	\$710,650

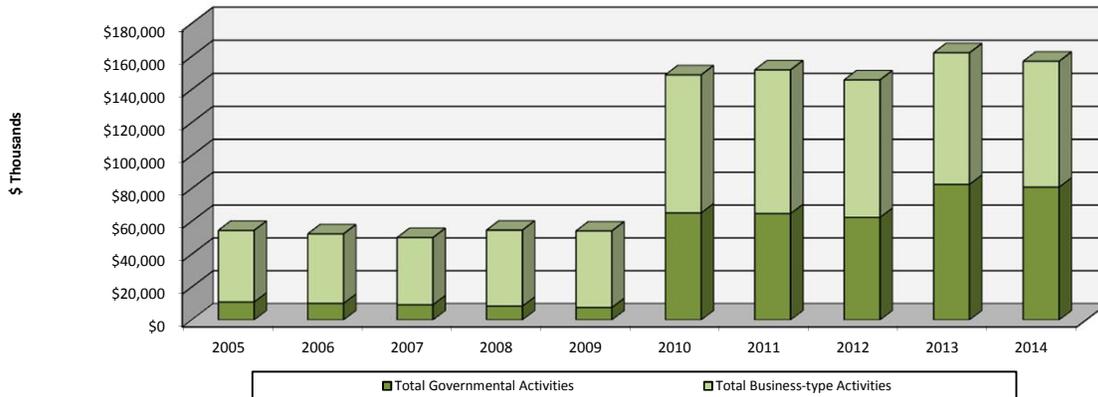
<b>2013-2014 Assessed Valuation</b>	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>% of Total Parcels</b>	<b>Cumulative % of Total Parcels</b>	<b>Total Valuation</b>	<b>% of Total Valuation</b>	<b>Cumulative % of Total Valuation</b>
\$0-99,999	1,563	10.50	10.50	\$ 122,339,273	0.86	0.86
\$100,000-199,999	1,890	12.70	23.21	259,842,687	1.83	2.69
\$200,000-299,999	918	6.17	29.38	228,694,427	1.61	4.30
\$300,000-399,999	760	5.11	34.48	264,491,238	1.86	6.16
\$400,000-499,999	749	5.03	39.52	337,588,409	2.38	8.54
\$500,000-599,999	796	5.35	44.87	437,697,563	3.08	11.62
\$600,000-699,999	683	4.59	49.46	443,390,894	3.12	14.74
\$700,000-799,999	608	4.09	53.55	454,451,425	3.20	17.94
\$800,000-899,999	688	4.62	58.17	585,819,332	4.12	22.06
\$900,000-999,999	682	4.58	62.75	647,931,889	4.56	26.62
\$1,000,000-1,099,999	615	4.13	66.89	644,701,712	4.54	31.16
\$1,100,000-1,199,999	529	3.56	70.44	606,657,478	4.27	35.43
\$1,200,000-1,299,999	506	3.40	73.84	632,593,803	4.45	39.88
\$1,300,000-1,399,999	503	3.38	77.22	678,992,569	4.78	44.66
\$1,400,000-1,499,999	431	2.90	80.12	624,094,603	4.39	49.05
\$1,500,000-1,599,999	390	2.62	82.74	604,251,717	4.25	53.30
\$1,600,000-1,699,999	311	2.09	84.83	512,381,113	3.61	56.91
\$1,700,000-1,799,999	277	1.86	86.69	484,873,179	3.41	60.32
\$1,800,000-1,899,999	202	1.36	88.05	372,949,891	2.62	62.95
\$1,900,000-1,999,999	225	1.51	89.56	438,425,123	3.09	66.03
\$2,000,000 and greater	1,553	10.44	100.00	4,826,453,788	33.97	100.00
<b>Total</b>	<b>14,879</b>	<b>100.00</b>		<b>\$ 14,208,622,113</b>	<b>100.00</b>	

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's General Obligation 2010 and 2013A Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<sup>1</sup>Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



	<b>Fiscal Year Ended June 30</b>									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities</b>										
Certificates of Participation	\$ 10,625	\$ 9,915	\$ 9,175	\$ 8,405	\$ 7,605	\$ 6,765	\$ 5,895	\$ 1,685	\$ 1,560	\$ 1,430
General Obligation Bonds	-	-	-	-	-	55,305	55,305	54,540	74,235	73,215
Special Assessment Debt	325	225	115	-	-	-	-	-	-	-
2011 Lease-Purchase Agreement	-	-	-	-	-	-	-	2,764	2,400	2,026
Add: unamortized premium	-	-	-	-	-	3,766	3,640	3,514	4,400	4,242
Less: unamortized discount/ issuance costs <sup>2</sup>	-	-	-	-	-	(571)	-	-	-	-
<b>Total Governmental Activities</b>	<b>10,950</b>	<b>10,140</b>	<b>9,290</b>	<b>8,405</b>	<b>7,605</b>	<b>65,265</b>	<b>64,840</b>	<b>62,503</b>	<b>82,595</b>	<b>80,913</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	44,735	43,325	41,859	40,334	38,744	72,104	69,551	65,879	63,104	60,224
Energy Tax Credits	-	-	-	1,400	1,300	1,200	1,100	1,000	900	800
State Water Resources Loan	-	-	-	5,629	9,000	13,080	16,696	15,900	15,109	14,309
Less: unamortized discount/ issuance costs <sup>2</sup>	(1,137)	(1,037)	(972)	(1,053)	(2,479)	(2,737)	(229)	580	543	867
<b>Total Business-type Activities</b>	<b>43,598</b>	<b>42,288</b>	<b>40,887</b>	<b>46,310</b>	<b>46,565</b>	<b>83,647</b>	<b>87,118</b>	<b>83,359</b>	<b>79,656</b>	<b>76,200</b>
<b>Total Primary Government Outstanding Debt</b>	<b>\$ 54,548</b>	<b>\$ 52,428</b>	<b>\$ 50,177</b>	<b>\$ 54,715</b>	<b>\$ 54,170</b>	<b>\$ 148,912</b>	<b>\$ 151,958</b>	<b>\$ 145,862</b>	<b>\$ 162,251</b>	<b>\$ 157,113</b>
Percentage of Personal Income <sup>1</sup>	1.89%	1.69%	1.51%	1.53%	1.50%	4.48%	4.10%	3.61%	3.80%	3.39%
Population (actual)	61,674	62,148	62,615	63,367	64,484	65,408	64,417	65,544	66,368	66,861
Debt Per Capita	\$ 0.88	\$ 0.84	\$ 0.80	\$ 0.86	\$ 0.84	\$ 2.28	\$ 2.36	\$ 2.23	\$ 2.44	\$ 2.35

Notes: <sup>1</sup>See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

<sup>2</sup>The City adopted GASB Statement No. 65 in FY 2014 and wrote off accumulated bond issuance costs. Prior years have not been restated.

Sources: County of Santa Clara (assessed valuation)

State of California, Department of Finance (population)

California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)

Annual Financial Statements, Note 7 General Long-Term Obligations and Note 8 Special Assessment Debt

**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2014**

**2013-2014 Assessed Valuation** \$ 25,536,058,396

	<b>Total Debt</b>	<b>Percentage</b>	<b>Amount</b>
	<b>Outstanding</b>	<b>Applicable</b>	<b>Applicable</b>
		<b>to City of</b>	<b>to City of</b>
		<b>Palo Alto<sup>1</sup></b>	<b>Palo Alto</b>
<b><u>Direct and Overlapping Tax and Assessment Debt</u></b>			
Santa Clara County	\$ 804,700,000	7.64%	\$ 61,438,845
Foothill-DeAnza Community College District	613,179,288	22.53%	138,124,766
Palo Alto Unified School District	319,849,249	89.48%	286,197,910
Fremont Union High School District	290,570,108	0.02%	63,925
Los Gatos Joint Union High School District	41,805,000	0.01%	5,853
Mountain View-Los Altos Union High School District	65,436,599	0.91%	596,127
Cupertino Union School District	261,223,462	0.04%	94,040
Los Altos School District	76,158,560	0.99%	753,208
Mountain View-Whisman School District	46,000,000	0.84%	384,100
Saratoga Union School District	40,224,483	0.03%	12,470
Whisman School District	23,045,269	2.14%	493,399
<b>City of Palo Alto</b>	<b>77,457,000</b>	<b>100%</b>	<b>77,457,000</b>
El Camino Hospital District	140,010,000	0.09%	126,009
City of Palo Alto Special Assessment Bonds	29,745,000	100%	29,745,000
Santa Clara Valley Water District Benefit Assessment District	115,045,000	7.64%	<u>8,783,686</u>
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u><b>604,276,338</b></u>
<b><u>Direct and Overlapping General Fund Debt</u></b>			
Santa Clara County General Fund Obligations	757,814,320	7.63%	57,859,123
Santa Clara County Pension Obligations	375,419,144	7.64%	28,663,252
Santa Clara County Board of Education Certificates of Participation	9,730,000	7.64%	742,886
Foothill-DeAnza Community College District Certificates of Participation	13,468,694	22.53%	3,033,958
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	7,925,000	0.01%	1,110
Mountain View-Los Altos Union High School District Certificates of Participation	4,170,000	0.91%	37,989
Saratoga Union High School District Certificates of Participation	5,240,000	0.03%	1,624
<b>City of Palo Alto Certificates of Participation</b>	<b>1,430,000</b>	<b>100%</b>	<b>1,430,000</b>
<b>City of Palo Alto 2011 Lease Purchase Agreement</b>	<b>2,026,000</b>	<b>100%</b>	<b>2,026,000</b>
Santa Clara County Vector Control District Certificates of Participation	3,275,000	7.63%	250,046
Midpeninsula Regional Open Space Park District General Fund Obligations	133,209,717	13.19%	<u>17,574,358</u>
<b>Total Gross Direct and Overlapping General Fund Debt</b>			\$ 111,620,346
Less: Santa Clara County supported obligations			<u>40,732,468</u>
<b>Total Net Direct and Overlapping General Fund Debt</b>			\$ 70,887,878
<b>Total Combined Debt</b>			<u><b>\$ 675,164,216</b></u>
	<b>Ratio to</b>		
	<b>Assessed Valuation</b>		
<b>Total Direct Debt</b>	0.32%		\$ 80,913,000
<b>Total Overlapping Debt</b>	2.33%		<u>594,251,216</u>
<b>Total Direct and Overlapping Debt</b>	2.64%		<u><b>\$ 675,164,216</b></u>

Notes: Overlapping debt is the financial obligations of one political jurisdiction that also falls partly on a nearby jurisdiction. The amount of debt of each unit applicable to the reporting unit is arrived at by 1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and 2) applying this percentage to the total debt of the overlapping jurisdiction.

<sup>1</sup>Percentage of overlapping agency's assessed valuation located within boundaries of the city

<sup>2</sup>Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2014**  
**(Amounts in thousands)**

<b>Assessed Valuation:</b>		
Secured property assessed value, net of exempt real property	\$ 25,536,059	
<b>Bonded Debt Limit (3.75% of Assessed Value) <sup>1</sup></b>		957,602
<b>Direct Debt:</b>		
Certificates of Participation	1,430	
Lease Purchase Agreement	2,026	
General Obligation bonds	73,215	
<b>Total Direct Debt</b>		76,671
<b>Less: Amount of Debt Not Subject to Limit <sup>2</sup></b>	3,456	
<b>Total Net Debt Applicable to Limit</b>		73,215
<b>Legal Bonded Debt Margin</b>		\$ 884,387

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable to the Debt as a %	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2005	\$ 14,974,966	\$ 561,561	\$ -	\$ 561,561	61,674	0.00%	-	0.00
2006	16,250,144	609,380	-	609,380	62,148	0.00%	-	0.00
2007	17,609,613	660,360	-	660,360	62,615	0.00%	-	0.00
2008	18,922,488	709,593	-	709,593	63,367	0.00%	-	0.00
2009	21,085,609	790,710	-	790,710	64,484	0.00%	-	0.00
2010	21,880,359	820,513	55,305	765,208	65,408	6.74%	0.0025	0.85
2011	21,956,274	823,360	55,305	768,055	64,417	6.72%	0.0025	0.86
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,059	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10

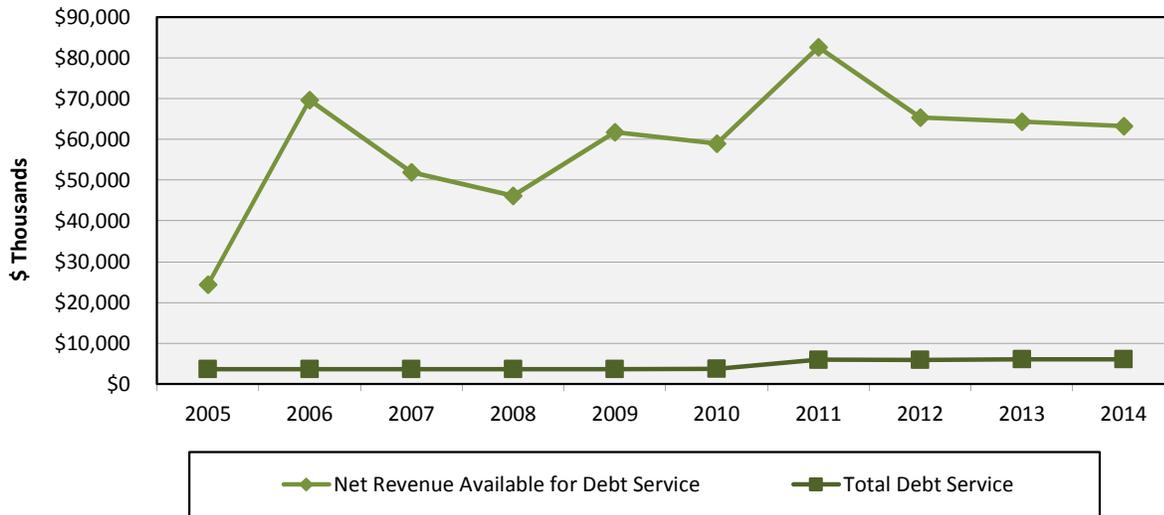
Notes: <sup>1</sup>California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

<sup>2</sup>In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%. Enterprise Fund debt is not subject to legal debt margin.

Total Assessed Value for FY 2005 was restated due to correction of data.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 General Long-Term Obligations

**CITY OF PALO ALTO**  
**Revenue Bond Coverage**  
**Business-type Activities<sup>1</sup>**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest <sup>3</sup>	Total	
2005	\$ 171,493	\$ 147,123	\$ 24,370	\$ 1,365	\$ 2,257	\$ 3,622	6.73
2006	213,337	143,703	69,634	1,410	2,203	3,613	19.27
2007	203,146	151,196	51,950	1,465	2,147	3,612	14.38
2008	219,801	173,620	46,181	1,525	2,088	3,613	12.78
2009	242,693	180,880	61,813	1,590	2,024	3,614	17.10
2010	230,308	171,320	58,988	1,755	1,954	3,709	15.90
2011	234,278	151,641	82,637	2,655	3,261	5,916	13.97
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45

Notes: <sup>1</sup>Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.

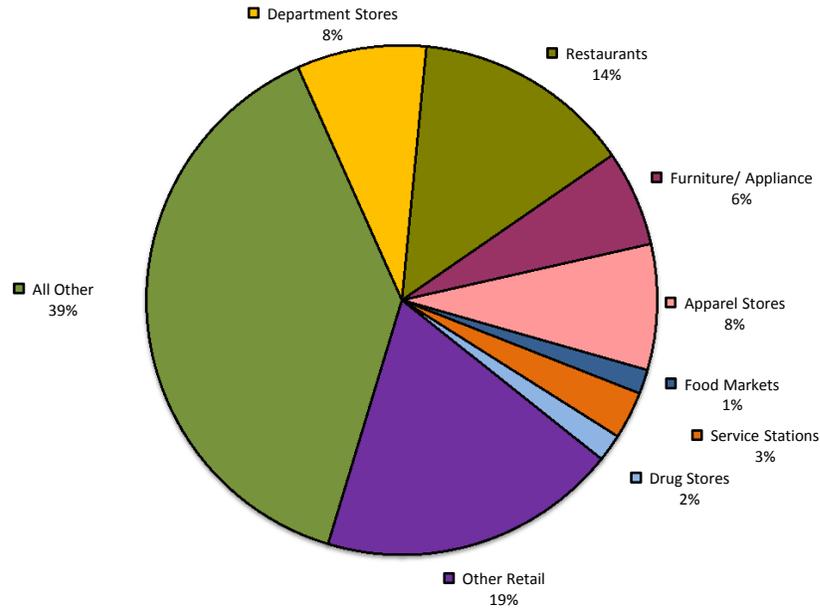
<sup>2</sup>Excludes depreciation and amortization expense.

<sup>3</sup>Excludes federal interest subsidy.

Source: City of Palo Alto, Accounting Department

**CITY OF PALO ALTO  
Taxable Transactions by Type of Business  
Last Ten Fiscal Years  
(Amounts in thousands)**

**Fiscal Year 2014**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2005	2,621	2,206	1,176	1,310	356	533	317	3,590	7,105	19,214
2006	2,664	2,306	1,168	1,346	370	595	392	4,244	7,104	20,189
2007	2,751	2,486	1,109	1,485	374	602	203	5,075	7,139	21,224
2008	2,685	2,566	1,685	1,497	349	622	405	4,682	6,797	21,288
2009	2,251	2,443	1,431	1,258	315	493	214	4,284	6,635	19,324
2010	2,215	2,418	1,402	1,254	343	549	219	4,458	5,556	18,414
2011	2,374	2,621	1,564	1,292	381	630	242	4,873	6,322	20,299
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577

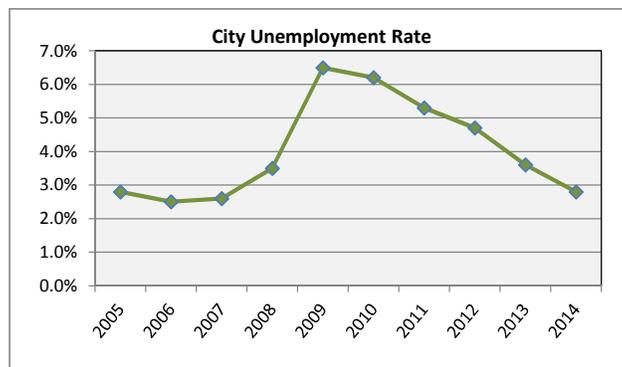
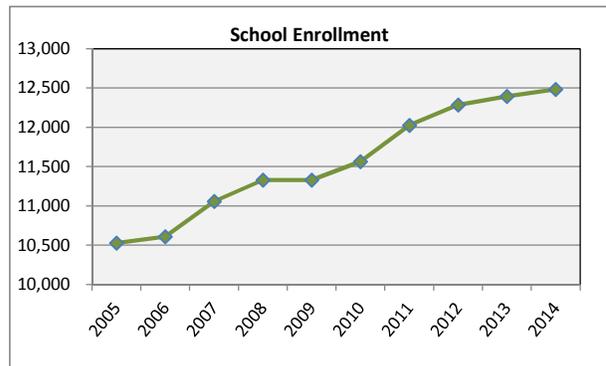
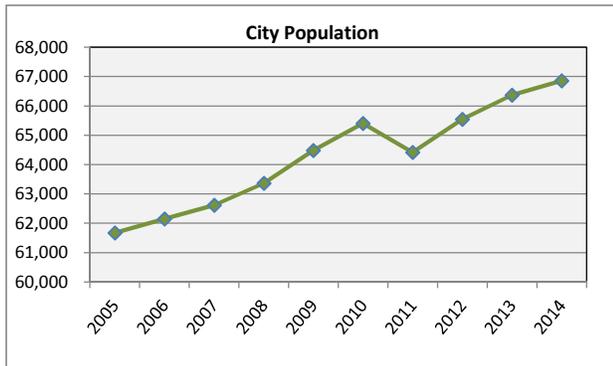
Source: California State Board of Equalization, compiled by MuniServices LLC

**Sales Tax Rates for the Fiscal Year ended June 30, 2014**

<b>State Rate:</b>	6.00%
<b>Local (County/City) Rates:</b>	
Palo Alto (State-City or County Operations)	0.75%
State/Palo Alto (Fiscal Recovery Fund to pay off Economic Recovery Bonds 2004)	0.25%
Sate (Local Public Safety Fund to support local criminal justice activities 1993)	0.50%
<b>Special District Tax Rates:</b>	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
<b>Total Sales and Use Tax Rate:</b>	<b>8.750%</b>

Source: California State Board of Equalization

**CITY OF PALO ALTO**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income (in thousands)
2005	61,674	2.8%	10,527	1,759,585	3.51%	\$ 82,300,000	\$ 46,772
2006	62,148	2.5%	10,607	1,773,258	3.50%	88,300,000	49,795
2007	62,615	2.6%	11,056	1,808,056	3.46%	96,100,000	53,151
2008	63,367	3.5%	11,329	1,837,075	3.45%	103,500,000	56,340
2009	64,484	6.5%	11,329	1,857,621	3.47%	104,300,000 *	56,147 *
2010	65,408	6.2%	11,565	1,880,876	3.48%	95,500,000 *	50,774 *
2011	64,417	5.3%	12,024	1,781,427	3.62%	102,600,000 *	57,594 *
2012	65,544	4.7%	12,286	1,816,486	3.61%	111,900,000 *	61,602 *
2013	66,368	3.6%	12,396	1,842,254	3.60%	118,600,000 *	64,378 *
2014	66,861	2.8%	12,483	1,868,558	3.58%	129,600,000 *	69,358 *

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: California State Department of Finance (population)  
 State Employment Development Office (unemployment rate)  
 Palo Alto Unified School District (school enrollment)

\* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated annually.



**CITY OF PALO ALTO**  
**Principal Employers**  
**Current Year and Six Years Ago**

Employer	FY 2014			FY 2008 <sup>1</sup>		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Stanford University	11,128	1	8.9%	9,821	1	7.0%
Stanford University Medical Center/Hospital	5,886	2	4.7%	5,025	2	3.6%
Lucile Packard Children's Hospital	4,215	3	3.4%	3,326	4	2.4%
VMware Inc.	3,509	4	2.8%			
SAP	3,500	5	2.8%			
Veteran's Affairs Palo Alto Health Care System	3,000	6	2.4%	3,500	3	2.5%
Space Systems/Loral	2,720	7	2.2%	1,700	7	1.2%
Hewlett-Packard Company	2,500	8	2.0%	2,001	5	1.4%
Colubris Networks, Inc.	2,201	9	1.8%			
Palo Alto Medical Foundation	2,200	10	1.8%	2,000	6	1.4%
Wilson Sonsini Goodrich & Rosati				1,500	8	1.1%
Palo Alto Unified School District				1,304	9	0.9%
City of Palo Alto				1,074	10	0.8%
<b>Total</b>	<b>40,859</b>		<b>32.8%</b>	<b>31,251</b>		<b>22.3%</b>

**Estimated Total City Day Population:**

FY 2014	125,000
FY 2008	140,000

Notes: <sup>1</sup>Comparable data was not available until FY 2008.  
Available data sources have been shown to be unreliable in the past. These numbers will be refined with the creation of a City business registry.

Source: AtoZdatabases, <http://facts.stanford.edu/governance.html>, <http://facts.stanford.edu/hospital.html>, [www.lpch.org/aboutus/](http://www.lpch.org/aboutus/), The City of Palo Alto, A Report to Our Citizens.

**CITY OF PALO ALTO**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years<sup>1</sup>**

<b>FUNCTIONS/PROGRAMS</b>	<b>Fiscal Year Ended June 30</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b><u>Governmental activities</u></b>					
<b>Community Services</b>					
Number of theater performances	175	172	183	171	166
Total hours of athletic field usage <sup>2</sup>	-	65,748	65,791	70,769	63,212
Number of rounds of golf	83,728	78,410	76,000	76,241	74,630
Enrollment in recreation classes (includes summer camps)	16,435	15,127	14,768	14,460	13,851
<b>Planning and Community Environment</b>					
Planning applications completed	409	327	390	299	257
Building permits issued	3,236	3,081	3,081	3,136	3,046
Green Building permit applications processed <sup>3</sup>	-	-	-	-	-
Caltrain average weekday boarding	2,825	3,264	3,882	4,132	4,589
<b>Police</b>					
Calls for service	52,489	52,233	57,017	60,079	58,742
Total arrests	2,577	2,134	2,530	3,059	3,253
Parking citations issued	47,860	52,235	56,502	57,222	50,706
<b>Animal Services</b>					
Number of service calls	3,575	4,994	2,861	2,990	3,059
Number of sheltered animals	3,780	3,514	3,839	3,578	3,532
<b>Fire</b>					
Calls for service	6,675	6,414	6,897	7,236	7,723
Number of fire incidents	248	224	211	221	192
Number of fire inspections	793	1,488	899	1,021	1,277
<b>Library</b>					
Total number of cardholders	50,171	52,001	55,909	53,099	53,740
Total number of items in collection	267,693	264,511	260,468	270,755	279,403
Total checkouts	1,314,790	1,282,888	1,280,547	1,414,509	1,542,116
<b>Public Works</b>					
Street resurfacing (lane miles)	17	20	20	32	27
Number of potholes repaired	2,907	3,221	2,311	1,188	1,977
Sq. ft. of sidewalk replaced or permanently repaired	115,352	132,430	126,574	94,620	83,827
Number of trees planted	242	164	263	164	188
Total tons of waste landfilled	61,266	60,777	59,276	59,938	61,866
Tons of materials recycled	49,268	50,311	56,013	56,837	52,196
<b><u>Business-type activities</u></b>					
<b>Electric</b>					
Number of customer accounts	28,482	28,556	28,653	28,684	29,024
Residential MWH consumed	158,099	161,440	161,202	162,405	162,680
<b>Gas</b>					
Number of customer accounts	23,216	23,301	23,353	23,357	23,502
Residential therms consumed	11,700,335	12,299,158	11,745,883	11,759,842	11,969,151
<b>Water</b>					
Number of customer accounts	19,557	19,605	19,645	19,726	19,942
Residential water consumption (CCF)	3,000,645	2,686,507	2,647,758	2,807,477	2,746,980
<b>Wastewater collection</b>					
Number of customer accounts	21,830	21,763	21,784	21,789	21,970
Millions of gallons processed	8,238	8,497	8,972	8,853	8,510

Notes: <sup>1</sup>Ten most recent years available.

<sup>2</sup>Some data not available.

<sup>3</sup>In FY 2009, a new Green Building Program was established under the City's Green Building Ordinance to build a new generation of efficient buildings in Palo Alto that are environmentally responsible and healthy places in which to live and work.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report)

**Fiscal Year Ended June 30**

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
159	174	175	175	184
45,762	41,705	42,687	44,226	-
72,170	69,791	67,381	65,653	60,153
13,091	12,880	12,310	11,703	11,598
273	226	238	204	307
2,543	2,847	3,559	3,320	3,682
341	556	961	887	1,037
4,863	4,796	5,501	5,730	5,469
53,275	55,860	52,159	51,086	54,628
2,612	2,451	2,288	2,212	2,274
49,996	42,591	40,426	41,875	43,877
2,873	2,692	2,804	3,051	2,909
3,422	3,147	3,323	3,379	2,675
7,549	7,468	7,555	7,796	7,904
239	182	165	186	150
1,028	1,526	1,807	1,654	2,069
54,878	51,969	53,246	60,283	51,007
293,735	298,667	314,154	306,361	277,749
1,633,955	1,624,785	1,476,648	1,559,932	1,512,975
23	32	29	40	36
3,727	3,149	2,986	3,047	2,726
56,909	54,602	71,174	72,787	82,118
250	201	150	143	245
68,228	48,955	38,524	43,947	45,411
49,911	48,811	56,586	51,725	47,941
28,527	29,430	29,708	29,545	29,299
159,899	163,098	160,318	160,604	156,411
23,090	23,724	23,816	23,915	23,659
11,003,088	11,394,712	11,476,609	11,522,999	10,834,793
19,442	20,134	20,248	20,317	20,043
2,566,962	2,415,467	2,442,415	2,513,595	2,521,930
21,210	22,231	22,320	22,421	22,152
7,958	8,184	8,652	8,130	7,546

**CITY OF PALO ALTO**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

<b>FUNCTION/PROGRAM</b>	<b>Fiscal Year Ended June 30</b>			
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Public Safety</b>				
Fire:				
Fire Stations	8	8	8	8
Fire Apparatus	25	25	25	23
Police:				
Police Stations	1	1	1	1
Police Patrol Vehicles	30	30	30	30
<b>Community Services</b>				
Acres - Downtown/Urban Parks	170	170	157	157
Acres - Open Space	3,731	3,731	3,744	3,744
Parks and Preserves	35	35	36	36
Golf Course	1	1	1	1
Tennis Courts	52	52	51	51
Athletic Center	1	1	4	4
Community Centers	4	4	4	4
Theaters	3	3	3	3
Cultural Center/Art Center	1	1	1	1
Junior Museum and Zoo	1	1	1	1
Swimming Pools	1	1	1	1
Nature Center	2	2	3	3
<b>Libraries</b>				
Libraries	5	5	5	5
<b>Public Works:</b>				
Number of Trees Maintained	35,096	34,841	34,556	35,058
<b>Electric Utility<sup>1</sup></b>				
Miles of Overhead Lines	225	217	194	193
Miles of Underground Lines	188	210	252	253
<b>Water Utility</b>				
Miles of Water Mains	226	217	217	217
<b>Gas Utility</b>				
Miles of Gas Mains	207	207	207	207
<b>Waste Water</b>				
Miles of Sanitary Sewer Lines	202	202	202	202

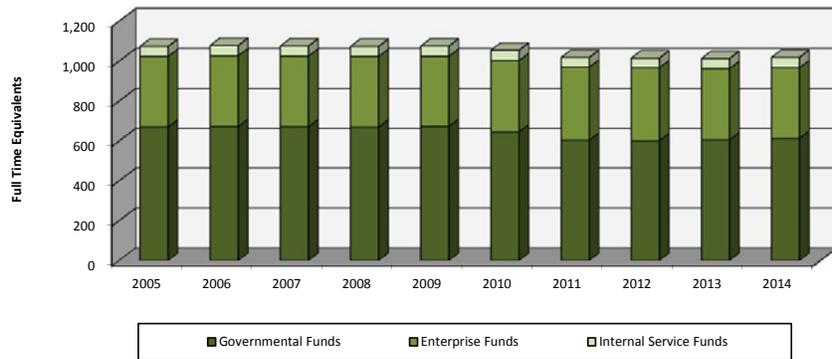
Note: <sup>1</sup>The City of Palo Alto Utilities Department recently completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.

Source: City of Palo Alto

Fiscal Year Ended June 30

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
8	8	8	7	7	7
28	28	27	29	28	28
1	1	1	1	1	1
30	30	30	30	30	30
157	157	157	157	157	157
3,744	3,744	3,744	3,744	3,744	3,744
36	36	36	36	36	36
1	1	1	1	1	1
51	51	51	51	51	51
4	4	4	4	4	4
4	4	4	4	4	4
3	3	3	3	3	3
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
3	3	3	3	3	3
5	5	5	5	5	5
34,991	35,025	34,977	34,874	34,907	34,741
193	193	193	223	222	223
253	253	253	245	246	249
214	214	214	234	233	236
207	205	205	210	210	214
207	207	207	217	217	217

**CITY OF PALO ALTO**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**



**Full Time Equivalent Employees as of June 30**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Funds</b>										
General Fund:										
Administrative	96	97	99	98	98	89	83	83	85	83
Community Services	98	99	97	96	97	94	74	74	74	74
Office of Emergency Services <sup>5</sup>	-	-	-	-	-	-	-	-	-	3
Fire	126	127	127	127	127	123	121	122	119	116
Library	44	44	44	44	44	42	41	41	41	42
Planning and Community Environment	53	53	53	53	53	49	44	43	48	49
Police	165	164	163	163	164	161	157	157	154	155
Public Works <sup>1</sup>	68	68	68	68	69	64	59	56	57	56
<b>Subtotal General Fund</b>	<b>650</b>	<b>652</b>	<b>651</b>	<b>649</b>	<b>652</b>	<b>622</b>	<b>579</b>	<b>576</b>	<b>578</b>	<b>578</b>
All Other Funds:										
Capital Projects Fund	20	20	20	20	21	24	24	24	26	27
Special Revenue Fund	1	1	1	1	1	1	2	2	2	9
<b>Total Governmental Funds</b>	<b>671</b>	<b>673</b>	<b>672</b>	<b>670</b>	<b>674</b>	<b>647</b>	<b>605</b>	<b>602</b>	<b>606</b>	<b>614</b>
<b>Enterprise Funds</b>										
Public Works <sup>2</sup>	113	113	113	113	113	115	115	115	104	99
Utilities <sup>3</sup>	234	236	235	235	238	242	251	251	254	255
External Services <sup>4</sup>	6	6	6	6	-	-	-	-	-	-
<b>Total Enterprise Funds</b>	<b>353</b>	<b>355</b>	<b>354</b>	<b>354</b>	<b>351</b>	<b>357</b>	<b>366</b>	<b>366</b>	<b>358</b>	<b>354</b>
<b>Internal Service Funds</b>										
Printing and Mailing	4	5	4	4	4	4	2	2	2	2
Technology	30	30	30	30	31	31	30	30	31	32
Vehicle Replacement	16	16	16	16	16	16	16	16	17	17
<b>Total Internal Service Funds</b>	<b>50</b>	<b>51</b>	<b>50</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>48</b>	<b>48</b>	<b>50</b>	<b>51</b>
<b>Total</b>	<b>1,074</b>	<b>1,079</b>	<b>1,076</b>	<b>1,074</b>	<b>1,076</b>	<b>1,055</b>	<b>1,019</b>	<b>1,016</b>	<b>1,014</b>	<b>1,019</b>

<sup>1</sup>Fleet and Facilities Management

<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment

<sup>3</sup>Electric, Gas, Wastewater Collection, Water

<sup>4</sup>Effective in 2009, External Services was dissolved. 5 FTEs were eliminated and 1 FTE was transferred to the Technology Fund.

<sup>5</sup>Effective in 2014, emergency services and disaster preparation activities have been removed from the Fire Department and are now shown in newly created Office of Emergency Services.

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2014 Adopted Operating Budget

**CITY OF PALO ALTO**  
**Index to the Single Audit Report**  
For the Year Ended June 30, 2014

	<i><b>Page</b></i>
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	155
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	157
Schedule of Expenditures of Federal Awards .....	159
Notes to the Schedule of Expenditures of Federal Awards .....	160
Schedule of Findings and Questioned Costs .....	161
Schedule of Prior Years Findings and Questioned Costs.....	162

This page is intentionally left blank.



**Independent Auditor’s Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 17, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 17, 2014

**Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palo Alto’s, California (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2014. 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.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

***Opinion on Each Major Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 17, 2014

**CITY OF PALO ALTO**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures	Subrecipients Expenditures
<b>U.S. Department of Agriculture</b>				
<i>Pass-through from California Emergency Management Agency (CalEMA)</i>				
CA Fire Assitance Agreement	6022-9	10.09-FI-11052012-150	\$ 50,542	\$ -
<b>U.S. Department of Housing and Urban Development</b>				
<i>Direct</i>				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	B-10-MC-06-0020	14.218	672,923	574,221
<b>U.S. Department of Interior</b>				
<i>Direct</i>				
ARRA - Water Reclamation and Reuse Program	R10AP20003	15.504	5,599	-
<b>U.S. Department of Justice</b>				
<i>Direct</i>				
Equitable Sharing Program	CA0431200	16.CA0431200	2,315	-
<b>U.S. Department of Transportation</b>				
<i>Pass-through from State of California Department of Transportation</i>				
Highway Planning and Construction	HSIPL-5100(014)	20.205	898,474	-
Highway Planning and Construction	STPL-5100(019)	20.205	544,927	-
Highway Planning and Construction	BRLS-5100(017)	20.205	117,770	-
Subtotal			1,561,171	-
<i>Pass-through from Santa Clara Valley Transportation Authority</i>				
Highway Planning and Construction	CML-5100(018)	20.205	69,548	-
Total Highway Planning and Construction			1,630,719	-
<b>National Endowment for the Arts</b>				
<i>Direct</i>				
NEA Research: Art Works	197662	45.024	11,300	-
<b>Institute of Museum and Library Services</b>				
<i>Pass-through from California State Library</i>				
Grants to States	LS-00-11-0005-11	45.310	65,710	-
<b>U.S. Department of Homeland Security</b>				
<i>Direct</i>				
National Urban Search and Rescue Response System	EMW-2011-CA-K00047	97.025	16,705	-
<i>Pass-through from Santa Clara County Office of Emergency Services</i>				
Homeland Security Grant Program	13-31307	97.067	14,900	-
Total U.S. Department of Homeland Security			31,605	-
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 2,470,713</b>	<b>\$ 574,221</b>

**CITY OF PALO ALTO**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2014**

**NOTE 1 – REPORTING ENTITY**

The schedule of expenditures of federal awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements.

**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 measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met.

**NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the City by a 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 of federal award programs when they occur.

**NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

**NOTE 5 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards and expenditures agree to or can be reconciled with the amounts reported in the City's basic financial statements.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on the basic financial statements of the City:	Unmodified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	No
◆ Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
◆ Material weakness(es) identified?	No
◆ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Identification of Major Programs:	14.218 CDBG – Entitlement Grants Cluster 20.205 Highway Planning and Construction
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

**Section II – Financial Statements Findings**

No findings reported.

**Section III - Federal Award Findings and Questioned Costs**

No findings reported.

**CITY OF PALO ALTO**  
**Schedule of Prior Years Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

**Schedule of Prior Year Findings and Questioned Costs**

**Finding #SA 2013-01**

**Procurement, Suspension and Debarment**

**Federal Program Title:**

Highway Planning and Construction

**Federal Catalog Number:**

20.205

**Condition:**

The City did not contain a certification within the contract showing that the contractor was not suspended or debarred, nor was there any evidence that the City verified that the contractor was not suspended or debarred by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration. The amount reimbursed by the federal grant for this contract was \$144,081.

**Status of Corrective Action Plan:**

In progress. Due to an unexpected staffing change, the City will hire a new management analyst to draft the policy and procedures to document the proper verification.



## 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:***

ADA Coordinator  
250 Hamilton Avenue  
(650) 329-2550  
ADA@cityofpaloalto.org



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.



30% post-consumer recycled