City of Palo Alto (ID # 6251)

Finance Committee Staff Report

Report Type: Action Items **Meeting Date: 11/17/2015**

Summary Title: Close Fiscal Year 2015 Budget and Approve 2015 CAFR

Title: Recommendation to Adopt a Budget Amendment Ordinance Closing the Fiscal Year 2015 Budget, Including Authorizing Transfers to Reserves, and Approval of the Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR)

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the Finance Committee forward to the City Council for its approval:

1. The attached Budget Amendment Ordinance and associated exhibits which close the Fiscal Year (FY) 2015 Budget, including recommended appropriation adjustments due to higher than anticipated expenditures, and the transfer of General Fund surplus of $5.1 million from the General Fund to the Infrastructure Reserve in the Capital Projects Fund (Attachment A); and

2. The City's FY 2015 Comprehensive Annual Financial Report (CAFR) (Attachment B).

Financial Highlights for FY 2015

- **General Fund** ended FY 2015 with a surplus position of $18.7 million and, after transferring $5.1 million to the Infrastructure Reserve, the remaining surplus balance of $13.6 million increases the Budget Stabilization Reserve (BSR). The surplus was largely a result of revenue increases in property, transient occupancy, and documentary transfer taxes, as well as expenditure savings. This surplus is recommended to be utilized for the following purposes:
    - Transfer to the Capital Improvement Fund ($5.1 million);
    - Pending transfer to the Roth Building Historical Rehabilitation Reserve in the Capital Improvement Fund as approved in CMR #5879 ($1.0 million);
    - FY 2016 one-time expenditures approved in Adopted Budget ($2.1 million);
    - FY 2016 Budget Amendment Ordinances approved to date or scheduled to be approved ($2.1 million);

- Highway 101 Pedestrian/Bicycle Overpass ($6.0 million);
- Potential funding for a pension trust fund ($1.3 million); and
- Unfunded General Fund portion of the Silicon Valley Regional Interoperability Authority's (SVRIA) project to move towards a county-wide 700 Mhz radio communication system ($1.0 million).

Funding for the Highway 101 Pedestrian/Bicycle Overpass, pension trust fund, Roth Building Historical Rehabilitation Reserve, and SVRIA is recommended to be retained in the BSR at this time. It should be noted that $3.3 million of the $6.0 million reserved for the Highway 101 Pedestrian/Bicycle Overpass project is supported by TOT receipts earmarked for the City Council approved Infrastructure Plan. Including the funds recommended to be retained in the BSR for specific purposes, and after deducting amounts already approved for expenditure in FY 2016, the FY 2015 ending BSR balance of $43.0 million is 23.1 percent of FY 2016 General Fund budgeted expenditures and operating transfers ($8.3 million over the FY 2016 Adopted Budget BSR balance of $34.6 million).

- **Enterprise Funds** ended the year in surplus positions, however the ongoing drought is negatively impacting results, most notably affecting the Water and Electric Funds.

- **Government Accounting Standards Board Statement No. 68 (GASB 68)** was implemented effective for FY 2015. Net pension liabilities of $208.7 million in Governmental Activities and $81.1 million in Enterprise and Internal Service Funds were recorded in the Statement of Net Position, which directly reduces the unrestricted net position of those Funds. (Staff report ID #6144 was presented to the Finance Committee on October 20 and discussed GASB 68 in detail.)

- The City received a "clean" audit opinion for FY 2015 from the external audit firm, Macias Gini & O'Connell LLP. Once again, the City was awarded the prestigious GFOA award for Excellence in Financial Reporting for FY 2014 – the 21st consecutive year.

Background

The City's fiscal year closes on June 30, at which time its financial records are closed for the year and financial reports are prepared. The reports, along with the City's financial data, are audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issues an audit opinion on the financial position of the City's activities and, together with the City's financial statements and other information, this comprises the City's Comprehensive Annual Financial Report.

The attachments to this Staff Report provide the necessary documents for closing the FY 2015 Budget. In addition, they provide detailed information on the City's financial activities for FY 2015 and highlight key fiscal issues affecting the City of Palo Alto. The Management's Discussion and Analysis (MD&A) section of the CAFR (Attachment B) also provides a discussion

and analysis of the City's current fiscal health, and includes financial statements and analysis that is compared to the prior year, along with capital asset and debt administration data.

Discussion

Economic Environment:

The City's economically sensitive revenue sources have continued on a positive trend. The robust real estate market is driving higher documentary transfer taxes, while newly opened hotels and a rate increase are driving higher transient occupancy taxes. Sales tax revenue has levelled off in FY 2015, but is still expected to increase slightly in FY 2016 exclusive of the one-time adjustment included in FY 2015 revenue.

The City has been proactively taking steps the past few years to align expenses with revenues through employee compensation savings, service and program cuts, and revenue enhancements. The City Council adopted a General Fund budget of $185.7 million (including operating transfers) for FY 2016, an increase of 8.5 percent from the prior year Adopted Budget. The primary drivers of increased expenditures for FY 2016 are pension and health care costs, increased investment in the City's infrastructure, and targeted position additions in response to Community demands and Council priorities. The City is continuing to mitigate the upward trend in pension and health care costs by seeking to increase employee contributions to the PERS retirement plan and capping the City's share of health care premiums.

In spite of these measures, the City still faces a significant long-term liability for pension and retiree medical costs. The combined unfunded liability according to the most recent actuarial valuations is $439 million. Funded ratios for the Safety and Miscellaneous plans based on June 2013 actuarial valuations are 68.9 percent and 68.4 percent respectively, and 29.5 percent for the retiree medical plan. The City continues to fully fund its annual required contribution for these liabilities. An irrevocable trust fund for retiree medical benefits was authorized by the City Council in May 2007 with initial funding of $32.8 million in March 2008. Subsequent contributions and investment earnings have increased the trust balance to $78.6 million as of June 30, 2015. The irrevocable trust fund balance reduces the City's unfunded liability for retiree medical.

In June 2014 Council approved a $125.8 million Infrastructure Plan, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. Funding for these projects will come from a variety of sources, including TOT revenues, Stanford University Medical Center development agreement, and developer impact fees. This plan was included in the 2016-2020 Adopted Capital Improvement Program and is fully funded, however the plan as adopted did not allow for increases attributable to scope increases, cost escalation, etc. As part of this report, an increase to the transfer from the General Fund to the Capital Improvement Fund in the amount of $5.1 million is recommended. This transfer will provide funding for the Baylands Boardwalk, Building Systems Improvements, and Embarcadero Road Corridor Improvements Projects, as well as $2.0 million for potential cost increases or unanticipated projects. Including the $5.1 million

recommended to be transferred from the General Fund to the Capital Improvement Fund as part of this report, the General Fund will have contributed $25.6 million in surplus funds over the past four years. Additionally, staff is recommending the retention of $6 million in the Budget Stabilization Reserve to potentially fund increased construction costs related to the Highway 101 Pedestrian/Bicycle Overpass project.

A detailed discussion of financial results for FY 2015 is included in the CAFR MD&A. In addition, staff will present the 10 year Long Range Financial Forecast to the Finance Committee in early 2016.

Results by Fund:

General Fund Reserves

At the end of the current fiscal year, fund balance of the General Fund was $62.5 million, an increase of $14.2 million from the prior year. The $62.5 million balance is comprised of several reserves: the Budget Stabilization Reserve (BSR), encumbrances, notes and loans, inventory, prepaid items, unrealized gain on investments, and reappropriations. As described in the BSR reserve policy approved by Council, any reserve balance in excess of 18.5 percent of expenditures and transfers may be transferred to the Infrastructure Reserve in the Capital Projects Fund at the discretion of the City Manager.

At the close of FY 2015, after accounting for higher than budgeted revenue levels and expenditure savings, the preliminary BSR balance was $53.3 million. The FY 2016 Adopted Budget targeted a BSR level of $34.6 million at the end of FY 2015, leaving a surplus balance of $18.7 million. After transferring $5.1 million of surplus to the Infrastructure Reserve at the fiscal year-end, the remaining $13.6 million surplus is recommended to be used for the purposes outlined in the table below. It should be noted that $3.3 million of the $6.0 million associated with the Highway 101 Pedestrian/Bicycle Overpass project is supported by Transient Occupancy Tax (TOT) receipts generated from newly opened hotels and the January 2015 two percentage point TOT increase.

Over the past four fiscal years, a total of $25.6 million in surplus funds has been transferred to the Infrastructure Reserve as follows:

2012	$	7,600
2013		8,900
2014		4,000
2015		5,087
Total transfers		25,587
2015 proposed additional		7,000
Total actual and proposed	$	32,587

2015 Year-End Budget Stabilization Reserve (BSR) Summary (000's)	
General Fund BSR Balance	$53,285
Transfer surplus to Infrastructure Reserve Unanticipated needs $2,000 Baylands Boardwalk $2,100 Embarcadero Road traffic signal design Phase II $237 approved by Council 10/5/2015 Building space improvements to City Hall $750	(5,087)
BSR Balance, June 30 2015	**48,198**
FY 2015 BSR - Adopted Budget	34,640
Remaining FY 2015 Surplus	**13,558**
Recommendations for disposition of surplus funding:	
Pending transfer to the Capital Improvement Fund for the Roth Building Historical Rehabilitation Reserve as approved in CMR #5879 dated June, 2015*	(1,000)
FY 2016 one-time expenditures	(2,123)
FY 2016 Budget Amendment Ordinances approved and scheduled for approval	(2,130)
Capital: Potentially higher than estimated costs for Highway 101 Pedestrian/Bicycle Overpass Project (retained in BSR)	(6,000)
Capital: Radio Replacements (retained in BSR)	(1,000)
Establishment of a Pension Trust Fund (retained in BSR)	(1,305)
Balance of FY 2015 Surplus	**$0**

* Inadvertently, staff omitted to process the transfer from the BSR to the Capital Improvement Fund for the Roth Building Historical Rehabilitation Reserve in FY 2015 as approved by the City Council. Therefore, as part of the FY 2016 Midyear Budget Review, $1 million will be recommended to be transferred from the BSR to the Capital Improvement Fund to establish the reserve.

General Fund Revenues

General Fund revenues for FY 2015 were $157.5 million, which is $16.1 million or 11.3 percent higher than the prior year. Year over year changes in each of the major tax revenue categories are summarized in the following table.

Category	FY 2015	FY 2014	% Change
Property tax	$ 34,117	$ 30,587	11.5%
Sales tax	29,675	29,424	0.0%
Utility user tax	10,861	11,008	(1.3)%
Transient occupancy tax	16,699	12,255	36.3%
Documentary transfer tax	10,384	7,811	32.9%

Property tax revenues increased due to higher assessed values as a result of continued robust

commercial and residential real estate markets.

Transient occupancy (TOT) and documentary transfer (DTT) taxes are economically sensitive revenue streams, and both those categories experienced double digit growth over the prior year. The TOT revenue increase was driven by:

- 2 percent rate increase from 12 percent to 14 percent effective January 1, 2015 $1.4 million;
- Newly opened hotels $1.8 million, and
- Increased occupancy and room rates $1.2 million.

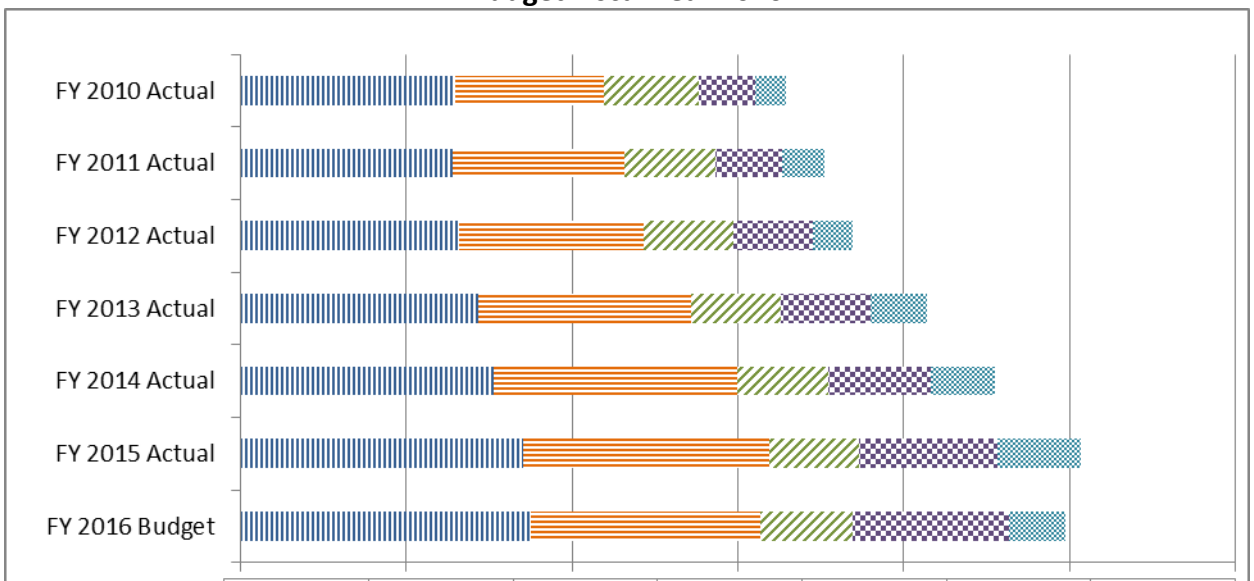
Several new hotels were opened in late FY 2015 and into FY 2016, which will result in a higher trajectory for that revenue stream into the next fiscal year.

Documentary Transfer Tax (DTT) increase of $2.6 million was driven by a one-time $3.5 billion commercial transaction which generated DTT revenue of $3.2 million and resulted in a record year for DTT receipts. Without this one-time receipt, DTT would have performed below the budgeted amount.

Sales tax revenue increased $0.3 million year over year in total. However, in FY 2015 there was a planned accounting adjustment to align the sales tax accrual with the fiscal year which resulted in a one-time $2.6 million revenue increase. FY 2015 sales tax revenue without this adjustment would have been $27.1 million, which is a decrease of $2.3 million from the prior year. FY 2014 revenue was abnormally high because the City had significant receipts from a single vendor.

Following is a chart which depicts the relative contribution of each tax category over the past six years (2010 through 2015), as well as the current budgeted year (2016).

General Fund Tax Revenues
Actual Fiscal Years 2010 – 2015
Budget Fiscal Year 2016



	FY 2016 Budget	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Property Tax	35,067	34,117	30,587	28,742	26,494	25,688	25,981
Sales Tax	27,630	29,675	29,424	25,606	22,132	20,746	17,991
Utility User Tax	11,189	10,861	11,008	10,861	10,834	10,851	11,295
Trans Occ Tax	18,791	16,699	12,255	10,794	9,664	8,082	6,858
Doc Transfer Tax	6,852	10,051	7,811	6,810	4,821	5,167	3,707

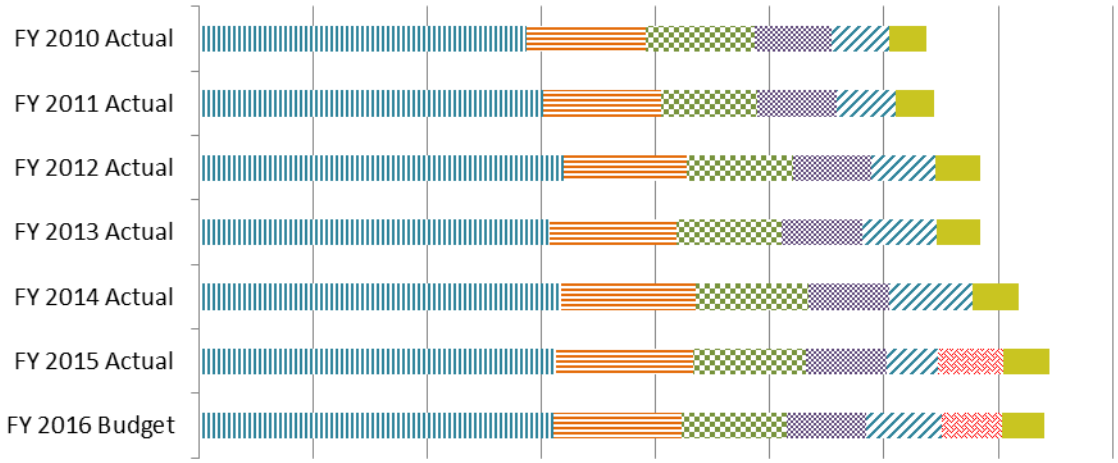
In percentage terms, the revenue category with the largest increase from six years ago is DTT, which has increased 171 percent. DTT comprised 5.6 percent of tax revenues in 2010, compared to 10.0 percent in 2015. Excluding the $3.2 million one-time receipt in FY 2015, DTT has increased 85 percent from six years ago and comprises 7.0 percent of 2015 tax revenue. In absolute dollars, sales tax category has increased the most, with $11.7 million dollars more in revenue than six years ago.

General Fund Expenditures

General Fund expenditures for FY 2015, including encumbrances, totaled $154.8 million, an increase of $3.0 million from the prior year. The Original Budget of $155.3 million was increased to the Final Adjusted Budget amount of $163.6 million, primarily due to the expenditure of prior year encumbered and reappropriated balances ($5.6 million) and mid-year increases for several departments, primarily Public Safety ($0.5 million).

Following is a chart which compares actual departmental costs, including encumbrances, over the past six years and budgeted costs for FY 2016.

General Fund Departments
Actual Expenditures Fiscal Years 2010 – 2015 (including encumbrances)
Budgeted Expenditures Fiscal Year 2016
($ in thousands)



	FY 2016 Budget	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Public Safety	62,054	62,459	63,403	61,222	63,879	60,298	57,270
Community Services	22,279	23,902	23,402	22,279	21,399	20,518	20,846
Admin Depts	18,544	19,771	19,784	18,544	18,693	16,906	19,219
Public Works	13,987	14,210	14,138	13,987	13,789	13,842	13,405
Planning & Comm Env	13,112	9,026	14,637	13,112	11,186	10,416	10,058
Development Svcs	10,535	11,335	0	0	0	0	0
Library	7,555	8,144	8,072	7,555	7,714	6,722	6,623

Capital Projects Fund

The Capital Projects Fund ended the year with a fund balance of $57.3 million, which is comprised of the following:

Fund Balance Component	Amount ($ in millions)
Restricted for Library projects	$ 5,155
Assigned for all other Capital projects	42,724
Infrastructure Reserve	9,475
Total Capital Projects Fund Balance	$ 57,354

Restricted for Library projects of $5.1 million is the portion of fund balance dedicated to remaining Library expenditures which, if considered bondable expenses, will be paid for with cash from bond proceeds. Non-bondable expenditures such as salaries and benefits are funded

from the Infrastructure Reserve, as established at the time of the bond issuance.

Assigned for all other Capital projects of $42.7 million represents the amount of unspent funds associated with Adopted Capital projects other than Library projects. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are actually received. Thus, all capital projects are considered to be fully funded from existing cash resources.

Infrastructure Reserve (IR) of $9.5 million is the balance remaining after all expenditures as defined up through the 2016 Capital Budget process have been satisfied, without regard to anticipated future funding sources such as grants, donations and debt issues for existing Adopted Capital projects. This presents the most conservative and fiscally prudent view of the IR balance.

The IR balance will increase as a result of:

- savings from completed or cancelled projects;
- surplus funds transferred from the General Fund;
- receipt of grants, donations or debt issues related to existing adopted projects.

Enterprise Funds

At June 30, 2015 the City's Enterprise Funds reported total net position of $667.8 million, a decrease of $76.9 million from the prior year. Excluding the adjustment for items related to recording GASB 68 net pension liabilities of negative $87.1 million, total net position increased from prior year by $10.2 million, or 1.4 percent. The change in net position for each of the Enterprise Funds is detailed in the following table.

Enterprise Funds *Change in Net Position for the Year Ended June 30* (in Millions)			
Fund Name	**2015**	**2014**	**Increase/ (Decrease)**
Water	$ 5.1	$ 11.0	$ (5.9)
Electric	(11.2)	1.7	(12.9)
Fiber Optics	3.1	3.1	-
Gas	1.7	3.3	(1.6)
Wastewater Collection	2.4	3.5	(1.1)
Wastewater Treatment	2.9	(1.9)	4.8
Refuse	4.8	2.2	2.6
Storm Drainage	2.7	2.7	-
Airport	(0.1)	(0.5)	0.4
Total Change in Net Assets	**$ 11.4**	**$ 25.1**	**$ (13.7)**

The total Change in Net Assets of $11.4 million is a decrease of $13.7 million from the prior year, primarily due to Water and Electric Funds. Water Fund revenue decreased as a result of customers using less water due to state mandated drought conservation measures. Electric Fund experienced relatively flat revenue and, combined with increased costs for electricity purchases due to lower availability of hydroelectric energy because of the ongoing drought, ended the fiscal year in a loss position of $11.2 million.

Wastewater Treatment net position increased $4.8 million over prior year due to increased billings for CIP costs in FY 2015 and the FY 2014 impact of RWQCP not invoicing partners for encumbrances.

Effective July 1, 2015, following a Council approved resolution, Reserves Management Practices for the Electric, Gas, Wastewater Collection and Water Utilities were updated. Restructuring of the reserve balances was designed to increase transparency, to make contingency reserves easier to manage from year to year, and to eliminate reserves that are no longer necessary. Guidelines for managing the reserves are contained in the Reserves Management Practices, including actions to be taken when reserve balances are not within the guidelines.

Enterprise Fund Rate Stabilization, Operations and other reserve balances are shown in detail in Note 10 of the CAFR. The implementation of GASB 68 in FY 2015 to record net pension liabilities had a negative impact of $87.1 million on the Enterprise Funds in total. All Enterprise Funds maintained a positive unrestricted reserve balance, except for Wastewater Treatment which is in a deficit position of $2.8 million due to pension related items of $17.5 million.

Airport Fund is also in a deficit position of $1.7 million due to life to date operating losses which are currently being funded by advances from the General Fund, as well as $0.4 million in pension related items.

Refuse Fund ended the year in a net positive reserve position of $1.4 million. The reserve for landfill closure costs was re-evaluated by Department of Resources Recycling and Recovery, and the requirement for funding was reduced by $4.7 million. This was offset by the negative impact of the pension liability of $5.0 million.

Implementation of GASB 68 – Accounting for Pensions

CalPERS Actuarial Valuation:
Prior to GASB 68, the City's unfunded pension liabilities for the Safety and Miscellaneous Plans were disclosed in Note 11 of the CAFR. The liability was based on the annual CalPERS Actuarial Valuation, which is 1 year in arrears and projects the Annual Required Contribution (ARC) for the following 2 years. The ARC was the basis both for expense in the financial statements (accounting) and for funding (budget).

Post GASB 68, the City's net pension liabilities are disclosed as a liability in the Statement of Net Position (balance sheet) for the government-wide financial statements, the Enterprise Funds, and the Internal Service Funds. The balance sheets of individual governmental funds, ie. General Fund, do <u>not</u> show pension liabilities because their focus is current resources, not economic resources.

Going forward, the Actuarial Valuation will still be issued in October. The ARC will still be used for funding purposes (budget) and will be the basis of contributions to the Plans.

CalPERS Accounting Valuation:
CalPERS will issue an additional annual report in July for each of the Safety and Miscellaneous Plans called the GASB 68 Accounting Valuation Report. This report is also prepared by the actuary, however there are differences in valuation and amortization methods for some items. The actuarial assumptions are included in Note 11 of the CAFR. The new pension expense calculated in the Accounting Valuation report will be the basis for expense in the financial statements and will generally be more volatile than the ARC calculated in the Actuarial Valuation report due to shorter deferral and recognition periods.

The Accounting Valuation net pension liability is the number that will be reported in the CAFR for FY15 and forward. For comparison purposes, the Accounting Valuation report shows the Safety Plan net pension liability as of June 30 2013 was $120.9 million, compared to the Actuarial Valuation report which shows an unfunded liability of $105.2 million at the same date. For the Miscellaneous Plan, the comparable amounts were $222.4 million and 190.3 million.

The net pension liability for the Miscellaneous Plan of $187.1 million as of June 30 2014 has

been allocated between funds based on their pro-rata share of FY 2014 employer contributions. When added to the Safety Plan liability of $102.8 million, the total net pension liability of $289.9 is the amount reported on the Government-Wide financial statement.

There are 3 major components of GASB 68 that affect the balance sheet for government-wide and for each of the Enterprise and ISF Funds. These are:

1. **Deferred pension contribution** – The pension liability balance for each fund is one year in arrears, so the liability on the June 30 2015 financial statements is actually the liability from June 30 2014 (this is because CalPERS is not able to provide the data in time for inclusion in the current fiscal year). As a result, pension contributions made in the current fiscal year will be applied to the following year's liability, and therefore have to reside on the balance sheet as a "deferred outflow of resources" (the equivalent of a prepaid expense).
2. **Net pension liabilities** – CalPERS actuaries calculate the City's pension liability based on census data for every City employee: active, inactive and retired. The net pension liabilities are one year in arrears.
3. **Differences between expected and actual earnings on investments** – GASB 68 requires that these differences be amortized on a straight-line basis over five years.

Further details on the GASB 68 net pension liabilities can be found in Note 11 of the CAFR.

Retiree Healthcare Implied Subsidy

On June 9, 2014, City Council accepted the Retiree Healthcare Plan GASB 45 Actuarial Valuation as of June 30, 2013 and approved full funding of the Annual Required Contribution (ARC) for Retiree Healthcare for FY 2015 and FY 2016. As documented in the report (CMR #4891) which recommended approval of full payment of the ARC, the primary reason for the increased ARC for Retiree Healthcare was the inclusion of a new actuarial standard regarding the implied subsidy of healthcare premiums of active employees in relationship to healthcare premiums for retirees. CalPERS blends active employees with pre-Medicare retirees and charges them the same medical premium. However, younger employees on average consume less healthcare services and therefore are subsidizing older employees and retirees. The implied subsidy is the difference between average retiree claims and retiree premiums charged by CalPERS.

Consistent with Council direction, as recommended by staff, the City budgeted for payment of the ARC for FY 2015 and FY 2016, including the implied subsidy. The implied subsidy for FY 2015 was $1.9 million for all funds. As part of preparing for the FY 2015 CAFR, staff worked closely with the City's actuary, the managers of the City's trust fund for Retiree Healthcare, and the City's external auditor. After many discussions, staff realized that the implied subsidy budgeted in the Retiree Healthcare Fund should have been budgeted as a contribution from the City's healthcare premiums for active employees. However, the FY 2015 budget had fully funded the City's healthcare premiums of approximately $17.4 million for active employees. Therefore, the cost of healthcare premiums related to the implied subsidy in the amount of $1.9 million was budgeted twice. For FY 2015, the savings of healthcare premiums related to

the implicit subsidy will remain in the General Benefits Fund for future use. For FY 2016, staff will bring forward recommendations as part of the FY 2016 Midyear Budget Review report to correct departmental budgets regarding the implied subsidy. Starting with the FY 2017 Proposed Budget, staff will budget correctly for the implied subsidy for active employees healthcare premiums.

Environmental Review

This is not a project for purposes of the California Environmental Quality Act.

Attachments:

- Attachment A: Budget Amendment Ordinance Closing the Fiscal Year 2015 Budget (DOCX)
- Attachment A: Exhibit 1-4 Proposed Fiscal Year 2015 Year End Adjustments (PDF)
- Attachment A: Exhibit 5 Gen Fund Budget vs Actuals (XLSX)
- Attachment B: 2014 - 2015 Comprehensive Annual Financial Report (CAFR) (PDF)

ATTACHMENT A

ORDINANCE NO. XXXXX
ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO
AUTHORIZING CLOSING OF THE BUDGET FOR THE
FISCAL YEAR ENDING JUNE 30, 2015

The Council of the City of Palo Alto does ordain as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto and as set forth in Section 2.28.070 of the Palo Alto Municipal Code, the Council on June 16, 2014 did adopt a budget for Fiscal Year 2015; and

B. Fiscal Year 2015 has ended and the financial results, although subject to post-audit adjustment, are now available.

SECTION 2. Pursuant to Section 2.28.080 of the Palo Alto Municipal Code, the City Manager during Fiscal Year 2015 did amend the budgetary accounts of the City of Palo Alto to reflect:

A. Additional appropriations authorized by ordinance of the City Council.

B. Amendments to employee compensation plans adopted by the City Council.

C. Transfers of appropriations from the contingent accounts as authorized by the City Manager.

D. Redistribution of appropriations between divisions, cost centers, and objects within various departments as authorized in accordance with Policy 1-31 Budget Change Requests.

E. Fiscal Year 2015 appropriations which on July 1, 2014 were encumbered by properly executed, but uncompleted, purchase orders or contracts.

SECTION 3. The Council hereby approves adjustments to the Fiscal Year 2015 budget as shown on attached Exhibit 1.

SECTION 4. The City Manager is authorized and directed:

A. To close the Fiscal Year 2015 budget accounts in all funds and departments and, as required by the Charter of the City of Palo Alto, to make such interdepartmental and inter-fund transfers in the 2015 budget as outlined in this ordinance; and

B. To fund the Budget Stabilization Reserve in accordance with the General Fund Reserves Policy adopted by the City Council.

SECTION 5. The General Fund Budget Stabilization Reserve is hereby increased by the sum of Eighteen Million Six Hundred and Forty Five Thousand Dollars ($18,645,000), attributable to a combination of higher than anticipated revenues and expenditure savings realized during Fiscal Year 2015.

SECTION 6. The General Fund Budget Stabilization Reserve is hereby decreased by the sum of Five Million One Hundred and Thirty Three Thousand One Hundred and Thirty Dollars ($5,133,130) due to increased transfers to the Technology Fund of Forty Six Thousand One Hundred and Thirty Dollars ($46,130) and the Capital Improvement Fund of Five Million and Eighty Seven Thousand Dollars ($5,087,000), as described in Exhibit 1.

SECTION 7. The Airport Fund Ending Fund Balance is hereby decreased by the sum of Five Thousand Dollars ($5,000) as described in Exhibit 1.

SECTION 8. The Federal Equitable Sharing Fund Ending Fund Balance is hereby decreased by the sum of Six Thousand Dollars ($6,000) as described in Exhibit 1.

SECTION 9. The Technology Fund Reserve is hereby increased by the sum of Forty Six Thousand One Hundred and Thirty Dollars ($46,130) as described in Exhibit 1.

SECTION 10. The Gas Distribution Rate Stabilization Reserve is hereby decreased by the sum of Two Hundred Fifty Six Thousand Five Hundred and Forty Two Dollars ($256,542) as described in Exhibit 1.

SECTION 11. The Wastewater Collection Rate Stabilization Reserve is hereby decreased by the sum of Forty Two Thousand Nine Hundred and Twelve Dollars ($42,912) as described in Exhibit 1.

SECTION 12. The Water Rate Stabilization Reserve is hereby decreased by the sum of Two Hundred Seventeen Thousand Three Hundred and Nineteen Dollars ($217,319) as described in Exhibit 1.

SECTION 13. The Wastewater Treatment Rate Stabilization Reserve is hereby decreased by the sum of Fourteen Thousand Eight Hundred and Ninety Nine Dollars ($14,899) as described in Exhibit 1.

SECTION 14. The Refuse Fund is hereby decreased by Forty One Thousand One Hundred and Six Dollars ($41,106) as described in Exhibit 1.

SECTION 15. The Electric Fund Rate Stabilization Reserve is hereby decreased by Six Thousand Eight Hundred and Forty Four Dollars ($6,844) as described in Exhibit 1.

SECTION 16. The Vehicle Replacement Fund is hereby decreased by Four Thousand Four Hundred and Forty Two Dollars ($4,442) as described in Exhibit 1.

SECTION 17. The Capital Improvement Fund Infrastructure Reserve is hereby increased by Five Million, Twenty Nine Thousand Two Hundred and Seventy Six Dollars ($5,029,276) as described in Exhibit 1.

SECTION 18. Upon completion of the independent audit, detailed financial statements reflecting the changes made by the Sections 7 through 18 of this ordinance shall be published as part of the annual financial report of the City as required by Article III, Section 16, of the Charter of the City of Palo Alto and in accordance with generally accepted accounting principles.

SECTION 19. As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance.

SECTION 20. The Council of the City of Palo Alto hereby finds that the enactment of this ordinance is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

SECTION 21. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

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ATTACHMENT A

INTRODUCED AND PASSED:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

ATTEST:

_____	_____
City Clerk	Mayor
APPROVED AS TO FORM:	APPROVED:
_____	_____
City Attorney	City Manager
	_____
	Director of Administrative Service

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

Category	Amount	Description
GENERAL FUND		
NON-DEPARTMENTAL		
Transfer to Technology Fund	46,130	Increase the Transfer to the Technology Fund by $46,130 to adjust for the actual amount of the Technology Surcharge Fee collected in the General Fund in Fiscal Year 2015 ($1,060,925).
Use Changes	**46,130**	
Net Changes To (From) Reserves	**(46,130)**	
ADMINISTRATIVE SERVICES		
General Expense	(17,800)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(17,800)**	
Net Changes To (From) Reserves	**17,800**	
CITY ATTORNEY		
General Expense	(3,500)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(3,500)**	
Net Changes To (From) Reserves	**3,500**	
CITY AUDITOR		
Non Salary and benefits	25,000	Allocate savings from the Community Services Department to offset higher than anticipated contractual services costs associated with the annual audit of the City's finances. Funding for this annual need will be reviewed, and a recommendation to increase the allocation may be included in future budget cycles.
General Expense	(1,000)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**24,000**	
Net Changes To (From) Reserves	**(24,000)**	
CITY CLERK		
General Expense	(3,400)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(3,400)**	
Net Changes To (From) Reserves	**3,400**	
CITY MANAGER		
General Expense	(2,700)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(2,700)**	
Net Changes To (From) Reserves	**2,700**	

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

Category	Amount	Description
COMMUNITY SERVICES		
	(125,000)	Allocate Departmental non-salary savings to the City Auditor's Office and Planning and Community Environment Department to fund various unanticipated expenses.
General Expense	(4,700)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(129,700)**	
Net Changes To (From) Reserves	**129,700**	
DEVELOPMENT SERVICES		
General Expense	(5,000)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(5,000)**	
Net Changes To (From) Reserves	**5,000**	
HUMAN RESOURCES		
General Expense	60,600	Reallocate management development savings from various general fund departments to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**60,600**	
Net Changes To (From) Reserves	**(60,600)**	

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

Category	Amount	Description
LIBRARY		
	339,985	Recognizes donation ($320,000) and grant ($19,485) funds received by the Library Department during Fiscal Year 2015 as detailed in the Fiscal Year 2015 Reappropriations CMR approved by Council on Nov. 2, 2015.
Source Changes	**339,985**	
	339,985	Increases the non-salary allocation for the Library Department due to donation and grant funds received during Fiscal Year 2015.
Use Changes	**339,985**	
Net Changes To (From) Reserves	**-**	
OFFICE OF EMERGENCY SERVICES		
General Expense	(800)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(800)**	
Net Changes To (From) Reserves	**800**	
PLANNING AND COMMUNITY ENVIRONMENT		
Non Salary and benefits	100,000	Allocate savings from the Community Services Department to offset higher than anticipated Printing and Mailing charges, attributable to high level of project notification cards mailed to residents.
General Expense	(600)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**99,400**	
Net Changes To (From) Reserves	**(99,400)**	
POLICE		
General Expense	(3,900)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	**(3,900)**	
Net Changes To (From) Reserves	**3,900**	
PUBLIC WORKS		
General Expense	(17,200)	Reallocate departmental management development savings to the Human Resources Department to reappropriate funds for city-wide training needs in Fiscal Year 2017.
Use Changes	(17,200)	
Net Changes To (From) Reserves	**17,200**	
Total General Fund Changes to BSR	**(46,130)**	

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

Category	Amount	Description
GENERAL FUND CIP (CAPITAL PROJECTS FUND)		
Transfer from the General Fund	5,087,000	Increases the transfer from the General Fund for capital infrastructure projects, resulting from the Fiscal Year 2015 surplus. Funds will be held in the Infrastructure Reserve, but are intended to be used for the Building Systems Improvements ($750,000), Baylands Boardwalk ($2.1 million), Embarcadero Traffic Signal Design Phase II ($237,000), and yet to be identified needs ($2.0 million).
Source Changes	**5,087,000**	
	57,724	Combined impact from adjustments to projects as outlined in Attachment A, Exhibit 4
Use Changes	**57,724**	
Net Changes To (From) Reserves	**5,029,276**	Capital Fund Infrastructure Reserve

Attachment A, Exhibit 2

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

	Category	Amount	Description
ENTERPRISE FUNDS			
ELECTRIC FUND-Operating			
	CIP	6,844	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**6,844**	
Net Changes To (From) Reserves		**(6,844)**	
AIRPORT ENTERPRISE FUND			
		5,000	Increases funding for contractual services due to higher than anticipated expenditures during Fiscal Year 2015
Use Changes		**5,000**	
Net Changes To (From) Reserves		**(5,000)**	
GAS FUND			
		-	
	CIP	256,542	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**256,542**	
		-	
Net Changes To (From) Reserves		**256,542**	

Attachment A, Exhibit 2

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

	Category	Amount	Description
WASTEWATER COLLECTION FUND			
		42,912	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**42,912**	
Net Changes To (From) Reserves		**(42,912)**	
WATER FUND			
		217,319	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**217,319**	
Net Changes To (From) Reserves		**(217,319)**	
WASTEWATER TREATMENT FUND			
		14,899	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**14,899**	
Net Changes To (From) Reserves		**(14,899)**	
REFUSE FUND			
		41,106	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**41,106**	
Net Changes To (From) Reserves		**(41,106)**	

Attachment A, Exhibit 3

CITY OF PALO ALTO
YEAR END ADJUSTMENTS TO THE FISCAL YEAR 2015 ADOPTED BUDGET

	Category	Amount	Description
SPECIAL REVENUE FUNDS			
FED EQUITABLE SHARING			
	Facilities and Equipment	6,000	Increases funding for Facilities and Equipment due to higher than anticipated expenditures during Fiscal Year 2015.
Use Changes		**6,000**	
Net Changes To (From) Reserves		**(6,000)**	
TECHNOLOGY FUND			
	Transfer from General Fund	46,130	Increase the Transfer from the General Fund by $46,130 to adjust for the actual amount of the Technology Surcharge Fee collected in the General Fund in Fiscal Year 2015 ($1,060,925).
Source Changes		**46,130**	
Net Changes To (From) Reserves		**46,130**	
VEHICLE REPLACEMENT FUND			
		4,442	Changes in CIP Projects (See Attachment A, Exhibit 4 for more detail).
Use Changes		**4,442**	
Net Changes To (From) Reserves		**(4,442)**	

Attachment A, Exhibit 4

Attachment A, Exhibit 4

FY 2015 CIP Year-end Adjustments

Title	Project Number	Revenue	Expense	Funding Source	Comments
CAPITAL PROJECT FUND					
ADDITIONAL APPROPRIATIONS					
Thermoplastic Lane Marking	PO-11001		$ 44,349	Infrastructure Reserve	Increase to project due to higher than anticipated expenditures
Furniture and Technology for Library Projects	LB-11000		$ 5,711	Infrastructure Reserve	Increase to project due to higher than anticipated expenditures
Open Space Lakes and Ponds	OS-00002		$ 2,664	Infrastructure Reserve	Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 52,724**		
TOTAL GENERAL FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 52,724		
ELECTRIC FUND					
ADDITIONAL APPROPRIATIONS					
Substation Facility	EL-89044		$ 6,844		Increase to project due to higher than anticipated expenditures
West Charleston/Wilkie Way	EL-09004		$ 701		Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 6,844**		
TOTAL ELECTRIC FUND CIP MID-YEAR ADJUSTMENTS		0	$ 6,844		

Attachment A, Exhibit 4

FY 2015 CIP Year-end Adjustments

Title	Project Number	Revenue	Expense	Funding Source	Comments
GAS FUND					
ADDITIONAL APPROPRIATIONS					
Gas System, Customer Connections	GS-80017	$ 255,428	$ 255,428		Increase to project due to higher than anticipated expenditures. This project is offset by additional revenue from customers.
Gas Station Improvements	GS-11002	$ -	$ 1,114		Increase to project due to higher than anticipated expenditures
Total		**$ 255,428**	**$ 256,542**		
TOTAL GAS FUND CIP YEAR-END ADJUSTMENTS		$ 255,428	$ 256,542		
REFUSE FUND					
ADDITIONAL APPROPRIATIONS					
Landfill Closure	RF-11001		$ 41,106		Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 41,106**		
TOTAL FIBER OPTICS FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 41,106		
VEHICLE FUND					
ADDITIONAL APPROPRIATIONS					
Municipal Services Center Fuel Station Demolition	VR-14002		$ 2,903		Increase to project due to higher than anticipated expenditures
Municipal Services Center Fuel Storage/Service Island Replacement	VR-01001		$ 1,539		Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 4,442**		
TOTAL GAS FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 4,442		
WASTEWATER COLLECTION FUND					
ADDITIONAL APPROPRIATIONS					
Wastewater Collection System Rehabilitation/Augmentation Project 22	WC-09001		$ 42,912		Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 42,912**		
TOTAL WASTEWATER COLLECTION FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 42,912		

Attachment A, Exhibit 4

FY 2015 CIP Year-end Adjustments

Title	Project Number	Revenue	Expense	Funding Source	Comments
WASTEWATER TREATMENT FUND					
ADDITIONAL APPROPRIATIONS					
Plant Master Plan	WQ-10001		$ 14,899		Increase to project due to higher than anticipated expenditures
Total		**$ -**	**$ 14,899**		
TOTAL WATER FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 14,899		
WATER FUND					
ADDITIONAL APPROPRIATIONS					
Water System, Customer Connections	WS-80013		$ 217,319		Increase to project due to higher than anticipated expenditures. These expenditures are offset with additional revenues from customers.
Total		**$ -**	**$ 217,319**		
TOTAL WATER FUND CIP YEAR-END ADJUSTMENTS		$ -	$ 217,319		

ATTACHMENT A, EXHIBIT 5 11/05/15

	GENERAL FUND SUMMARY ($000s)						
	FY 2015 Adopted Budget	FY 2015 Adjusted Budget	FY 2015 CAFR Basis Rev/Exp	FY 2015 Allocated Charges	FY 2015 Encum	FY 2015 Actual Rev/Exp	FY 2015 Actual to Adj Budget Variance
Revenues							
Sales Tax	25,957	29,238	29,675			29,675	437
Property Tax	31,927	32,556	34,117			34,117	1,561
Transient Occupancy Tax	14,156	15,901	16,699			16,699	798
Documentary Transfer Tax	7,514	6,500	10,384			10,384	3,884
Utility Users Tax	11,285	10,895	10,861			10,861	(34)
Other Taxes and Fines	2,164	2,168	1,899			1,899	(269)
Charges for Services	23,013	24,863	25,409			25,409	546
Permits and Licenses	7,804	7,738	7,621			7,621	(117)
Return on Investment	685	685	1,177			1,177	492
Rental Income	14,254	14,207	14,911			14,911	704
From Other Agencies	453	472	3,712			3,712	3,240
Charges to Other Funds	10,647	10,647	-	10,416		10,416	(231)
Other Revenues	1,060	1,878	1,016	-		1,016	(862)
Contribution from BSR	1,732						
Total Revenues	**152,651**	**157,748**	**157,481**	**10,416**		**167,897**	**10,149**
Add: Operating Transfers In	18,433	18,620	17,797			17,797	(823)
Prior Year Encum		5,579			4,760	4,760	(819)
Total Source of Funds	**171,084**	**181,947**	**175,278**	**10,416**	**4,760**	**190,454**	**8,507**
Expenditures							
City Attorney	2,578	3,330	2,469	117	551	3,137	193
City Auditor	1,065	1,122	1,045	55	21	1,121	1
City Clerk	1,276	1,282	918	161	59	1,138	143
City Council	432	517	359	1	41	401	116
City Manager	3,000	3,544	2,742	120	209	3,071	472
Administrative Services	7,175	7,399	6,740	393	93	7,226	173
Community Services	22,764	24,274	18,717	4,383	801	23,901	374
Public Safety	62,054	63,456	56,550	5,381	550	62,481	975
People Strategy & Operations	3,264	3,818	3,087	176	414	3,677	141
Library	7,521	8,641	7,239	741	164	8,144	497
Planning & Community Environment	7,016	9,039	6,764	612	1,650	9,026	13
Development Services	10,535	10,895	9,043	850	117	10,010	885
Public Works	13,397	14,458	10,735	2,539	936	14,210	248
Non-Departmental	6,495	5,080	887		-	887	4,193
Cubberley Lease	6,777	6,777	6,426	-	-	6,426	351
Total Expenditures	**155,349**	**163,631**	**133,721**	**15,529**	**5,606**	**154,856**	**8,775**
Add: Operating Trans Out	2,076	4,298	3,537	-		3,537	761
Transfer to Infrastructure	13,659	18,746	18,747	-		18,747	(1)
Total Use of Funds	**171,084**	**186,674**	**156,005**	**15,529**	**5,606**	**177,140**	**9,535**
Net Surplus/(Deficit)	**-**	**(4,727)***	**19,273**	**(5,113)**	**(846)**	**13,314**	**18,041**

CAFR Reconciliation:		
	Current year encumbrance	**5,606**
	Prior Year encumbrances	**(4,760)**
	CAFR Net Income	**14,160**

* The FY 2015 Adjusted Budget does not account for expenditure savings realized and additional revenues received as shown in the FY 2015 Actual Revenue/Expenses column.

Attachment B

2014-2015 Comprehensive Annual Financial Report

City of Palo Alto, California

FISCAL YEAR ENDED: June 30, 2015

CITY OF
PALO
ALTO

City of Palo Alto, California

2014-2015
Comprehensive
Annual
Financial Report

CITY OF
PALO
ALTO

Fiscal Year Ended
June 30, 2015

Prepared by:
Administrative Services Department

CITY OF PALO ALTO
For the Year Ended June 30, 2015

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CITY OF PALO ALTO
For the Year Ended June 30, 2015

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CITY OF PALO ALTO
For the Year Ended June 30, 2015

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City of Palo Alto
Office of the City Manager

Transmittal Letter

November 3, 2015

THE HONORABLE CITY COUNCIL

Palo Alto, California

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

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, 2015 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 complies 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 unqualified opinion for the fiscal year ended June 30, 2015. 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 66,000 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-half 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 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: Council consists of nine members elected at-large for four year staggered terms. At the first meeting of each calendar year, 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 Council. Effective January 1, 2019, Council will be reduced from nine to seven members.

Finance Committee and Policy and Services Committee: While retaining the authority to approve all actions, Council has established two subcommittees to consider and make recommendations on matters relating to finance, budget, audits, capital planning and debt. Each of the subcommittees are comprised of four Council members. Staff provides the subcommittees 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. The City's unemployment rate continued to decline, albeit at a slower pace, and ended the year at 2.7 percent, 0.1 percent lower than the prior year. This compares to Santa Clara County's unemployment rate of 3.9 percent, and the state's unemployment rate of 6.2 percent.

Real Estate Market: In its most recent annual report, the Santa Clara County Assessor's Office noted that Santa Clara County's 2015/2016 assessment roll increased 8.7 percent, from $357 billion to $388 billion - "a new milestone…the third straight year of Silicon Valley's incredible economic recovery." The assessment roll growth was balanced throughout the County, with the highest growth rate in Santa Clara at 14.5 percent and the lowest in Gilroy at 6.1 percent. Palo Alto's assessment roll growth rate was 8.1 percent, compared to 6.5 percent in the prior report. 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 activity continues to experience a pattern of high demand and short supply. The result of this continued pattern is reflected in the substantial increase in FY 2015 property tax revenue.

Local Trends: National, state, regional and local economic indicators point toward continuously improving economic growth. Economically sensitive revenue sources such as transient occupancy tax and documentary transfer tax continue to grow, while sales tax revenue has levelled off. The robust local economy and job growth are also driving increases in other revenues, such as permit and license fees.

Overall, funding sources are sufficient to cover projected FY 2016 expenses, as forecasted in the City's Adopted Budget. Council adopted a General Fund budget with expenses of $185.7 million for FY 2016, an increase of $14.6 million, or 8.5 percent, from the prior year Adopted Budget. The increase is driven by increased investment in infrastructure, pension and healthcare costs, and the addition of staff positions in response to community initiatives and Council priorities.

Pension and healthcare costs continue to dominate the conversation about future costs. Employer pension rates will increase substantially beginning in FY 2016 as a result of changes in the actuarial assumptions for calculating pension rates, as adopted by the CalPERS Board of Administration. The most recent CalPERS valuations show unfunded liabilities for pension and healthcare in the range of $439 million. The City has proactively taken steps over the past several years to mitigate increased costs by increasing employee contributions to the CalPERS retirement plan and capping the City's share of healthcare premiums. Implementation of a second tier retirement plan in 2011 and adoption of the state-mandated third tier pension benefit plan in 2013 will also help mitigate future pension cost increases. Council and staff are currently studying various strategies for reducing the long-term unfunded pension and retiree healthcare liabilities.

Economic growth has increased the demand for housing, parking, and other City services. These issues were reflected in the setting of Council priorities for 2015:

- The Built Environment: multi-modal transportation, parking, and livability
- Infrastructure Strategy and Implementation
- Healthy City, Healthy Community
- Completion of the Comprehensive Plan update

In keeping with these priorities, Council has approved implementation of several strategies that will address traffic congestion in the City: parking management strategies (Residential Preferential Parking

program, parking technology enhancements, garage wayfinding signage), transportation demand management strategies (Transportation Management Association, enhanced shuttle services, CalTrain GoPass program for employees), and short and long-term parking supply strategies (valet parking, construction of new garages). Major initiatives on the horizon include negotiations with public safety unions and the Service Employees International Union (SEIU), continued planning for reconfiguration of the Palo Alto Municipal Golf Course, and resolution of fire and rescue services to be provided to Stanford University.

Council approved a $125.8 million Infrastructure Plan, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. These projects will be funded partially by debt to be repaid with an increase in the transient occupancy tax (TOT) rate which went into effect in January 2015, TOT from newly opened hotels, and from other sources such as impact fees and Stanford University Medical Center development agreement monies. As a result of sound fiscal management and reserve policies, General Fund surpluses from FY 2012 through FY 2014 totaling $20.5 million were transferred to the Infrastructure Reserve, and $5.1 million of General Fund surplus has been transferred in FY 2015.

No rate changes were implemented in FY 2015 for any of the City's Enterprise Funds, except for Consumer Price Index increases of 2.6 percent for the Fiber Optics and Storm Drainage Funds. Rate increases will take effect in FY 2016 for water, wastewater, storm drain, refuse and fiber optics services. Electric rates are projected to increase in FY 2017.

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, effective in FY 2015. Net pension liabilities of $289.9 million were allocated based on employer contributions for each fund, and unrestricted net positions were reduced accordingly.

Long Range Financial Forecast: The City 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 long-term pension and healthcare liabilities 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 January, this forecast sets the tone and themes for the annual budget process. The forecast is one of the many tools and reports that Council uses for financial planning.

Council is conscientious and proactive in its financial planning. While the LRFF projects General Fund surplus positions over the next ten years, 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. Council approval is required to set this reserve balance lower than 15 percent. For FY 2015, after transferring $5.1 million to the Infrastructure Reserve, the remaining BSR balance is $48.2 million. $2.1 million is set aside for carry-forward to FY 2016 for one-time expenditures, and an additional $2.1 million will be used for FY 2016 Budget Amendment Ordinances approved to date. The remaining BSR balance of $44.0 million represents 23.7 percent of FY 2016 expenditures, which is $9.7 million more than the 18.5 percent target balance for the BSR. Staff will bring forward recommendations for the remaining FY 2015 surplus as part of the year-end close process.

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:

- Launched the State's first curbside Electric Vehicle Quick Charger, which allows vehicles to charge more quickly than other chargers;
- Named as a finalist in the Center for Digital Government's 2014 Best of the Web and Digital Government Achievement Awards in the City Portal category for outstanding portals and websites based on innovation, functionality, productivity and performance, making government more open, responsive and mobile-friendly;
- Highlighted in the California Statewide Local Streets & Roads Needs Assessment 2014 report for proactively managing and investing in its streets maintenance program with an overall Pavement Condition Index score of 78 (good), compared to a statewide average of 66 (at risk);
- Named by the Center for Digital Government as a leading digital city in the less than 75,000 population category for the second year in a row for its adoption of cloud-first and mobile-first approaches to deploying new technology, as well as other innovative advances;
- Awarded Palo Alto Art Center the 2015 Superintendent's Award for Excellence in Museum Education for its Cultural Kaleidoscope program which fosters connections between students from cross-cultural backgrounds;
- Awarded Development Services Department the Insurance Services Office (ISO) Class 1 rating which indicates the highest standards for structural safety and reduces the cost of insurance for the community, with only 3 cities in the State awarded the rating; and
- Awarded the Acterra Award for Sustainability for a large organization in recognition of the City adopting a Climate Action Plan and implementing energy efficiency and conservation programs that achieve significant benefits and advance the state of sustainability.

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 2015 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 accounting staff for their high level of professionalism and dedication. 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 City Council, Finance Committee and Policy and Services 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

Karen Holman, ***Mayor***
Greg Schmid, ***Vice-Mayor***
Marc Berman
Patrick Burt
Tom DuBois
Eric Filseth
Liz Kniss
Gregory Scharff
Cory Wolbach

Finance Committee

Greg Schmid, ***Chair***
Eric Filseth
Liz Kniss
Greg Scharff

Policy and Services Committee

Pat Burt, ***Chair***
Marc Berman
Tom DuBois
Cory Wolbach

Council-Appointed Officers

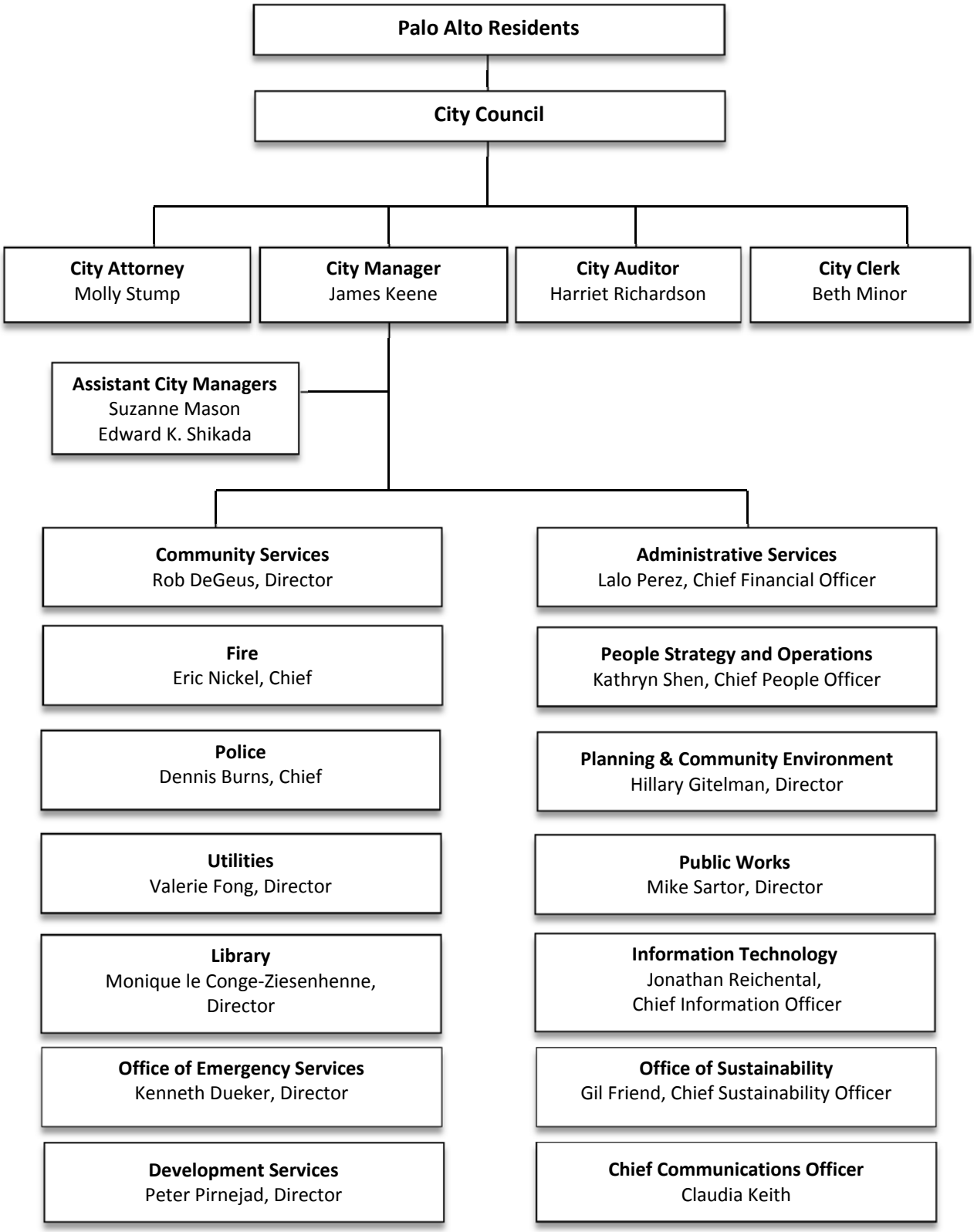
City Manager
James Keene

City Attorney
Molly Stump

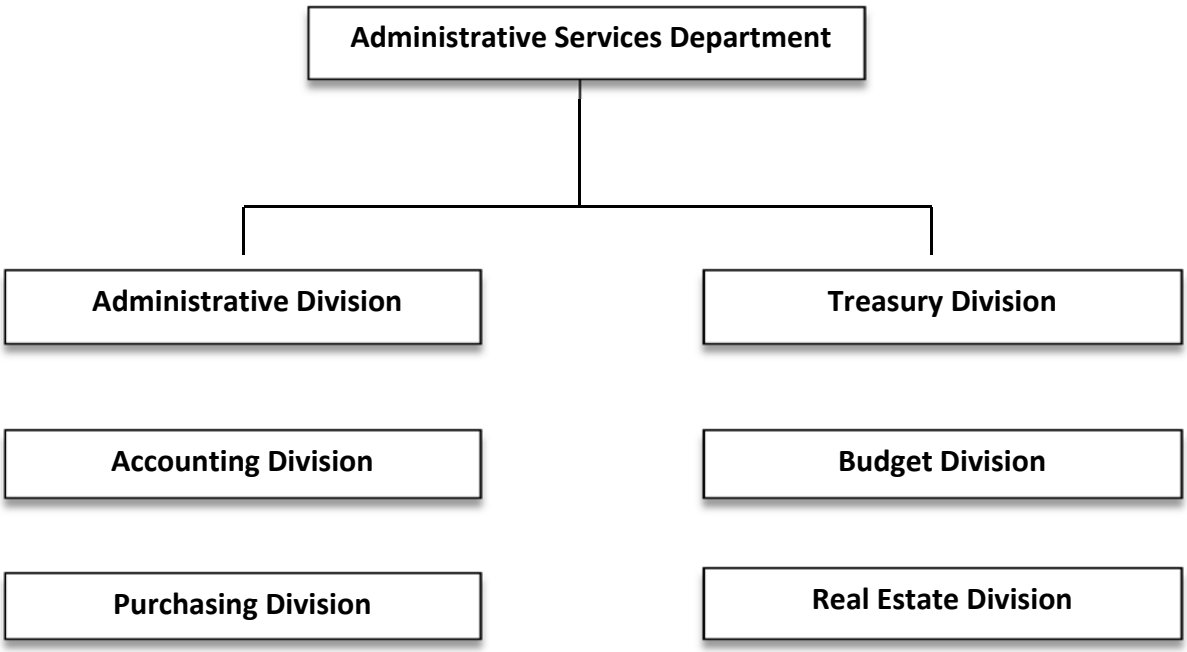
City Clerk
Beth Minor

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, 2014

Executive Director/CEO

Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

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, 2015, 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, 2015, 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(n) to the basic financial statements, effective July 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in the net pension liability and related ratios and the schedule of contributions, 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 3, 2015 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 3, 2015

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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, 2015. 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 and deferred inflows of resources at the close of Fiscal Year (FY) 2015 by $1,131.7 million. Of this amount, $174.8 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 2015, the City's governmental funds reported combined fund balances of $224.6 million, an increase of $10.6 million from prior year. Approximately 21.5 percent of this amount, or $48.2 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 $56.2 million, or 34.9 percent of total general fund expenditures, including transfers.
- The City's total outstanding long-term debt decreased by $6.1 million during the current fiscal year due to scheduled debt retirement.
- The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* effective July 1, 2014, and beginning FY 2015 balances were restated to reflect the impact. The City's net pension liability of $289.9 million was allocated to Governmental Activities ($208.8 million, or 72.0 percent) and Business-Type Activities ($81.1 million, or 28.0 percent) and reduced their unrestricted net positions by a like amount.

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, Development Services, 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 2015, 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 and inflows 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 47-102 of this report.

Other Information

The Required Supplementary Information related to the City's pension plans are included after the Notes to the Financial Statements on pages 103-106. The combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds, are presented immediately following the Required Supplementary Information. Combining statements and individual fund statements and schedules can be found on pages 107-132 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, 2015. As noted earlier, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $1,131.7 million at the end of the fiscal year, an improvement in net position of $255.4 million.

STATEMENT OF NET POSITION
As of June 30, 2015
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Cash and investments	$ 280.9	$ 271.8	$ 253.7	$ 269.5	$ 534.6	$ 541.3
Other assets	57.2	55.8	39.2	34.3	96.4	90.1
Capital assets	485.2	452.6	558.5	545.5	1,043.7	998.1
Total Assets	**823.3**	**780.2**	**851.4**	**849.3**	**1,674.7**	**1,629.5**
Unamortized loss from refunding	-	-	0.4	0.4	0.4	0.4
Deferred pension contribution	19.2	-	8.1	-	27.3	-
Total Deferred Outflows of Resources	**19.2**	**-**	**8.5**	**0.4**	**27.7**	**0.4**
Net pension liabilities	208.8	-	81.1	-	289.9	-
Long-term debt	78.8	80.9	72.2	76.2	151.0	157.1
Other liabilities	54.3	56.9	24.7	28.8	79.0	85.7
Total Liabilities	**341.9**	**137.8**	**178.0**	**105.0**	**519.9**	**242.8**
Difference between expected and actual earnings on investments	36.7	-	14.1	-	50.8	-
Total Deferred Inflows of Resources	**36.7**	**-**	**14.1**	**-**	**50.8**	**-**
Net Position						
Net investment in capital assets	405.9	386.7	490.9	473.8	896.8	860.5
Restricted	56.0	68.3	4.1	4.1	60.1	72.4
Unrestricted	2.0	187.4	172.8	266.8	174.8	454.2
Total Net Position	**$ 463.9**	**$ 642.4**	**$ 667.8**	**$ 744.7**	**$ 1,131.7**	**$ 1,387.1**

The largest portion of the City's net position (79.2 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 (5.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $174.8 million, representing 15.4 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.

The City implemented GASB 68 effective July 1, 2014. The beginning balance of the FY 2015 net position was restated to reflect the impact of the implementation.

There are 3 major components of GASB 68 that affect the Statements of Net Position for the Government-wide and each of the Proprietary Funds:

- Deferred pension contribution is the total amount of FY 2015 contributions. The contributions are deferred to FY 2016 because the net pension liability balance is one year in arrears.
- Net pension liabilities represent the actuarially valued liabilities for the Safety and Miscellaneous Pension Plans as of June 30, 2014.
- Difference between expected and actual earnings on investments is the portion of investment gains that is deferred. The new accounting standard requires that differences between projected and actual investment returns be amortized on a straight-line basis over five years.

The City's unfunded pension liability was disclosed in Note 11 in prior years, along with the actuarial assumptions used in calculating the liability. Compliance with GASB 68 requires that the City's net pension liability be recorded on the Statement of Net Position, which reduces unrestricted net position and, in some cases, creates a negative unrestricted net position or deficit.

At the end of the current fiscal year, even after the impact of GASB 68, the City is able to report positive unrestricted net positions both for the government as a whole and for its separate governmental and business-type activities, except for the following three funds:

- Wastewater Treatment Fund $2.8 million deficit as a result of $17.5 million of pension related items;
- Airport Fund $1.7 million deficit, $0.4 million of which is a result of pension related items; and
- Printing and Mailing Services Fund $0.3 million deficit due to pension related items.

Components of the $255.4 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)

	2015	2014	Increase/ (Decrease)
Cash and investments	$ 280.9	$ 271.8	$ 9.1
Other assets	57.2	55.8	1.4
Capital assets	485.2	452.6	32.6
Total Assets	**823.3**	**780.2**	**43.1**
Deferred pension contribution	19.2	-	19.2
Total Deferred Outflows of Resources	**19.2**	**-**	**19.2**
Net pension liabilities	208.8	-	208.8
Long-term debt	78.8	80.9	(2.1)
Other liabilities	54.3	56.9	(2.6)
Total Liabilities	**341.9**	**137.8**	**204.1**
Difference between expected and actual earnings on investments	36.7	-	36.7
Total Deferred Inflows of Resources	**36.7**	**-**	**36.7**
Net Position			
Net investment in capital assets	405.9	386.7	19.2
Restricted	56.0	68.3	(12.3)
Unrestricted	2.0	187.4	(185.4)
Total Net Position	**$ 463.9**	**$ 642.4**	**$ (178.5)**

The City's Governmental Activities total net position decreased $178.5 million to $463.9 million as of June 30, 2015. This decrease was a result of the following:

- Capital assets net of depreciation increased $32.6 million due to major capital projects such as California Avenue-Transit Hub Corridor ($6.6 million), City Hall renovations ($3.5 million), and the Magical Bridge playground ($3.6 million).
- Net investment in capital assets increased $19.2 million to $405.9 million. Restricted net position decreased $12.3 million to $56.0 million due to drawdowns of Library restricted cash for expenditures, and the reclassification of notes and loans receivable from restricted to unrestricted. Unrestricted net position decreased by $185.4 million to $2.0 million as a result of recording net pension liabilities and other items related to the GASB 68 implementation. 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 $185.8 million in FY 2015, an increase of $19.4 million from prior year revenues of $166.4 million.

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

Revenues by Source	2015	2014	Increase/ (Decrease)
Program Revenues:			
Charges for services	$ 63.5	$ 54.0	$ 9.5
Operating grants and contributions	5.3	5.4	(0.1)
Capital grants and contributions	0.6	0.9	(0.3)
Total Program Revenues	**69.4**	**60.3**	**9.1**
General Revenues:			
Property tax	38.8	35.3	3.5
Sales tax	29.7	29.4	0.3
Utility user tax	10.9	11.0	(0.1)
Transient occupancy tax	16.7	12.3	4.4
Documentary transfer tax	10.4	7.8	2.6
Other tax	1.5	1.8	(0.3)
Investment earnings	5.0	5.9	(0.9)
Rents and miscellaneous	3.4	2.6	0.8
Total General Revenues	**116.4**	**106.1**	**10.3**
Total Revenues	**$ 185.8**	**$ 166.4**	**$ 19.4**

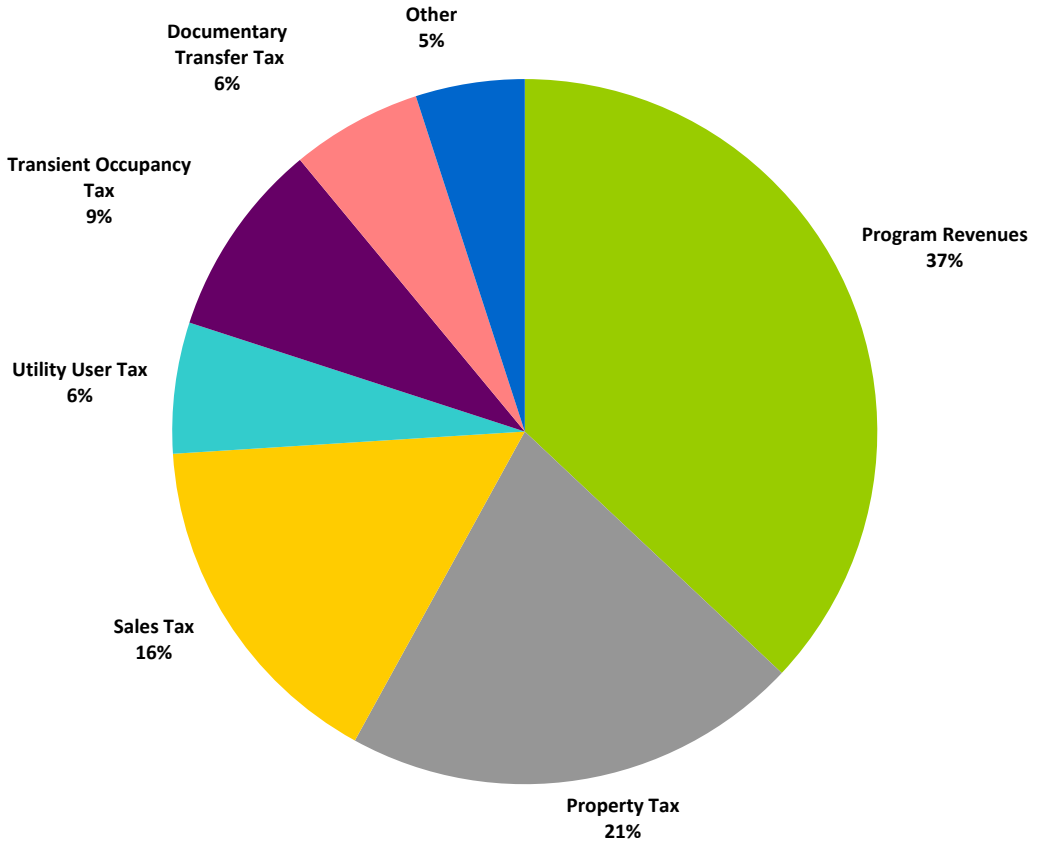
Total Program Revenues increased $9.1 million from the prior year due to increased developer impact, housing in-lieu, and transportation mitigation fees, all of which vary depending on volume and magnitude of development projects, and receipt of a $3.9 million litigation settlement.

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 $10.3 million, or 9.7 percent, from the prior year due to increased General Fund tax revenues. 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 2015 and FY 2014 expenses by function, and interest and other expense. Total Governmental Activities functional expense was $151.3 million in FY 2015, a decrease of $4.2 million.

GOVERNMENTAL ACTIVITIES

Expenses and Change in Net Position for the Year Ended June 30

(in millions)

Activities	2015	2014	Increase/ (Decrease)
City Council	$ 0.3	$ 0.4	$ (0.1)
City Manager	2.2	2.2	0.0
City Attorney	1.8	1.8	0.0
City Clerk	0.6	0.6	0.0
City Auditor	0.4	0.5	(0.1)
Administrative Services	10.0	11.3	(1.3)
People Strategy and Operations	1.4	1.3	0.1
Public Works	21.1	24.6	(3.5)
Planning and Community Environment	8.4	14.9	(6.5)
Development Services	10.4	-	10.4
Public Safety	58.7	62.9	(4.2)
Community Services	24.7	23.8	0.9
Library	7.7	7.8	(0.1)
Interest and Other Expense	3.6	3.4	0.2
Total Functional Expense	**151.3**	**155.5**	**(4.2)**
Increase in Net Position before Transfers	34.4	10.8	23.6
Transfers in	16.4	17.1	(0.7)
Change in Net Position	50.8	27.9	22.9
Net Position, Beginning,	642.4	614.5	27.9
Restatement due to GASB 68	(229.3)	-	(229.3)
Net Position, Ending	**$ 463.9**	**$ 642.4**	**$ (178.5)**

Administrative Services non-departmental expense is less due to reduced lease payments for the Cubberley facility.

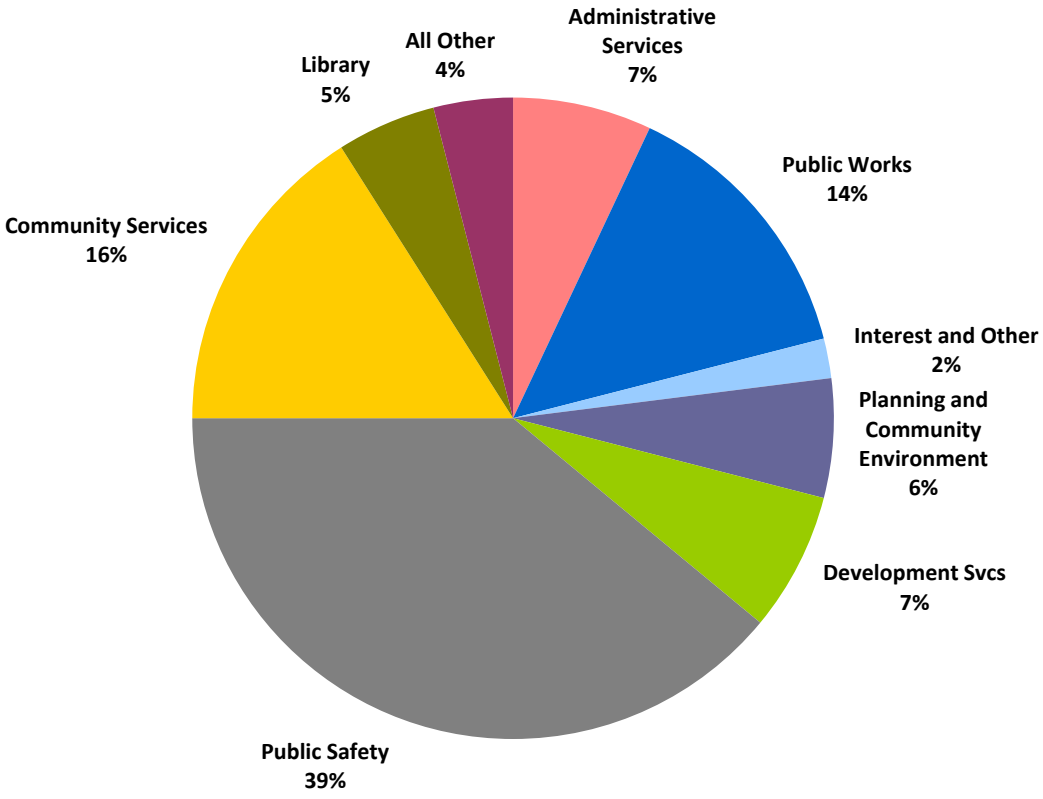
Development Services was separated from Planning and Community Environment at the beginning of the fiscal year. Salary and non-salary expenses were identified and transferred out of the Planning, Public Safety and Public Works departments.

Public Safety expenses at the government-wide level have decreased $4.2 million due to a $1.9 million reduction of expense due to GASB 68 pension expense less than actual contributions, and $1.7 million due to allocation of the Internal Service Funds net position. The remaining $0.6 million decrease is due to consolidation of all related expenses into the newly created Development Services department.

Remaining variances are due to fixed asset activities such as depreciation and asset retirements.

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)

	2015	2014	Increase/ (Decrease)
Cash and investments	$ 253.7	$ 269.5	$ (15.8)
Other assets	39.2	34.3	4.9
Capital assets	558.5	545.5	13.0
Total Assets	**851.4**	**849.3**	**2.1**
Unamortized loss from refunding	0.4	0.4	-
Deferred pension contribution	8.1	-	8.1
Total Deferred Outflows of Resources	**8.5**	**0.4**	**8.1**
Net pension liabilities	81.1	-	81.1
Long-term debt	72.2	76.2	(4.0)
Other liabilities	24.7	28.8	(4.1)
Total Liabilities	**178.0**	**105.0**	**73.0**
Difference between expected and actual earnings on investments	14.1	-	14.1
Total Deferred Outflows of Resources	**14.1**	**-**	**14.1**
Net Position			
Net investment in capital assets	490.9	473.8	17.1
Restricted	4.1	4.1	-
Unrestricted	172.8	266.8	(94.0)
Total Net Position	**$ 667.8**	**$ 744.7**	**$ (76.9)**

The City's Business-type Activities total net position decreased $76.9 million to $667.8 million as of June 30, 2015.

Cash and investments decreased $15.8 million primarily due to Electric Fund decrease in change in net position of $11.2 million.

Other assets increased $4.9 million due to higher accounts receivable balances in the Electric, Fiber Optics, Wastewater Collection and Treatment Funds.

Capital assets increased $13.0 million to $558.5 million in FY 2015 as a result of Electric and Gas infrastructure improvements. Additions include $7.2 million of capital improvements in Electric and $7.5 million of capital improvements in Gas. This also contributed to the increase of $17.1 million in the net investment in capital assets to $490.9 million.

Unrestricted net position of $172.8 million, a decrease of $94.0 million from the prior year, represents liquid assets available to finance day-to-day operations and other expenditures approved by Council. The amount includes rate stabilization reserves (RSR) of $63.5 million and operations reserves of $47.3 million, along with the Electric special projects (Calaveras) reserve of $51.8 million, and the hydro stabilization reserve of $17.0 million. The positive balances in these reserves are offset by the GASB 68 adjustment for pension liabilities of $87.1 million. Additional detail is included in Note 10.

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)

Revenues by Source	2015	2014	Increase/ (Decrease)
Program Revenues:			
Charges for services	$ 270.9	$ 273.0	$ (2.1)
Operating grants and contributions	0.5	0.5	-
Capital grants and contributions	2.1	2.0	0.1
Total Program Revenues	**273.5**	**275.5**	**(2.0)**
General Revenues:			
Investment earnings (loss)	4.9	6.4	(1.5)
Total General Revenues	**4.9**	**6.4**	**(1.5)**
Total Revenues	**$ 278.4**	**$ 281.9**	**$ (3.5)**

Business-type Activities revenues totaled $278.4 million, a decrease of $3.5 million from the prior year. Program revenues decreased $2.0 million year over year – Water and Gas revenues declined $4.3 million and $5.0 million respectively due to drought conservation measures and continued lower gas consumption, offset by a $5.7 million increase in Wastewater Treatment (WWT) revenue. WWT revenue increased as a result of increased billings for capital costs ($2.0 million) in the current year and $3.7 million due to reduced billings for encumbrances in the prior year.

Investment earnings decreased due to lower cash balances and a slightly lower rate of return on investments

Business-type Activities – Expenses

The table below presents a comparison of the FY 2015 and FY 2014 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)

Business-type Activities	2015	2014	Increase/ (Decrease)
Water	$ 33.2	$ 31.6	$ 1.6
Electric	122.4	113.0	9.4
Fiber Optics	1.9	1.7	0.2
Gas	23.5	26.9	(3.4)
Wastewater Collection	14.6	13.2	1.4
Wastewater Treatment	21.6	21.0	0.6
Refuse	28.0	28.4	(0.4)
Storm Drainage	3.7	3.6	0.1
Airport	1.0	0.5	0.5
Total Functional Expense	**249.9**	**239.9**	**10.0**
Increase in Net Position before Transfers	28.4	42.0	(13.6)
Transfers out	(16.4)	(17.1)	0.7
Change in Net Position	12.0	24.9	(12.9)
Net Position, Beginning	744.7	719.8	24.9
Restatement due to GASB 68	(88.9)	-	(88.9)
Net Position, Ending	**$ 667.8**	**$ 744.7**	**$ (76.9)**

Business-type Activities expenses increased $10.0 million for a total of $249.9 million. Year over year expenses were significantly affected by the following events:

- Electric Fund expenses increased $9.4 million primarily due to increased energy purchase costs. The availability of hydroelectric energy resources is lower than average due to the ongoing drought, which necessitates higher than average electricity purchases at market rates.
- Gas Fund expenses decreased $3.4 million due to lower consumption which resulted in a lower volume of commodity purchases.

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, 2015, the City's Governmental Funds reported combined fund balances of $224.6 million, an increase of $10.6 million from the prior year. Approximately 21.5 percent, or $48.2 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 ($7.8 million); 2) restricted for particular purposes ($59.6 million); 3) committed for particular purposes ($48.4 million); or 4) assigned for particular purposes ($60.6 million).

Governmental Fund revenues increased $19.8 million, or 12.0 percent, from prior year to $184.5 million. Revenues in the General Fund increased $15.8 million and Capital Projects Fund revenue decreased $1.4 million. Other Governmental Funds revenue increased by $5.4 million due to increased developer impact fees and a $3.9 million litigation settlement.

Governmental Fund expenditures were $189.1 million, an increase of $10.1 million from the prior year. General Fund expenditures increased $4.3 million, Capital Projects Fund expenditures increased by $4.9 million, and Non-major Fund expenditures increased by $0.9 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 $62.5 million, compared to $48.3 million in the prior year. The fund balance has been classified as $6.3 million non-spendable, $8.0 million assigned, and $48.2 million unassigned. The unassigned amount of $48.2 million is designated by the Council for budget stabilization. $2.1 million will be used to fund one-time expenses in the FY 2016 Operating Budget and an additional $2.1 million will be used for FY 2016 budget Amendment Ordinances approved to date. A further $3.3 million of transient occupancy tax (TOT) from newly opened hotels and the 2 percent TOT increase is earmarked for transfer to the Infrastructure Reserve. The remaining balance of $40.7 million represents 21.9 percent of FY 2016 expenditures and operating transfers, which is $6.3 million above the target reserve guideline of 18.5 percent set by Council. Staff will bring forward further recommendations as part of the year-end close process. Surplus funds of $5.1 million were transferred to the Infrastructure Reserve in the Capital Projects Fund in FY 2015, as allowed by the General Fund Reserve Policy, for a total of $25.6 million over the last four fiscal years.

Statement of Revenues, Expenditures and Changes in Fund Balance

Revenues

The City's General Fund revenues totaled $157.5 million in FY 2015. This represents an increase of $15.8 million, or 11.1 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)

Revenues by Source	2015	2014	Increase/ (Decrease)
Property tax	$ 34.1	$ 30.6	$ 3.5
Sales tax	29.7	29.4	0.3
Utility user tax	10.9	11.0	(0.1)
Transient occupancy tax	16.7	12.2	4.5
Documentary transfer tax	10.4	7.8	2.6
Charges for services	25.9	24.0	1.9
Permits and licence	7.1	7.0	0.1
Rental income	14.9	14.2	0.7
All other	7.8	5.5	2.3
Total Revenues	**$ 157.5**	**$ 141.7**	**$ 15.8**

Property tax revenue increased by $3.5 million, or 11.4 percent, due to increased property assessment roll growth and a $0.9 million Educational Revenue Augmentation Fund (ERAF) distribution from the County of Santa Clara.

Sales tax revenue increased $0.3 million from prior year. FY 2015 revenue includes a $2.6 million planned one-time accounting adjustment to align the sales tax accrual period with the fiscal year. Excluding this one-time adjustment, revenue declined $2.3 million from prior year due to a large one-time receipt from a single vendor in the prior year.

Transient occupancy tax (TOT) ended the year $4.5 million, or 36.9 percent, higher than prior year due to newly opened hotels, continued strong business activity and increasing occupancy and room rates. A significant portion of the increase ($1.4 million) is due to a Council approved two percent increase in the TOT rate from 12 percent to 14 percent which took effect January 1, 2015.

Documentary transfer tax increased $2.6 million to $10.4 million, primarily due to one unusually high dollar commercial property transaction. Revenue of $10.4 million is the highest on record for the City.

All other revenue increased from prior year by $2.3 million primarily due to a $0.1 million receipt from the state for reimbursement of costs incurred in complying with past state unfunded mandates.

Expenditures

General Fund expenditures totaled $138.8 million for FY 2015 compared to $134.5 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)

Expenditures by Function	2015	2014	Increase/ (Decrease)
Administrative Services	$ 3.7	$ 3.0	$ 0.7
Public Works	11.4	11.5	(0.1)
Planning and Community Environment	7.4	13.2	(5.8)
Development Services	11.1	-	11.1
Public Safety	61.2	61.7	(0.5)
Community Services	23.0	22.5	0.5
Library	8.0	7.3	0.7
Non-Departmental	5.6	8.0	(2.4)
All other	7.4	7.3	0.1
Total Expenditures	**$ 138.8**	**$ 134.5**	**$ 4.3**

Administrative Services expenses increased due to a reduction in the amount of cost plan recoveries from other City departments.

Effective July 2014, as approved in the FY 2015 Adopted Budget, Development Services was separated from Planning and Community Environment. Salary and non-salary expenses were identified and transferred primarily out of the Planning department. Lesser amounts were taken out of Public Safety and Public Works departments and the Technology Fund.

Non-Departmental expenditures decreased $2.4 million primarily due to $0.9 million less paid to Palo Alto Unified School District (PAUSD) for lease of the Cubberley facility and $0.2 million less in election expenses. As explained further in Note 16, under the terms of the lease with PAUSD, $1.8 million per calendar year is being paid into a Cubberley infrastructure fund rather than to PAUSD.

Transfers out for FY 2015 increased $3.5 million due to $1.5 million more to the Infrastructure Reserve, $0.9 million to the Cubberley infrastructure fund, and $0.9 million to the Technology Fund.

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

Original budget compared to final budget

Revenues were originally budgeted at $140.3 million and were revised upward by $6.8 million. Revenue categories that were adjusted are shown in the table below.

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

Budgeted Revenues	Original Budget	Final Budget	Increase/ (Decrease)
Sales tax	$ 25.9	$ 29.2	$ 3.3
Property tax	31.9	32.6	0.7
Transient occupancy tax	14.2	15.9	1.7
Documentary transfer tax	7.5	6.5	(1.0)
All other	60.8	62.9	2.1
	140.3	147.1	6.8
Charges to other funds	10.6	10.6	-
Prior year encumbrances and appropriations		5.6	5.6
Total Budgeted Revenues	**$ 150.9**	**$ 163.3**	**$ 12.4**

Adjustments to the original budget were based on the following:

- Sales tax was increased by $3.3 million due to higher than expected receipts. In addition, $1.7 million was added for an accounting adjustment to align the sales tax accrual with the fiscal year.
- Property tax was increased by $0.7 million due to updated estimates from the County.
- Transient occupancy tax was increased by $1.7 million primarily due to the voter approved TOT rate increase from 12 to 14 percent that took effect on January 1, 2015.
- Documentary transfer tax was decreased by $1.0 million based on year-to-date receipts tracking lower than the same period prior year.

Actual revenues of $157.5 million were $10.4 million higher than final budgeted revenues of $147.1 million due primarily to one-time items, including the following:

- $0.9 million from the County of Santa Clara for excess Educational Revenue Augmentation Funds;
- $1.0 million receipt for reimbursement of prior years' state unfunded mandates;
- $3.2 documentary transfer tax receipt due to an unusually large commercial real estate transaction;

Expenditures were originally budgeted at $155.3 million and were revised upward by $8.3 million for a final budgeted amount of $163.6 million, as shown in the table below.

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

Budgeted Expenditures	Original Budget	Final Budget	Increase/ (Decrease)	Actuals, plus Encumbrances
Community Services	22.8	24.3	1.5	23.9
Public Safety	62.1	63.4	1.3	62.5
Library	7.5	8.6	1.1	8.1
Planning and Community Environment	7.0	9.0	2.0	9.0
Public Works	13.4	14.4	1.0	14.2
Development Services	10.5	10.9	0.4	11.3
Non-departmental	13.3	11.9	(1.4)	6.0
All other	18.7	21.1	2.4	19.8
Total Budgeted Expenditures	**$ 155.3**	**$ 163.6**	**$ 8.3**	**154.8**
Less: Charges to Other Funds				(10.4)
Less: Encumbrances				(5.6)
Net General Fund Expenditures				**$ 138.8**

The final budgeted expenditure amount of $163.6 million compares to the actual expenditures plus encumbrances of $154.8 million, a difference of $8.8 million. The lower than budgeted expenditures were primarily due to non-departmental expenditures lower than expected.

Transfers out were originally budgeted at $15.7 million, with the final budget number at $23.0 million, an increase of $7.3 million. The increase was due primarily to an additional $5.1 million transfer of FY 2015 surplus to the Infrastructure Reserve. Actual transfers out for the year were $22.3 million, a difference of $0.8 million from final budget due to reclass of the Airport Fund transfer to interfund advance at year-end.

Capital Projects Fund

Capital Projects Fund expenditures and other uses were $42.0 million in FY 2015, an increase of $4.9 million from the prior year driven by construction and renovation of Mitchell Park Library and Community Center and Rinconada 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, 2015, the City's Enterprise Funds reported total net position of $664.8 million, a decrease of $77.5 million or 10.4 percent from the prior year. The decrease was primarily from the Water, Electric, Gas and Wastewater Treatment Funds for $7.0 million, $39.8 million, $11.2 million and $15.0 million, respectively. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled $169.8 million, a 35.8 percent decrease from FY 2014. Of this $94.6 million decrease, $88.9 million is a result of the adjustment for GASB 68 pension liability.

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)

Fund Name	2015	2014	Increase/ (Decrease)
Water	$ 5.1	$ 11.0	$ (5.9)
Electric	(11.2)	1.7	(12.9)
Fiber Optics	3.1	3.1	-
Gas	1.7	3.3	(1.6)
Wastewater Collection	2.4	3.5	(1.1)
Wastewater Treatment	2.9	(1.9)	4.8
Refuse	4.8	2.2	2.6
Storm Drainage	2.7	2.7	-
Airport	(0.1)	(0.5)	0.4
Total Change in Net Position	**$ 11.4**	**$ 25.1**	**$ (13.7)**

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

- Water change in net position decreased $5.9 million due to reduced water consumption by customers as a result of state mandated drought conservation measures.
- Electric change in net position decreased $12.9 million from the prior year due to increased purchase of electricity as a result of lower hydroelectric generation due to the drought.
- Wastewater Treatment increased its change in net position by $4.8 million due to higher billings for capital costs and the prior year impact of RWQCP discontinuing invoicing 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.

CAPITAL ASSETS AT JUNE 30
(in millions)

	2015	2014	Increase/ (Decrease)
Governmental Activities			
Capital Assets			
Land and improvements	$ 79.0	$ 79.0	$ -
Street trees	15.1	15.2	(0.1)
Construction in progress	39.3	89.9	(50.6)
Buildings and improvements	221.7	134.6	87.1
Intangible assets	3.8	3.8	-
Equipment	12.3	11.9	0.4
Roadway network	299.2	291.3	7.9
Recreation and open space network	27.6	27.6	0.0
Less accumulated depreciation	(228.2)	(215.1)	(13.1)
Internal Service Fund Assets			
Construction in progress	1.4	3.1	(1.7)
Equipment	53.5	51.1	2.4
Less accumulated depreciation	(39.5)	(39.8)	0.3
Total Governmental Activities	**$ 485.2**	**$ 452.6**	**$ 32.6**
Business-type Activities			
Land	$ 5.0	$ 5.0	$ -
Construction in progress	89.9	122.2	(32.3)
Buildings and improvements	53.5	34.1	19.4
Transmission, distribution and treatment systems	717.6	675.8	41.8
Less accumulated depreciation	(307.5)	(291.6)	(15.9)
Total Business-type Activities	**$ 558.5**	**$ 545.5**	**$ 13.0**

Governmental Activities' capital assets net of depreciation increased by $32.6 million from the prior year. The increase was primarily due to construction of Mitchell Park Library and Community Center, improvements to the Rinconada Library, California Avenue – Transit Hub Corridor improvements and street and sidewalk improvements throughout the City.

In June 2014 Council approved a $125.8 million Infrastructure Plan, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. Funding for these projects will come from a variety of sources, including TOT revenues, Stanford University Medical Center development agreement, and developer impact fees. In the past four years, General Fund surpluses totaling $25.6 million have been transferred to the Capital Projects Infrastructure Reserve.

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

- Golf Course reconfiguration and Baylands Athletic Center - $10.4 million
- El Camino Park expansion - $3.6 million
- Newell Road bridge/San Francisquito bridge replacement - $3.5 million

Business-type Activities' capital assets net of depreciation increased by $13.0 million over FY 2014. The increase is due to Electric and Gas infrastructure improvements.

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

- Water main replacement for Water Fund - $4.7 million
- Gas main replacement for Gas Fund - $2.1 million
- Wastewater Collection Fund rehabilitation/augmentation project - $8.7 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, 2015, the City's debt was comprised of the following:

LONG-TERM DEBT AT JUNE 30
(in millions)

	2015	2014	Increase/ (Decrease)
Governmental Activities			
General Long-Term Obligations			
Certificates of Participation			
2002B Downtown Parking Improvements	$ 1.3	$ 1.5	$ (0.2)
General Obligation Bonds			
2010	51.5	52.5	(1.0)
2013A	20.3	20.7	(0.4)
2011 Lease Purchase Agreement	1.6	2.0	(0.4)
Add: unamortized premium	4.1	4.2	(0.1)
Total Governmental	**$ 78.8**	**$ 80.9**	**$ (2.1)**
Business-type Activities			
Enterprise Long-Term Obligations			
Utility Revenue Bonds			
1995 Series A	$ 2.9	$ 3.3	(0.4)
1999 Refunding	10.3	11.0	(0.7)
2009 Series A	30.7	31.6	(0.9)
2011 Refunding	13.3	14.3	(1.0)
Add: unamortized premium	0.9	0.9	0.0
Energy Tax Credit Bonds			
2007 Series A	0.7	0.8	(0.1)
Less: unamortized discount	(0.1)	(0.1)	-
State Water Resources Loan			
2007	6.3	6.8	(0.5)
2009	7.2	7.6	(0.4)
Total Business-type	**$ 72.2**	**$ 76.2**	**$ (4.0)**

Long-term debt decreased $6.1 million due to debt retirements in accordance with repayment schedules. As noted in the Statistical Section of the CAFR, the combined direct debt ratio to assessed valuation for the General Fund is 0.27 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, 2015, 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, 4th Floor, Palo Alto, California. The Department can also be contacted by email at: adminsvcs@cityofpaloalto.org. This report and other financial reports can be viewed on the City of Palo Alto website at: 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, 2015
(Amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	$ 275,316	$ 248,259	$ 523,575
Receivables, net:			
Accounts and intergovernmental	12,496	32,109	44,605
Interest receivable	1,169	1,123	2,292
Notes and loans receivable (Note 5)	17,852	-	17,852
Internal balances (Note 4)	(1,277)	1,277	-
Net OPEB asset (Note 12)	22,871	-	22,871
Due from other government agencies	-	4,200	4,200
Inventory of materials and supplies, prepaids and deposits	4,103	464	4,567
Restricted cash and investments with fiscal agents (Note 3)	5,587	4,142	9,729
Restricted cash for post-closure landfill (Note 3)	-	1,281	1,281
Capital assets (Note 6):			
Nondepreciable	138,374	94,882	233,256
Depreciable, net of accumulated depreciation	346,815	463,651	810,466
Total assets	823,306	851,388	1,674,694
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	368	368
Deferred pension contribution	19,175	8,110	27,285
Total deferred outflows of resources	19,175	8,478	27,653
LIABILITIES:			
Accounts payable and accruals	13,548	15,026	28,574
Accrued salaries and benefits	3,439	1,667	5,106
Unearned revenue	2,517	66	2,583
Accrued compensated absences (Note 1):			
Due in one year	4,470	-	4,470
Due in more than one year	6,286	-	6,286
Claims payable (Note 14):			
Due in one year	5,317	-	5,317
Due in more than one year	18,801	-	18,801
Accrued landfill closure liability and post-closure care (Note 9):			
Due in more than one year	-	7,833	7,833
Net pension liabilities (Note 11):	208,765	81,167	289,932
Long-term debt (Note 7):			
Due in one year	2,153	4,049	6,202
Due in more than one year	76,654	68,178	144,832
Total liabilities	341,950	177,986	519,936
DEFERRED INFLOWS OF RESOURCES:			
Differences between expected and actual earnings on investments	36,675	14,062	50,737
NET POSITION (Note 10):			
Net Investment in capital assets	405,921	490,874	896,795
Restricted for:			
Special revenue programs	47,604	-	47,604
Debt service	6,891	4,142	11,033
Nonexpendable - Eyerly Family	1,468	-	1,468
Total restricted net position	55,963	4,142	60,105
Unrestricted	1,972	172,802	174,774
Total net position	$ 463,856	$ 667,818	$ 1,131,674

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Statement of Activities
For the Year Ended June 30, 2015
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
City Council	$ 271	$ -	$ -	$ -	$ (271)	$ -	$ (271)
City Manager	2,155	-	-	-	(2,155)	-	(2,155)
City Attorney	1,759	-	-	-	(1,759)	-	(1,759)
City Clerk	680	-	-	-	(680)	-	(680)
City Auditor	362	-	-	-	(362)	-	(362)
Administrative Services	9,980	5,460	-	619	(3,901)	-	(3,901)
People Strategy and Operations	1,464	-	-	-	(1,464)	-	(1,464)
Public Works	21,075	1,209	3,436	-	(16,430)	-	(16,430)
Planning and Community Environment	8,423	8,090	1,190	-	857	-	857
Development Services	10,449	12,019	-	-	1,570	-	1,570
Public Safety	58,660	15,726	671	-	(42,263)	-	(42,263)
Community Services	24,688	20,912	-	-	(3,776)	-	(3,776)
Library	7,721	137	3	-	(7,581)	-	(7,581)
Interest on long-term debt	3,658	-	-	-	(3,658)	-	(3,658)
Total Governmental Activities	151,345	63,553	5,300	619	(81,873)	-	(81,873)
Business-Type Activities:							
Water	33,205	35,847	534	1,132	-	4,308	4,308
Electric	122,499	120,842	-	-	-	(1,657)	(1,657)
Fiber Optics	1,891	4,627	-	-	-	2,736	2,736
Gas	23,525	30,751	-	-	-	7,226	7,226
Wastewater Collection	14,595	16,182	-	648	-	2,235	2,235
Wastewater Treatment	21,553	24,120	-	-	-	2,567	2,567
Refuse	27,974	31,576	-	-	-	3,602	3,602
Storm Drainage	3,721	6,281	-	-	-	2,560	2,560
Airport	1,004	683	-	300	-	(21)	(21)
Total Business-Type Activities	249,967	270,909	534	2,080	-	23,556	23,556
Total	$ 401,312	$ 334,462	$ 5,834	$ 2,699	(81,873)	23,556	(58,317)
General Revenues:							
Taxes:							
Property tax					38,750	-	38,750
Sales tax					29,675	-	29,675
Utility user tax					10,861	-	10,861
Transient occupancy tax					16,699	-	16,699
Documentary transfer tax					10,384	-	10,384
Other taxes					1,483	-	1,483
Investment earnings					5,010	4,857	9,867
Miscellaneous					3,428	-	3,428
Transfers (Note 4)					16,405	(16,405)	-
Total general revenues and transfers					132,695	(11,548)	121,147
Change in net position					50,822	12,008	62,830
Net position, beginning of year, as previously reported					642,413	744,755	1,387,168
Restatement for implementation of GASB Statement No. 68 (Note 1(n))					(229,379)	(88,945)	(318,324)
Net position, beginning of year, as restated					413,034	655,810	1,068,844
Net position, end of year					$ 463,856	$ 667,818	$ 1,131,674

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Governmental Funds
Balance Sheet
June 30, 2015
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments available for operations (Note 3)	$ 54,730	$ 56,469	$ 87,864	$ 199,063
Receivables, net:				
Accounts and intergovernmental	10,197	1,456	63	11,716
Interest receivable	525	-	327	852
Notes and loans receivable (Note 5)	868	-	16,984	17,852
Prepaid items	66	-	-	66
Advance to other fund (Note 4)	1,695	-	-	1,695
Inventory of materials and supplies	3,667	-	-	3,667
Restricted cash and investments with fiscal agents (Note 3)	-	5,349	238	5,587
Total assets	$ 71,748	$ 63,274	$ 105,476	$ 240,498
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	$ 3,647	$ 5,799	$ 635	$ 10,081
Accrued salaries and benefits	3,114	121	16	3,251
Unearned revenue	2,517	-	-	2,517
Total liabilities	9,278	5,920	651	15,849
Fund balances (Note 10):				
Nonspendable:				
Notes and loans receivable	868	-	-	868
Prepaid items	66	-	-	66
Inventories	3,667	-	-	3,667
Advance to other fund	1,695	-	-	1,695
Eyerly family	-	-	1,468	1,468
Restricted for:				
Transportation mitigation	-	-	11,898	11,898
Federal revenue	-	-	4,442	4,442
Street improvement	-	-	1,544	1,544
Local law enforcement	-	-	140	140
Library bond project	-	5,155	-	5,155
Public benefit	-	-	29,580	29,580
Debt service	-	-	6,891	6,891
Committed for:				
Developer impact fees	-	-	12,497	12,497
Housing in-lieu	-	-	33,881	33,881
Special districts	-	-	2,013	2,013
Downtown business	-	-	43	43
Assigned for:				
Unrealized gains on investments	671	-	428	1,099
Infrastructure	-	9,475	-	9,475
Capital projects	-	42,724	-	42,724
Other general government purposes	5,605	-	-	5,605
Reappropriations	1,700	-	-	1,700
Unassigned for:				
Budget Stabilization	48,198	-	-	48,198
Total fund balances	62,470	57,354	104,825	224,649
Total liabilities and fund balances	$ 71,748	$ 63,274	$ 105,476	$ 240,498

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, 2015
(Amounts in thousands)

Total fund balances reported on the governmental funds balance sheet	$ 224,649
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:	
Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources	19,175
Deferred inflows of resources	(36,675)
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)	485,189
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, deferred outflows of resources, deferred inflows of resources and net pension liabilities reported above)	60,916
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	(1,826)
Net pension liabilities (Note 11)	(208,765)
Long-term debt (Note 7)	(78,807)
Net position of governmental activities	$ 463,856

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, 2015
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
REVENUES:				
Property tax	$ 34,117	$ -	$ 4,633	$ 38,750
Special assessments	-	-	86	86
Sales tax	29,675	-	-	29,675
Utility user tax	10,861	-	-	10,861
Transient occupancy tax	16,699	-	-	16,699
Documentary transfer tax	10,384	-	-	10,384
Other taxes and fines	1,900	-	1,732	3,632
Charges for services	25,973	-	-	25,973
From other agencies	3,712	3,527	488	7,727
Permits and licenses	7,056	-	2,123	9,179
Investment earnings	1,177	1,004	1,561	3,742
Rental income	14,911	-	5	14,916
Other revenue	1,018	209	11,610	12,837
Total revenues	157,483	4,740	22,238	184,461
EXPENDITURES:				
Current:				
City Council	270	-	-	270
City Manager	2,112	-	-	2,112
City Attorney	1,830	-	-	1,830
City Clerk	679	-	-	679
City Auditor	409	-	-	409
Administrative Services	3,746	-	190	3,936
People Strategy and Operations	1,570	-	-	1,570
Public Works	11,440	-	836	12,276
Planning and Community Environment	7,369	-	1,259	8,628
Development Services	11,152	-	-	11,152
Public Safety	61,226	-	221	61,447
Community Services	23,045	-	508	23,553
Library	7,980	-	-	7,980
Non-Departmental	5,578	240	362	6,180
Capital outlay	-	41,754	-	41,754
Debt service:				
Principal	383	-	1,565	1,948
Interest and fiscal charges	46	3	3,355	3,404
Total expenditures	138,835	41,997	8,296	189,128
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,648	(37,257)	13,942	(4,667)
OTHER FINANCING SOURCES (USES):				
Transfers in (Note 4)	17,796	25,124	2,217	45,137
Transfers out (Note 4)	(22,284)	(300)	(7,240)	(29,824)
Total other financing sources (uses)	(4,488)	24,824	(5,023)	15,313
Change in fund balances	14,160	(12,433)	8,919	10,646
FUND BALANCES, BEGINNING OF YEAR	48,310	69,787	95,906	214,003
FUND BALANCES, END OF YEAR	$ 62,470	$ 57,354	$ 104,825	$ 224,649

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, 2015
(Amounts in thousands)

Net change in fund balances - total governmental funds	$ 10,646
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	45,420
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of $2,392 (Note 6), which has already been allocated through the internal service fund activities below	(13,188)
Disposal of capital assets	(608)
Pension contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	18,033
Pension expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(15,172)
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 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	1,948
Change in interest payable	(412)
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.	3,997
Change in net position of governmental activities	$ 50,822

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2015
(Amounts in thousands)

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual, plus Encumbrances	Positive (Negative)
REVENUES:				
Sales tax	$ 25,957	$ 29,238	$ 29,675	$ 437
Property tax	31,927	32,556	34,117	1,561
Transient occupancy tax	14,156	15,901	16,699	798
Documentary transfer tax	7,514	6,500	10,384	3,884
Utility user tax	11,285	10,895	10,861	(34)
Other taxes, fines and penalties	2,164	2,168	1,900	(268)
Charges for services	23,080	24,863	25,973	1,110
Permits and licenses	7,738	7,738	7,056	(682)
Investment earnings	685	685	1,177	492
Rental income	14,254	14,207	14,911	704
From other agencies	453	472	3,712	3,240
Other revenues	1,060	1,878	1,018	(860)
	140,273	147,101	157,483	10,382
Charges to other funds	10,647	10,647	10,416	(231)
Prior year encumbrances and reappropriations	-	5,579	4,760	(819)
Total revenues	150,920	163,327	172,659	9,332
EXPENDITURES:				
Current:				
City Attorney	2,578	3,330	3,137	193
City Auditor	1,065	1,122	1,121	1
City Clerk	1,276	1,282	1,138	144
City Council	432	517	402	115
City Manager	3,003	3,544	3,070	474
Administrative Services	7,175	7,399	7,226	173
Community Services	22,764	24,274	23,902	372
Public Safety	62,054	63,456	62,459	997
People Strategy and Operations	3,264	3,818	3,677	141
Library	7,521	8,641	8,144	497
Planning and Community Environment	7,016	9,039	9,026	13
Development Services	10,535	10,895	11,335	(440)
Public Works	13,397	14,458	14,210	248
Non-Departmental	13,274	11,857	6,010	5,847
Total expenditures	155,354	163,632	154,857	8,775
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,434)	(305)	17,802	18,107
OTHER FINANCING SOURCES (USES):				
Transfers in	18,433	18,620	17,796	(824)
Transfers out	(15,735)	(23,044)	(22,284)	760
Total other financing sources (uses)	2,698	(4,424)	(4,488)	(64)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	$ (1,736)	$ (4,729)	13,314	$ 18,043
Adjustment to Budgetary Basis:				
Current year encumbrances/reappropriations			5,606	
Prior year encumbrances/reappropriations			(4,760)	
CHANGE IN FUND BALANCE, GAAP BASIS			14,160	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			48,310	
FUND BALANCE AT END OF YEAR, GAAP BASIS			$ 62,470	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Net Position
June 30, 2015
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
Current assets:				
Cash and investments available for operations (Note 3)	$ 37,505	$ 117,187	$ 22,023	$ 23,323
Accounts receivable, net of allowance of $978	5,020	13,761	1,237	2,323
Interest receivable	161	547	91	112
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents (Note 3)	3,316	-	-	826
Restricted cash for landfill closure (Note 3)	-	-	-	-
Total current assets	46,002	131,495	23,351	26,584
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposit	-	114	-	-
Prepaid expense	117	-	-	-
Capital assets (Note 6):				
Nondepreciable	11,344	15,196	1,118	17,804
Depreciable, net	102,615	166,012	6,490	84,447
Net OPEB asset (Note 12)	-	-	-	-
Total noncurrent assets	114,076	181,322	7,608	102,251
Total assets	160,078	312,817	30,959	128,835
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized loss from refunding	142	-	-	185
Deferred pension contribution	1,047	2,714	181	1,151
Total deferred outflows of resources	1,189	2,714	181	1,336
LIABILITIES:				
Current liabilities:				
Accounts payable and accruals	3,124	6,588	395	1,382
Accrued salaries and benefits	274	594	35	232
Unearned revenue	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of revenue bonds (Note 7)	1,457	100	-	553
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	4,855	7,282	430	2,167
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)	-	-	-	-
Net pension liabilities (Note 11)	11,024	26,104	1,592	11,758
Utility revenue bonds, net of unamortized discounts/premiums (Note 7)	36,328	562	-	7,305
Total noncurrent liabilities	47,352	26,666	1,592	19,063
Total liabilities	52,207	33,948	2,022	21,230
DEFERRED INFLOWS OF RESOURCES:				
Differences between expected and actual earnings on investments	1,910	4,522	276	2,037
Total deferred inflows of resources	1,910	4,522	276	2,037
NET POSITION (Note 10):				
Net Investment in capital assets	76,316	180,546	7,608	94,578
Restricted for debt service	3,316	-	-	826
Unrestricted (deficit)	27,518	96,515	21,234	11,500
Total net position	$ 107,150	$ 277,061	$ 28,842	$ 106,904

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	
$ 15,720	$ 12,430	$ 11,697	$ 8,305	$ 69	$ 248,259	$ 76,253
2,366	2,981	3,333	662	426	32,109	780
65	60	52	35	-	1,123	317
-	300	-	-	-	300	-
-	-	-	-	-	-	370
-	-	-	-	-	4,142	-
-	-	1,281	-	-	1,281	-
18,151	15,771	16,363	9,002	495	287,214	77,720
-	3,900	-	-	-	3,900	-
-	-	-	-	-	114	-
-	233	-	-	-	350	-
23,121	11,156	4,417	10,344	382	94,882	1,350
52,903	29,720	380	21,084	-	463,651	13,965
-	-	-	-	-	-	22,871
76,024	45,009	4,797	31,428	382	562,897	38,186
94,175	60,780	21,160	40,430	877	850,111	115,906
-	-	-	41	-	368	-
650	1,650	389	266	62	8,110	1,142
650	1,650	389	307	62	8,478	1,142
514	640	2,038	251	94	15,026	1,641
72	313	73	52	22	1,667	188
-	-	-	66	-	66	-
-	-	-	-	-	-	4,470
82	1,282	-	575	-	4,049	-
-	-	-	-	-	-	5,317
668	2,235	2,111	944	116	20,808	11,616
-	-	-	-	-	-	6,286
-	-	-	-	-	-	18,801
-	-	-	-	1,695	1,695	-
-	-	7,833	-	-	7,833	-
6,587	16,347	4,587	2,777	391	81,167	11,501
819	17,211	-	5,953	-	68,178	-
7,406	33,558	12,420	8,730	2,086	158,873	36,588
8,074	35,793	14,531	9,674	2,202	179,681	48,204
1,141	2,832	795	481	68	14,062	1,992
1,141	2,832	795	481	68	14,062	1,992
75,123	26,583	4,797	24,941	382	490,874	15,315
-	-	-	-	-	4,142	-
10,487	(2,778)	1,426	5,641	(1,713)	169,830	51,537
$ 85,610	$ 23,805	$ 6,223	$ 30,582	$ (1,331)	664,846	$ 66,852
					2,972	
					$ 667,818	

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, 2015
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
Sales to:				
Customers	$ 31,323	$ 104,964	$ 3,591	$ 28,677
City departments	1,759	3,234	853	924
Service connection charges and miscellaneous	1,011	1,386	162	748
Charges for services	-	-	-	-
Other	1,754	11,258	21	402
Total operating revenues	35,847	120,842	4,627	30,751
OPERATING EXPENSES:				
Retail purchase of utilities	15,670	78,380	-	10,519
Administrative and general	4,164	5,991	421	3,855
Engineering (operating)	358	1,406	-	369
Resource management and energy efficiency	488	5,696	-	1,187
Operations and maintenance	5,283	10,717	1,104	4,403
Rent	2,249	3,961	53	440
Depreciation and amortization	2,463	7,383	319	2,523
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Compensated absences and other benefits	-	-	-	-
Total operating expenses	30,675	113,534	1,897	23,296
Operating income (loss)	5,172	7,308	2,730	7,455
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	787	2,264	417	450
Interest expense	(1,872)	(8,940)	-	(266)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(809)	(312)	-	(81)
Other nonoperating revenues	534	-	-	-
Total nonoperating revenues (expenses)	(1,360)	(6,988)	417	103
Income (loss) before transfers and capital contributions	3,812	320	3,147	7,558
Capital contributions	1,132	-	-	-
Transfers in (Note 4)	192	54	-	8
Transfers out (Note 4)	(64)	(11,580)	(9)	(5,881)
Change in net position	5,072	(11,206)	3,138	1,685
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	114,158	316,873	27,448	118,104
Restatement for implementation of GASB Statement No. 68 (Note 1(n))	(12,080)	(28,606)	(1,744)	(12,885)
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED	102,078	288,267	25,704	105,219
NET POSITION (DEFICIT), END OF YEAR	$ 107,150	$ 277,061	$ 28,842	$ 106,904

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 Activities-
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	Internal Service Funds
$ 14,579	$ 14,949	$ 26,706	$ 5,858	$ 683	$ 231,330	$ -
80	8,836	822	355	-	16,863	-
744	-	-	-	-	4,051	-
-	-	-	-	-	-	81,534
779	335	4,048	68	-	18,665	937
16,182	24,120	31,576	6,281	683	270,909	82,471
8,777	-	14,381	-	-	127,727	-
738	-	1,593	609	757	18,128	11,399
319	1,699	200	365	-	4,716	-
-	-	-	296	-	7,667	-
2,646	16,198	8,742	1,235	218	50,546	24,037
223	-	2,539	34	-	9,499	-
1,908	3,047	42	740	-	18,425	2,392
-	-	-	-	-	-	1,320
-	-	-	-	-	-	61
-	-	-	-	-	-	41,120
14,611	20,944	27,497	3,279	975	236,708	80,329
1,571	3,176	4,079	3,002	(292)	34,201	2,142
315	228	237	159	-	4,857	1,268
(51)	(522)	(578)	(404)	(32)	(12,665)	-
-	-	-	-	-	-	70
-	-	-	-	-	(1,202)	-
-	-	-	-	-	534	33
264	(294)	(341)	(245)	(32)	(8,476)	1,371
1,835	2,882	3,738	2,757	(324)	25,725	3,513
648	-	-	-	300	2,080	-
4	-	1,061	-	-	1,319	2,349
(119)	(14)	(42)	(15)	-	(17,724)	(1,257)
2,368	2,868	4,757	2,742	(24)	11,400	4,605
90,460	38,850	6,493	30,883	(878)		74,851
(7,218)	(17,913)	(5,027)	(3,043)	(429)		(12,604)
83,242	20,937	1,466	27,840	(1,307)		62,247
$ 85,610	$ 23,805	$ 6,223	$ 30,582	$ (1,331)		$ 66,852
					608	
					$ 12,008	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2015
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	$ 32,326	$ 103,814	$ 2,959	$ 29,488
Cash refunds to customers	-	-	-	-
Cash payments to suppliers for goods and services	(24,827)	(98,148)	(947)	(17,885)
Cash payments to employees	(4,287)	(6,567)	(475)	(4,088)
Internal activity- receipts (payment) from (to) other funds	1,759	3,234	853	924
Other receipts	1,754	11,258	21	402
Net cash provided by (used in) operating activities	6,725	13,591	2,411	8,841
Cash flows from noncapital financing activities:				
Receipt of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	534	-	-	-
Transfers in	192	54	-	8
Transfers out	(64)	(11,580)	(9)	(5,881)
Cash flows provided by (used in) noncapital financing activities	662	(11,526)	(9)	(5,873)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(4,330)	(11,733)	(412)	(7,462)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	1,132	-	-	-
Principal paid on long-term debt	(1,404)	(100)	-	(536)
Interest paid on long-term debt	(1,871)	(8,940)	-	(265)
Cash flows used in capital and related financing activities	(6,473)	(20,773)	(412)	(8,263)
Cash flows from investing activities:				
Interest received	806	2,394	417	496
Cash flows provided by investing activities	806	2,394	417	496
Net change in cash and cash equivalents	1,720	(16,314)	2,407	(4,799)
Cash and cash equivalents, beginning of year	39,101	133,501	19,616	28,948
Cash and cash equivalents, end of year	$ 40,821	$ 117,187	$ 22,023	$ 24,149
Financial statement presentation:				
Cash and investments available for operations	$ 37,505	$ 117,187	$ 22,023	$ 23,323
Cash and investments with fiscal agent	3,316	-	-	826
Cash and cash equivalents, end of year	$ 40,821	$ 117,187	$ 22,023	$ 24,149
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 5,172	$ 7,308	$ 2,730	$ 7,455
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,463	7,383	319	2,523
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	(8)	(2,536)	(794)	63
Inventory of materials and supplies	-	-	-	-
Deposit	8	(1)	-	-
Net OPEB asset	-	-	-	-
Deferred outflow of resources - pension plans	(22)	(287)	(33)	(58)
Accounts payable and accruals	(787)	2,013	210	(967)
Accrued salaries and benefits	70	118	3	8
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Accrued claims payable	-	-	-	-
Net Pension liabilitty	(2,081)	(4,929)	(300)	(2,220)
Deferred inflow of resources - pension plans	1,910	4,522	276	2,037
Net cash provided by (used in) operating activities	$ 6,725	$ 13,591	$ 2,411	$ 8,841

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	
$ 14,755	$ 14,068	$ 26,408	$ 5,551	$ 257	$ 229,626	$ 81,871
-	-	-	-	-	-	(61)
(12,056)	(18,440)	(26,154)	(2,015)	(173)	(200,645)	(23,720)
(941)	(344)	(1,630)	(647)	(773)	(19,752)	(52,485)
80	8,836	822	355	-	16,863	(3,196)
779	335	4,049	68	-	18,666	33
2,617	4,455	3,495	3,312	(689)	44,758	2,442
-	-	-	-	760	760	-
-	-	-	-	-	534	-
4	-	1,061	-	-	1,319	2,349
(119)	(14)	(42)	(15)	-	(17,724)	(1,257)
(115)	(14)	1,019	(15)	760	(15,111)	1,092
(3,094)	(4,547)	(2,251)	(2,011)	(382)	(36,222)	(3,760)
-	-	-	-	-	-	172
648	300	-	-	300	2,380	-
(77)	(1,252)	-	(540)	-	(3,909)	-
(48)	(521)	(578)	(404)	(32)	(12,659)	-
(2,571)	(6,020)	(2,829)	(2,955)	(114)	(50,410)	(3,588)
324	249	238	161	1	5,086	1,315
324	249	238	161	1	5,086	1,315
255	(1,330)	1,923	503	(42)	(15,677)	1,261
15,465	13,760	11,055	7,802	111	269,359	74,992
$ 15,720	$ 12,430	$ 12,978	$ 8,305	$ 69	$ 253,682	$ 76,253
$ 15,720	$ 12,430	$ 11,697	$ 8,305	$ 69	$ 248,259	$ 76,253
-	-	1,281	-	-	5,423	-
$ 15,720	$ 12,430	$ 12,978	$ 8,305	$ 69	$ 253,682	$ 76,253
$ 1,571	$ 3,176	$ 4,079	$ 3,002	$ (292)	$ 34,201	$ 2,142
1,908	3,047	42	740	-	18,425	2,392
-	-	-	-	-	-	33
(568)	(881)	(298)	(21)	(426)	(5,469)	159
-	-	-	-	-	-	18
-	17	-	-	-	24	-
-	-	-	-	-	-	(261)
(38)	(130)	37	(8)	(26)	(565)	(72)
(91)	(560)	(291)	(85)	45	(513)	274
(63)	40	(3)	13	16	202	15
-	-	-	-	-	-	558
-	-	-	(286)	-	(286)	-
-	-	-	-	-	-	(2,635)
(1,243)	(3,086)	(866)	(524)	(74)	(15,323)	(2,173)
1,141	2,832	795	481	68	14,062	1,992
$ 2,617	$ 4,455	$ 3,495	$ 3,312	$ (689)	$ 44,758	$ 2,442

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Fiduciary Net Position
June 30, 2015
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and investments available for operations (Note 3)	$ 3,027
Restricted cash and investments with fiscal agents (Note 3)	2,543
Account receivable	512
Interest receivable	12
Total assets	$ 6,094
LIABILITIES:	
Due to bondholders	$ 4,928
Due to other governments	1,166
Total liabilities	$ 6,094

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, 2015

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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.

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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, airport, 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, 4th 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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.

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.

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.

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.

During the fiscal year ended June 30, 2015, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	$ 10,198
Additions	6,978
Payments	(6,420)
Ending balance	$ 10,756
Current portion	$ 4,470

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

	Secured	Unsecured
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.

(l) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(m) Rounding

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements

As of July 1, 2014, the City implemented 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.

As of July 1, 2014, the City adopted the provision of GASB Statement No.68 and 71 and restated the beginning net position in the amount of $318.3 million to record the beginning deferred pension contributions and net pension liability. Refer to Note 11 for the impact of implementing this Statement.

In 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 implementation of this Statement did not have a significant impact on the City's financial statements.

In 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. Refer to Note 11 for the impact of implementing this Statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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:

In February 2015 GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement provides guidance for determining fair value measurement for financial reporting purposes and for applying fair value to certain investments, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for the City's fiscal year ending June 30, 2016.

In June 2015 GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and amendments to certain provisions of GASB Statements No. 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. It amends certain provisions of Statement No. 68 for pension plans and pensions that are within its scope. The Statement also clarifies the application of certain provisions of Statement No. 68. This Statement is effective for the City's fiscal year ending June 30, 2016, except for those provisions that address employers and government nonemployer contribution entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017.

In June 2015 GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefits Plans other than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Both statements replace the requirements of GASB Statements related to postemployment benefits other than pensions (OPEB). Statement No. 74 is intended to make the OPEB accounting and financial reporting consistent with the pension standards outlined in Statement No. 67. It applies to OPEB plans, and parallels Statement No. 67 and replaces Statement No. 43. This statement is effective for the City's fiscal year ending June 30, 2017.

Statement No. 75 is intended to make OPEB accounting and financial reporting consistent with the pension standards outlined in Statement No. 68. This will include recognizing a net OPEB liability in accrual basis financial statements. It applies to government employers who provide OPEB plans to their employees. It parallels Statement No. 68 and replaces Statement No. 45. This statement is effective for the City's fiscal year ending June 30, 2018.

GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which supersedes Statement No. 55. This statement is effective for the City's fiscal year ending June 30, 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

In August 2015 GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement defines tax abatement agreement and requires certain disclosures regarding the tax abatement in its financial statements. This statement is effective for the City's fiscal year ending June 30, 2017.

(o) 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.

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	$ 275,316	$ 248,259	$ 3,027	$ 526,602
Restricted for post-closure landfill	-	1,281	-	1,281
Held with fiscal agents	5,587	4,142	2,543	12,272
Total cash and investments	$ 280,903	$ 253,682	$ 5,570	$ 540,155

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.

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
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	$5 million
Commercial Paper	270 days	A-1	15%	$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	$50 million per 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, General Obligation Bonds 2010 and 2013A, 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.

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):

	Maturities				
Type of Investment	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
U.S. Federal Agency Securities	$ 44,908	$ 150,272	$ 81,996	$ 125,027	$ 402,203
U.S. Treasury Notes	-	2,000	9,398	-	11,398
Local Government Bonds	-	-	5,726	7,448	13,174
Corporate Bonds	-	-	8,397	-	8,397
Money Market Mutual Funds	16,963	-	-	-	16,963
Negotiable Certificates of Deposit	-	2,933	18,694	4,271	25,898
California Asset Management Program	7,866	-	-	-	7,866
Local Agency Investment Fund	49,953	-	-	-	49,953
Total Investments	$ 119,690	$ 155,205	$ 124,211	$ 136,746	535,852
Cash in bank and on hand					4,303
Total Cash and Investments					$ 540,155

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, 2015, LAIF had a weighted average maturity of 239 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 City'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, 2015, the fair value approximated the City's cost. CAMP had a weighted average maturity of 32 days at June 30, 2015.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Money market mutual funds are available for withdrawal on demand and at June 30, 2015, had a weighted average maturity of 35 days.

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2015, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities in the amount of $108.5 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, 2015, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	$ 402,203
Corporate Bonds	AA+	8,397
Local Government Bonds	AAA	13,174
Money Market Mutual Funds	AAAm	16,963
Total Investments		440,737
Not Applicable:		
U.S. Treasury Notes		11,398
Not Rated:		
California Asset Management Program		7,866
Local Agency Investment Fund		49,953
Negotiable Certificates of Deposit		25,898
Cash in bank and on hand		4,303
Total Cash and Investments		$ 540,155

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, 2015 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Home Loan Bank	U.S. Federal Agency Securities	$ 133,662
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	95,573
Federal National Mortgage Corporation	U.S. Federal Agency Securities	75,379
Federal Farm Credit Bank	U.S. Federal Agency Securities	49,826
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	37,234

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 2015 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
General Fund	Nonmajor Governmental Funds	$ 425	A
	Water Services Fund	12	A
	Electric Services Fund	11,435	A
	Gas Services Fund	5,742	A
	Wastewater Collection Fund	12	A
	Wastewater Treatment Fund	9	A
	Refuse Services Fund	9	A
	Storm Drainage Services Fund	9	A
	Internal Service Funds	143	A
Capital Projects Fund	General Fund	19,678	B
	Nonmajor Governmental Funds	5,446	B
Nonmajor Governmental Funds	General Fund	512	A
	Capital Projects Fund	300	B
	Nonmajor Governmental Funds	1,369	A
	Water Services Fund	24	A
	Internal Service Funds	12	A
	Subtotal	45,137	

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred	
Water Services Fund	Electric Services Fund	$ 1	B
	Gas Services Fund	92	B
	Wastewater Collection Fund	91	B
	Internal Service Funds	8	C
Electric Services Fund	General Fund	33	D
	Internal Service Funds	21	C
Gas Services Fund	Internal Service Funds	8	C
Wastewater Collection Fund	Internal Service Funds	4	C
Refuse Services Fund	Internal Service Funds	1,061	C
Internal Service Funds	General Fund	2,061	E
	Water Services Fund	28	B
	Electric Services Fund	144	B
	Fiber Optics Fund	9	B
	Gas Services Fund	47	B
	Wastewater Collection Fund	16	B
	Wastewater Treatment Fund	5	B
	Refuse Services Fund	33	B
	Storm Drainage Services Fund	6	B
	Subtotal	3,668	
	Total	$ 48,805	

The reasons for these transfers are set forth below:

(A) Transfer to fund governmental funds for services provided.
(B) Allocation of funds to construct, purchase or maintain capital assets.
(C) Transfer to refund replacement charges.
(D) Transfer to fund Utility funds for services provided.
(E) Transfer to fund Internal Service funds for services provided.

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. Council approved the following General Fund advances to the Airport Fund:

$	300,000	Due December 2016
	310,000	Due July 2018
	325,000	Due July 2023
	200,000	Due July 2024
	560,000	Due July 2024

All advances bear interest equal to the average return yield on the City's investment portfolio. As of June 30, 2015, the total outstanding principal amount is $1,695,000.

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, 2015, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Oak Manor Townhouse	$ 203
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.	7,834
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	750
Home Rehabilitation Loans	51
Executive Relocation Assistance Loans	868
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	6,320
Total Notes and Loans	32,536
Less: Valuation Allowance	(14,684)
Total Notes and Loans, Net	$ 17,852

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 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, 2015, the objective was met. The annual loan payment was forgiven for the calendar year ended December 31, 2014.

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, 2015, the outstanding balance for Tree House Apartments in aggregate is $5.3 million. Principal and interest payments will be deferred, 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 December 31, 2067.

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.

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. 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.

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.

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.

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, 2015, 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, 2015 was approximately $339,000. 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, 2015 is approximately $415,000. 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, 2015 was approximately $114,000.

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 2015, 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.

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.

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, 2015, the outstanding amount is $6.3 million.

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.

Governmental Activities	Years
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
Business-type Activities	
Buildings and structures	25 - 60
Vehicles and heavy equipment	3 - 10
Machinery and equipment	10 - 50
Transmission, distribution and treatment systems	10 - 100

NOTE 6 – CAPITAL ASSETS (Continued)

General Capital Assets

Changes in the City's general capital assets during the year ended June 30, 2015 were (in thousands):

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Governmental activities					
Nondepreciable capital assets:					
Land and improvements	$ 79,047	$ -	$ -	$ -	$ 79,047
Street trees	15,177	103	(203)	-	15,077
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	89,806	45,251	(405)	(95,319)	39,333
Total nondepreciable capital assets	187,597	45,354	(608)	(95,319)	137,024
Depreciable capital assets:					
Buildings and structures	134,600	-	-	87,096	221,696
Intangible assets - Software	279	-	-	-	279
Equipment	11,918	66	-	281	12,265
Roadway network	291,300	-	-	7,942	299,242
Recreation and open space network	27,632	-	-	-	27,632
Total depreciable capital assets	465,729	66	-	95,319	561,114
Less accumulated depreciation:					
Buildings and structures	(71,362)	(4,817)	-	-	(76,179)
Intangible assets - Software	(141)	(65)	-	-	(206)
Equipment	(7,494)	(450)	-	-	(7,944)
Roadway network	(127,117)	(6,910)	-	-	(134,027)
Recreation and open space network	(8,962)	(946)	-	-	(9,908)
Total accumulated depreciation	(215,076)	(13,188)	-	-	(228,264)
Depreciable capital assets, net	250,653	(13,122)	-	95,319	332,850
Internal service fund capital assets					
Construction in progress	3,094	3,225	-	(4,969)	1,350
Equipment	51,130	282	(2,909)	4,969	53,472
Less accumulated depreciation	(39,871)	(2,392)	2,756	-	(39,507)
Net internal service fund capital assets	14,353	1,115	(153)	-	15,315
Governmental activities capital assets, net	$ 452,603	$ 33,347	$ (761)	$ -	$ 485,189

NOTE 6 – CAPITAL ASSETS (Continued)

Business-type Capital Assets

Changes in the City's enterprise fund capital assets during the year ended June 30, 2015 were (in thousands):

	Balance July 1, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Business-type activities					
Nondepreciable capital assets:					
Land and improvements	$ 4,971	$ -	$ -	$ 2	$ 4,973
Construction in progress	122,181	35,579	(3,530)	(64,321)	89,909
Total nondepreciable capital assets	127,152	35,579	(3,530)	(64,319)	94,882
Depreciable capital assets:					
Buildings and structures	34,111	-	(505)	19,899	53,505
Transmission, distribution and treatment systems	675,858	640	(3,249)	44,420	717,669
Total depreciable capital assets	709,969	640	(3,754)	64,319	771,174
Less accumulated depreciation:					
Buildings and structures	(9,848)	(854)	96	-	(10,606)
Transmission, distribution and treatment systems	(281,778)	(17,593)	2,454	-	(296,917)
Total accumulated depreciation	(291,626)	(18,447)	2,550	-	(307,523)
Depreciable capital assets, net	418,343	(17,807)	(1,204)	64,319	463,651
Business-type activities capital assets, net	$ 545,495	$ 17,772	$ (4,734)	$ -	$ 558,533

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):

Governmental Activities		*Business-type Activities*	
City Manager	$ 42	Water	$ 2,488
City Attorney	2	Electric	7,377
Administrative Services	2	Fiber Optics	319
Community Services	1,521	Gas	2,555
Public Safety	342	Wastewater Collection	1,908
Public Works	9,609	Wastewater Treatment	3,045
Planning and Community Environment	166	Refuse	42
Library	1,504	Storm Drainage	713
Internal Service Funds	2,392		$ 18,447
	$ 15,580		

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2015 is comprised of the following (in thousands):

Governmental Activities	Expended to June 30, 2015
California Avenue-Transit Hub Corridor	$ 6,571
Magical Bridge Playground	3,610
City Hall First Floor Renovation	3,460
El Camino Park Exp Parking Lot	2,563
Furniture/Technology for Library Bond Prj	2,315
Highway 101 Pedestrian/Bicycle Overpass	1,601
Traffic Signal Upgrades	1,446
Transportation and Parking Improvements	1,332
Curb & Gutter Improvement	1,026
Safe Routes to School	914
Golf Reconfig and Baylands Athletic Center	879
Bicycle Boulevards Implementation	759
Eleanor Pardee Park Improvement	739
Vehicle Replacement Fund	725
Charleston/Arastradero Corridor	665
Street Maintenance	664
Library & Comm Center Temp Facilities	646
Telephone Infrastructure and Network	625
Other Construction In Progress	10,143
Total Governmental Activities Construction In Progress	$ 40,683

Business-type Activities	Expended to June 30, 2015
Water system extension replacements and improvements	$ 4,578
Gas system extension replacements and improvements	11,637
Sewer system rehabilitation and extensions	6,231
Electric distribution system improvements	4,173
Water quality control plant equipment replacement and lab facilities	5,543
Storm drainage structural and water quality improvements	2,262
Other electrical improvements projects	989
Other construction in progress	54,496
Total Business-type Activities Construction In Progress	$ 89,909

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

Allocations of business-type activity administration and general expenses of $12.0 million have been capitalized and included in amounts expended to June 30, 2015.

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

- Golf Course reconfiguration and Baylands Athletic Center - $0.4 million
- El Camino Park expansion - $3.5 million
- Newell Road bridge/SFC bridge replacement - $1.0 million

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

- Water main replacement for Water Fund - $4.2 million
- Gas main replacement for Gas Fund - $2.1 million
- Wastewater Collection Fund rehabilitation/augmentation - $7.4 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, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Governmental Activities Debt:						
General Long-Term Obligations:						
2002B Downtown Parking Improvements, Certificates of Participation, 6.50%, due 03/01/2022	$ 3,555	$ 1,430	$ -	$ 145	$ 1,285	$ 150
General Obligation Bonds 2010, 2 - 5%, due 08/01/2040	55,305	52,520	-	1,050	51,470	1,070
2011 Lease-Purchase Agreement	3,222	2,026	-	383	1,643	395
General Obligation Bonds 2013A, 2 - 5%, due 08/01/2043	20,695	20,695	-	370	20,325	380
Add: Unamortized Premium	-	4,242	-	158	4,084	158
Total Governmental Activities Debt	$ 82,777	$ 80,913	$ -	$ 2,106	$ 78,807	$ 2,153

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

	Original Issue Amount	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Business-type Activities Debt:						
Enterprise Long-Term Obligations:						
Utility Revenue Bonds						
1995 Series A, 5.00-6.25%, due 06/01/2020	$ 8,640	$ 3,334	$ -	$ 475	$ 2,859	$ 505
1999 Refunding, 3.25-5.25%, due 06/01/2024	17,735	10,980	-	635	10,345	665
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	31,615	-	915	30,700	955
2011 Refunding, 1.80-5.95%, due 06/01/2035	17,225	14,295	-	975	13,320	1,005
Add: Unamortized Premium	-	910	-	69	841	-
Energy Tax Credit Bonds						
2007 Series A, 0%, Due 12/15/2021	1,500	800	-	100	700	100
Less: Unamortized Discount	-	(43)	-	(5)	(38)	-
State Water Resources Loans						
2007, 1.02%, due 06/30/2029	9,000	6,750	-	450	6,300	450
2009, 2.6%, due 11/30/2030	8,500	7,559	-	359	7,200	369
Total Business-type Activities Debt	$ 97,615	$ 76,200	$ -	$ 3,973	$ 72,227	$ 4,049

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 at 6.5% 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 Rinconada 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.

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 Rinconada 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.

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

The City's 2010 and 2013A GO bonds are payable from pledged ad valorem property taxes until the final maturity dates of the bonds in August 1, 2040 and August 1, 2043 respectively. For the fiscal year ended June 30, 2015, the City received $4.6 million in ad valorem property taxes and made total debt service payments in the amount of $1.4 million principal and $3.2 million interest for both 2010 and 2013A GO bonds.

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 $2.9 million principal and $0.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2015, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $238.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $188.3 million. Net Revenues available for debt service amounted to $50.0 million, which represented coverage of 73.1 times over the $0.7 million in debt service.

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 $10.4 million principal and $3.2 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2015, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $47.3 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $33.1 million. Net Revenues available for debt service amounted to $14.1 million, which represents coverage of 11.7 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 CREBs 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.

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

The pledge of future Electric Fund Net Revenues ends upon repayment of the $0.7 million remaining debt service on the bonds, which is scheduled to occur in FY 2022. For FY 2015, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $123.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $106.2 million. Net Revenues available for debt service amounted to $17.0 million, which represented coverage of 170 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 $534 thousand, which represents 32.4 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 $30.7 million principal and $20.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2015, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $36.6 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $28.2 million. Net Revenues available for debt service amounted to $8.4 million, which represented coverage of 3.29 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 $13.3 million principal and $2.7 million interest as remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2015, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $67.8 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $49.0 million. Net Revenues available for debt service amounted to $18.9 million, which represented coverage of 12.9 times over the $1.5 million in debt service.

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 of $1.5 million between the repayment obligation and proceeds 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
2016	$ 1,995	$ 3,338	$ 5,333	$ 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	2,484	7,017
2020	1,920	2,987	4,907	4,713	2,300	7,013
2021-2025	10,130	12,691	22,821	24,277	8,622	32,899
2026-2030	12,185	10,343	22,528	13,934	4,925	18,859
2031-2035	15,265	7,927	23,192	11,357	2,019	13,376
2036-2040	19,015	4,061	23,076	-	-	-
2041-2045	7,740	445	8,185	-	-	-
Total	$ 74,723	$ 51,295	$ 126,018	$ 71,424	$ 28,796	$ 100,220

NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)

Debt Call Provisions

Long-term debt as of June 30, 2015 is callable on the following terms and conditions:

	Initial Call Date	
Governmental Activities Long-Term Debt		
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)
Business-Type Activities Long-Term Debt		
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, 2015, the amount of bonds outstanding was $2.2 million.

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, 2015, the District's outstanding debt amounted to $170 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, 2015, the District's outstanding debt amounted to $28.1 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.

NOTE 9 – LANDFILL CLOSURE AND POST-CLOSURE CARE

The 126 acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain maintenance and monitoring activities at the site for a minimum of thirty years after closure. Phase I, a 29 acre area, was closed in 1991 at a cost of $1.6 million, and subsequently converted to a pastoral park (Byxbee Park) open to the public. Phase IIA, 22.5 acres, closed in 1992 at a cost of $0.9 million and Phase IIB, 23.2 acres, closed in 2000 at a cost of $1.2 million. The closure of Phase IIC, a 51.2 acre area that ceased accepting waste in July 2011, is under way and is expected to be completed by December 2015.

An updated final closure and post-closure maintenance plan was approved by state and local regulatory agencies in 2014. The City's consultant updated the forecast for remaining Phase IIC closure cap construction costs and 30 year post-closure maintenance and monitoring costs. These cost estimates are adjusted annually for inflation. The 30 years of post-closure maintenance costs will be paid on an annual basis after the state certifies the Phase IIC closure.

Landfill closure and post-closure liabilities for FY 2015 and FY 2014 were $7.8 and $11.4 million, respectively. The City is required by state and federal laws and regulations to fund closure and post-closure care. The $1.3 million closure liability is secured by cash. The $6.5 million post-closure liability is secured by a pledge of revenue agreement with California Integrated Waste Management Board. The City is in compliance with funding requirements for the year ended June 30, 2015.

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 and deferred inflows of resources. 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. 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.

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, 2015 total outstanding encumbrances related to governmental activities were $5.6 million for the General Fund, $16.6 million for the Capital Projects Fund, and $0.6 million for the Special Revenue Funds. General Fund encumbrances are reserved for the following governmental activities: Planning & Community Environment $1.6 million, Development Services $0.1 million, Public Works $0.9 million, Community Services $0.8 million, Public Safety $0.6 million, Library $0.2 million, and the remaining City's departments $1.4 million.

Enterprise Funds

At June 30, 2015, 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	$ -	$ 14,411	$ -	$ (304)	$ -	$ -	$ -	$ -	$ -	$ 14,107
Distribution	6,579	-	21,361	7,109	4,292	5,819	4,250	1,659	(1,643)	49,426
	6,579	14,411	21,361	6,805	4,292	5,819	4,250	1,659	(1,643)	63,533
Operations										
Supply	-	16,012	-	-	-	-	-	-	-	16,012
Distribution	11,537	6,486	-	10,847	2,431	-	-	-	-	31,301
	11,537	22,498	-	10,847	2,431	-	-	-	-	47,313
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	51,838	-	-	-	-	-	-	-	51,838
Reappropriations	9,656	8,464	385	1,591	2,551	1,691	61	6,075	75	30,549
Commitments	7,633	6,912	175	4,900	8,291	4,702	1,128	899	252	34,892
Underground loan	-	730	-	-	-	-	-	-	-	730
Notes and loans	-	-	-	-	-	559	-	-	-	559
Landfill corrective action	-	-	-	-	-	-	712	-	-	712
Hydro stabilization reserve	-	17,000	-	-	-	-	-	-	-	17,000
Public benefit program	-	2,574	-	-	-	-	-	-	-	2,574
Central Valley Project		-	-	-	-	-	-	-	-	-
CIP reserve	4,000	-	-	-	-	-	-	-	-	4,000
Geng Road Reserve	-	-	-	-	-	-	268	-	-	268
GASB 68 Pension reserve	(11,887)	(27,912)	(1,687)	(12,643)	(7,078)	(17,529)	(4,993)	(2,992)	(397)	(87,118)
Total	$ 27,518	$ 96,515	$ 21,234	$ 11,500	$ 10,487	$ (2,778)	$ 1,426	$ 5,641	$ (1,713)	$ 169,830

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

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.

In June 2014, the City Council approved a resolution which updated the Reserves Management Practices for the Electric, Gas, Wastewater Collection and Water Utilities. Restructuring of the reserve balances was designed to increase transparency, to make contingency reserves easier to manage from year to year, and to eliminate reserves that are no longer necessary. Guidelines for managing the reserves are contained in the Reserves Management Practices, including actions to be taken when reserve balances are not within the guidelines. These changes were implemented July 1, 2014.

Internal Service Funds

At June 30, 2015, 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	$ 1,639	$ 2,081	$ 47	$ 215	$ 43	$ 33	$ -	$ 4,058
Future catastrophic losses	-	-	-	-	1,948	2,729	-	4,677
Retiree health care	-	-	-	-	-	-	26,170	26,170
Capital projects	3,641	6,893	-	-	-	-	-	10,534
GASB68 pension reserve	(2,675)	(9,378)	(298)	-	-	-	-	(12,351)
Available	5,606	10,551	(32)	2,324	-	-	-	18,449
Total	$ 8,211	$ 10,147	$ (283)	$ 2,539	$ 1,991	$ 2,762	$ 26,170	$ 51,537

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.
GASB68 pension reserve is the portion of net position required to be set aside to meet defined benefit pension obligations.

NOTE 11 – PENSION PLANS

(a) General Information about the Pension Plans

Plan Descriptions - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

Benefits Provided - CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment, age at retirement and final compensation. The death benefit is one of the following: the 1959 Survivor Benefit, or the pre-retirement option 2W Death Benefit for local fire members only.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2012.

	Safety Plan		
	Fire Fighters, Fire Chief Association, Police Officers, Police Management	Fire Fighters, Fire Chief Association	Police Officers, Police Management
Hire Date	Prior to June 8, 2012	On or After June 8, 2012	On or After Dec. 8, 2012
Benefit formula[1]	3% at 55	3% at 55	3% at 50
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	55[1]	55[1]
Monthly benefits, as a % of eligible compensation	3%	3%	3%
Actuarially determined contribution rates - employee	9%	9%	9%
Actuarially determined contribution rates - employer	39.528%	39.528%	39.528%

	Miscellaneous Plan	
Hire Date	Prior to July 17, 2010	On or After July 17, 2010
Benefit formula[2]	2.7% at 55	2% at 60
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age[2]	55	60
Monthly benefits, as a % of eligible compensation[2]	2.70%	2.0% - 2.418%
Actuarially determined contribution rates - employee	8%	7%
Actuarially determined contribution rates - employer	26.122%	26.122%

[1] Employees can retire at age 50 with reduced benefits of 2.40% - 2.88%

[2] Employees can retire at age 50 with reduced benefits of 2.00% - 2.56% if hired before July 17, 2010, or 1.092% - 1.874% if hired on or after July 17, 2010

NOTE 11 – PENSION PLANS (Continued)

Employees Covered – Based on the Actuarial Valuation Report as of June 30, 2013,, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	989	404
Inactive employees entitled to but not yet receiving benefits	629	88
Active employees	789	184
Total	2,407	676

Contributions –Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the Miscellaneous Plan, active plan members are required by state statute to contribute 8% of their annual covered salary. For FY2015, the City was required to contribute at an actuarially determined rate of 26.122% of annual covered payroll for the City's employees, which amounted to $18.6 million.

For the Safety Plan, active plan members are required by state statute to contribute 9% of their annual covered salary. For FY2015, the City was required to contribute at an actuarially determined rate of 39.528% of annual covered payroll for the City's employees, which amounted to $8.7 million.

(b) Net Pension Liability

The City's net pension liability for both Plans is measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2014 (measurement date), using the actuarial valuation report as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. At June 30, 2015, the City reported net pension liability of $289.9 million for both plans. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

NOTE 11 – PENSION PLANS (Continued)

Actuarial Assumptions - The total pension liabilities were determined using the following actuarial assumptions:

	Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.30% to 14.20% depends on age, service, and type of employment	3.30% to 14.20% depends on age, service, and type of employment
Investment Rate of Return[1]	7.50%	7.50%
Mortality[2]	Derived using CALPERS' Membership Data for all Funds	

[1] Net of pension plan investment and administrative expenses, including inflation.

[2] The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scal BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 Actuarial Valuation Report were based on the results of an actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report named “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

NOTE 11 – PENSION PLANS (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference to the Plans.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

The long-term expected rate of return on pension plan investments of 7.50% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 11 – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class for both Miscellaneous and Safety Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1] An expected inflation of 2.5% used for this period.
[2] An expected inflation of 3.0% used for this period.

(c) ***Changes in the Net Pension Liability***

The following is based on the GASB 68 Accounting Valuation Report and table shows the changes in the net pension liability for the Miscellaneous Plan (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2014	$ 635,847	$ 413,410	$ 222,437
Changes for the year:			
Service cost	12,442	-	12,442
Interest on total pension liability	46,963	-	46,963
Contributions from employer	-	17,400	(17,400)
Contributions from employees	-	6,345	(6,345)
Net investment income	-	70,989	(70,989)
Benefit payments, including refunds of employee contributions	(31,781)	(31,781)	-
Net changes	27,624	62,953	(35,328)
Balances reported at June 30, 2015	$ 663,471	$ 476,363	$ 187,108

NOTE 11 – PENSION PLANS (Continued)

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Safety Plan (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2014	$ 355,054	$ 234,153	$ 120,901
Changes for the year:			
Service cost	6,221	-	6,221
Interest on total pension liability	26,113	-	26,113
Contributions from employer	-	7,616	(7,616)
Contributions from employees	-	2,762	(2,762)
Net investment income	-	40,033	(40,033)
Benefit payments, including refunds of employee contributions	(19,985)	(19,985)	-
Net changes	12,349	30,426	(18,078)
Balances reported at June 30, 2015	$ 367,403	$ 264,579	$ 102,824

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.50 percent, compared to a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent). Amounts shown below are in thousands:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Plan:			
Plan's Net Pension Liability/(Asset)	$ 269,623	$ 187,108	$ 118,203
Safety Plan:			
Plan's Net Pension Liability/(Asset)	$ 148,420	$ 102,824	$ 64,947

Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 11 – PENSION PLANS (Continued)

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized a pension expense of $14.5 million and $7.9 million for the Miscellaneous and Safety Plan respectively. At June 30, 2015, the City reported pension related deferred outflows of resources and deferred inflows of resources from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 27,284	$ -
Net difference between projected and actual earnings on plan investments	-	50,736
Total	$ 27,284	$ 50,736

The $27.3 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2014 through June 30, 2015 which is subsequent to the City's measurement date of June 30, 2014 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The net differences between projected and actual earnings on plan investments will be recognized in future pension expense as follows (in thousands):

Year Ended June 30,	
2016	$ 12,684
2017	12,684
2018	12,684
2019	12,684

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

[1] 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.
[2] Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.
[3] Effective 3/1/2009 plan capped at the second highest CalPERS Bay Area Basic plan premium.
[4] Effective 4/1/2014 City pays $688 for employee, $1,375 for employee +1, $1,788 for family. Effective 1/1/2015 City pays $708 for employee, $1,415 for employee +1, $1,840 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[1]	Dependent Coverage[2]
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%

[1] 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.
[2] Maximum of 90% once employee completes 20 years of service.

NOTE 12 – RETIREE HEALTH BENEFITS (Continued)

In 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, 2013 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) 7.6125 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:

Year	Non-Medicare	Medicare
2015	8.0%	8.3%
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.

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.

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, 2015, the City made contributions and amortized the Net OPEB asset to fund the current year annual required contribution (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	$ 14,282
Amortization on the Net OPEB Asset	2,212
Interest on the Net OPEB Asset	(1,721)
Annual OPEB Cost	14,773
Contributions made:	
Contributions to OPEB Trust	4,123
Contributions to Retirees	6,809
Implicit rate subsidy	1,916
City portion of current year premiums paid*	2,186
Total contributions made	15,034
Change in Net OPEB Asset	261
Net OPEB Asset, beginning of year	22,610
Net OPEB Asset, end of year	$ 22,871

* FY 2015 premiums for 924 retirees.

Shortly after year-end, the City contributed an additional $2.1 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, 2013	$ 13,194	$ 13,774	104%	$ (21,851)
June 30, 2014	13,255	14,014	106%	(22,610)
June 30, 2015	14,773	15,034	102%	(22,871)

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%	$ 98,940	126.8%
June 30, 2011 *	168,053	44,774	123,279	26.6%	80,664	152.8%
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	2015	2014
Net Position, beginning of year	$ 26,837	$ 27,233
Interest earnings	71	51
Unrealized gain/(loss) on investments	(3)	12
Interdepartmental charges	13,471	11,635
Retiree health benefits	(14,206)	(12,094)
Net Position, end of year	$ 26,170	$ 26,837

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.

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 Chief Financial Officer and City Manager each have coverage up to $4.0 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, 2015, the City paid $0.8 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11th 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.

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	
	2015	2014
Beginning balance	$ 26,753	$ 27,745
Liability for current and prior fiscal years claims and claims incurred but not reported (IBNR)	574	3,232
Claims paid	(3,209)	(4,224)
Ending balance	$ 24,118	$ 26,753
Current portion	$ 5,317	$ 5,665

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, including the long-term debt of which the City participates in repayment, are not obligations and liabilities of the City, and accordingly, are not reported on the City's financial statements.

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.

NOTE 15 – JOINT VENTURES (Continued)

During the year ended June 30, 2015, the City incurred expenses totaling $78.3 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was $8.6 million at June 30, 2015. 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 steam-powered generating plants, Project Number 2 and Project Number 3.

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 2015 is $82.5 million. The City's participation in this project was 6.2 percent, or $5.1million.

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, 2015, the book value of this Project's plant, equipment and other assets was $448 million, while its long-term debt totaled $377.6 million and other liabilities totaled $62.8 million. The City's share of the Project's long-term debt amounted to $86.5 million at that date.

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, 2015, 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's financial statements can be obtained from TANC, P.O. Box 15129, Sacramento, CA 95851.

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. During the fiscal year, the City paid its share of the annual debt service of $1.9 million, which 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 mechanism for a joint planning process between the City and PAUSD to develop a long-term master plan for the Cubberley site. The City will pay $1.86 million annually into a separate fund to be used for repairing, renovating and/or improving the infrastructure at the Cubberley site. The lease term expired on December 31, 2014, and the City exercised its option to extend for 5 years, with a new expiration date of 12/31/2019. The lease provides for one more five-year option to extend from 1/1/2020 to 12/31/2024. The City's rent and infrastructure payment for the facilities is $7.3 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, 2015, amounted to $7.3 million. Future minimum annual lease and infrastructure payments are as follows (in thousands):

Year Ending June 30,	Payment
2016	$ 7,399
2017	7,505
2018	7,736
2019	7,912
2020	4,001
	$ 34,553

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 expires in June 30, 2021. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In FY 2015 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, 2015. 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 21.27 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, 2015, is $0.7 million. During the year ended June 30, 2015, 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 $1.1 million as of June 30, 2015. During the year ended June 30, 2015, the City paid $0.2 million as its portion of current debt service.

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, 2015, 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
2016	$48.2 million
2017	$61.7 million
2018	$62.6 million
2019	$63.0 million
2020	$63.5 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 2021 and $8.9 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, in any given year after 2014 at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024.

Gas Accord V – The City is a party to the Gas Accord V, a natural gas transportation contract between Pacific Gas and Electric Company (PG&E) and its gas transportation customers. Gas Accord V ended as of December 2014. The City's minimum commitment under this contract is $319,000/year. New rates will be determined through a proceeding at the California Public Utilities Commission and the revenue requirement will be retroactive to January 1, 2015

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 by 74% by 2021 as SFPUC completes an upgrade to its regional water system facilities under its Water System Improvement Program (WSIP).

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

CITY OF PALO ALTO
Required Supplemental Information (Unaudited)
For the Year Ended June 30, 2015

I. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – MISCELLANEOUS PLAN (Calculated as of June 30, 2014 and reported as of June 30, 2015, in thousands)

	2015
Total pension liability	
Service cost	$ 12,442
Interest	46,963
Benefit payments, including refunds of employee contributions	(31,781)
Net change in total pension liability	**27,624**
Total pension liability - beginning	**635,847**
Total pension liability - ending (a)	**$ 663,471**
Plan fiduciary net position	
Contributions - employer	$ 17,400
Contributions - employee	6,345
Net investment income	70,989
Benefit payments, including refunds of employee contributions	(31,781)
Net change in fiduciary net position	**62,953**
Plan fiduciary net position - beginning	**413,410**
Plan fiduciary net position - ending (b)	**$ 476,363**
Plan net pension liability/(asset) - Ending (a) - (b)	**$ 187,108**
Plan fiduciary net position as a percentage of total pension liability	**71.8%**
Covered employee payroll	**$ 66,373**
Plan net pension liability/(asset) as a percentage of covered employee payroll	**281.9%**

Notes to Schedule:

Benefit changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Covered employee payroll - assumed to increase by the 3.00% payroll growth assumption.

Changes in assumptions - There were no changes in assumptions.

*** Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only one year of information is shown.**

II. SCHEDULE OF CONTRIBUTIONS– MISCELLANEOUS PLAN (in thousands)

	2014	2015
Contractually required contribution (actuarially determined)	$ 17,400	$ 18,573
Actual contribution	(17,400)	(18,573)
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$ 66,373	$ 62,911
Contributions as percentage of covered-employee payroll	26.22%	29.52%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015 contribution rates are as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll
Asset valuation method	15 year smoothed market
Inflation	2.75%
Salary increases	3.30% - 14.20% depending on age, service and type of employment
Payroll growth	3.00%
Investment rate of return	7.50%
Retirement age	The probabilities of retirement are based on the 2010 CalPERS experience study of the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS experience study of the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

III. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – SAFETY PLAN (Calculated as of June 30, 2014 and reported as of June 30, 2015, in thousands)

	2015
Total pension liability	
Service cost	$ 6,221
Interest	26,113
Benefit payments, including refunds of employee contributions	(19,985)
Net change in total pension liability	**12,349**
Total pension liability - beginning	**355,054**
Total pension liability - ending (a)	**$ 367,403**
Plan fiduciary net position	
Contributions - employer	$ 7,616
Contributions - employee	2,762
Net investment income	40,033
Benefit payments, including refunds of employee contributions	(19,985)
Net change in fiduciary net position	**30,426**
Plan fiduciary net position - beginning	**234,153**
Plan fiduciary net position - ending (b)	**$ 264,579**
Plan net pension liability/(asset) - Ending (a) - (b)	**$ 102,824**
Plan fiduciary net position as a percentage of total pension liability	**72.0%**
Covered-employee payroll	**$ 21,896**
Plan net pension liability/(asset) as a percentage of covered employee payroll	**469.6%**

Notes to Schedule:

Benefit changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Covered employee payroll - assumed to increase by the 3.00% payroll growth assumption.

Changes in assumptions - There were no changes in assumptions.

*** Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only one year of information is shown.**

IV. SCHEDULE OF CONTRIBUTIONS – SAFETY PLAN (in thousands)

	2014	2015
Contractually required contribution (Actuarially determined)	$ 7,616	$ 8,711
Actual contribution	(7,616)	(8,711)
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$ 21,896	$ 20,920
Contributions as percentage of covered-employee payroll	34.78%	41.64%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015 contribution rates are as follows:

Valuation Date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll
Asset valuation method	15 year smoothed market
Inflation	2.75%
Salary increases	3.30% - 14.20% depending on age, service and type of employment
Payroll growth	3.00%
Investment rate of return	7.50%
Retirement age	The probabilities of retirement are based on the 2010 CalPERS experience study of the period from 1997 to 2007
Mortality	The probabilities of mortality are based on the 2010 CalPERS experience study of the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2015
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
ASSETS:				
Cash and investments:				
Available for operations	$ 79,749	$ 6,653	$ 1,462	$ 87,864
Cash and investments with fiscal agents	-	238	-	238
Receivables, net:				
Accounts	63	-	-	63
Interest	321	-	6	327
Notes	16,984	-	-	16,984
Total assets	97,117	6,891	1,468	105,476
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	635	-	-	635
Accrued salaries and benefits	16	-	-	16
Total liabilities	651	-	-	651
Fund balances:				
Nonspendable				
Eyerly family	-	-	1,468	1,468
Restricted				
Transportation mitigation	11,898	-	-	11,898
Federal revenue	4,442	-	-	4,442
Street improvement	1,544	-	-	1,544
Local law enforcement	140	-	-	140
Debt service	-	6,891	-	6,891
Public benefit	29,580	-	-	29,580
Committed				
Developer impact fee	12,497	-	-	12,497
Housing In-Lieu	33,881	-	-	33,881
Special districts	2,013	-	-	2,013
Downtown business	43	-	-	43
Assigned				
Unrealized gain on investment	428	-	-	428
Total fund balances	96,466	6,891	1,468	104,825
Total liabilities and fund balances	97,117	6,891	1,468	105,476

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CITY OF PALO ALTO
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total
REVENUES:				
Property tax	$ -	$ 4,633	$ -	$ 4,633
Special assessments	86	-	-	86
Other taxes and fines	1,732	-	-	1,732
From other agencies:				
Community Development Block Grants	372	-	-	372
State of California	116	-	-	116
Permits and licenses				
University Avenue Parking	1,856	-	-	1,856
California Avenue Parking	194	-	-	194
Other permits and licenses	73	-	-	73
Investment earnings	1,533	-	28	1,561
Rental income	5	-	-	5
Other:				
Housing In-Lieu - residential	6,329	-	-	6,329
Other fees	5,281	-	-	5,281
Total revenues	17,577	4,633	28	22,238
EXPENDITURES:				
Current:				
Administrative Services	190	-	-	190
Public Works	836	-	-	836
Planning and Community Environment	1,259	-	-	1,259
Development Services				
Public safety	221	-	-	221
Community Services	508	-	-	508
Non-Departmental	357	-	5	362
Debt service:				
Principal retirement	-	1,565	-	1,565
Interest and fiscal charges	-	3,355	-	3,355
Total expenditures	3,371	4,920	5	8,296
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14,206	(287)	23	13,942
OTHER FINANCING SOURCES (USES):				
Transfers in	1,979	238	-	2,217
Transfers out	(7,240)	-	-	(7,240)
Total other financing sources (uses)	(5,261)	238	-	(5,023)
Change in fund balances	8,945	(49)	23	8,919
FUND BALANCES, BEGINNING OF YEAR	87,521	6,940	1,445	95,906
FUND BALANCES, END OF YEAR	$ 96,466	$ 6,891	$ 1,468	$ 104,825

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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, 2015
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS:				
Cash and investments:				
Available for operations	$ 1,545	$ 304	$ 21,169	$ 2,043
Receivables:				
Accounts	-	53	-	-
Interest	5	-	78	7
Notes	-	4,181	12,803	-
Total assets	1,550	4,538	34,050	2,050
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	-	93	63	25
Accrued salaries and benefits	-	3	-	12
Total liabilities	-	96	63	37
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	4,442	-	-
Street improvement	1,544	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	33,881	-
Special districts	-	-	-	2,013
Downtown business	-	-	-	-
Assigned				
Unrealized gain on investment	6	-	106	-
Total fund balances	1,550	4,442	33,987	2,013
Total liabilities and fund balances	1,550	4,538	34,050	2,050

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total
$ 11,915	$ 140	$ 2	$ 12,863	$ 102	$ 29,666	$ 79,749
-	10	-	-	-	-	63
48	-	-	52	-	131	321
-	-	-	-	-	-	16,984
11,963	150	2	12,915	102	29,797	97,117
-	11	-	346	58	39	635
-	-	-	1	-	-	16
-	11	-	347	58	39	651
11,898	-	-	-	-	-	11,898
-	-	-	-	-	-	4,442
-	-	-	-	-	-	1,544
-	138	2	-	-	-	140
-	-	-	-	-	29,580	29,580
-	-	-	12,497	-	-	12,497
-	-	-	-	-	-	33,881
-	-	-	-	-	-	2,013
-	-	-	-	43	-	43
65	1	-	71	1	178	428
11,963	139	2	12,568	44	29,758	96,466
11,963	150	2	12,915	102	29,797	97,117

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, 2015
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Special assessments	$ -	$ -	$ -	$ -
Other taxes and fines	1,696	-	-	36
From other agencies:				
Community Development Block Grants	-	372	-	-
State of California	-	-	-	-
Permits and licenses				
University Avenue Parking	-	-	-	1,856
California Avenue Parking	-	-	-	194
Other permits and licenses	-	-	-	73
Investment earnings	16	-	428	34
Rental income	-	-	5	-
Other:				
Housing In-Lieu - residential	-	-	6,329	-
Other fees	-	170	-	-
Total revenues	1,712	542	6,762	2,193
EXPENDITURES:				
Current:				
Administrative Services	-	-	-	190
Public Works	-	-	-	836
Planning and Community Environment	-	533	625	101
Public safety	-	-	131	-
Community Services	-	-	-	-
Non-Departmental	-	24	20	155
Total expenditures	-	557	776	1,282
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,712	(15)	5,986	911
OTHER FINANCING SOURCES (USES):				
Transfers in	994	-	375	514
Transfers out	(1,917)	-	(375)	(869)
Total other financing sources (uses)	(923)	-	-	(355)
Change in fund balances	789	(15)	5,986	556
FUND BALANCES, BEGINNING OF YEAR	761	4,457	28,001	1,457
FUND BALANCES, END OF YEAR	$ 1,550	$ 4,442	$ 33,987	$ 2,013

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total
$ -	$ -	$ -	$ -	$ 86	$ -	$ 86
-	-	-	-	-	-	1,732
-	-	-	-	-	-	372
-	116	-	-	-	-	116
-	-	-	-	-	-	1,856
-	-	-	-	-	-	194
-	-	-	-	-	-	73
249	1	-	235	3	567	1,533
-	-	-	-	-	-	5
-	-	-	-	-	-	6,329
3,913	-	-	1,198	-	-	5,281
4,162	117	-	1,433	89	567	17,577
-	-	-	-	-	-	190
-	-	-	-	-	-	836
-	-	-	-	-	-	1,259
-	90	-	-	-	-	221
-	-	-	115	-	393	508
-	-	-	-	158	-	357
-	90	-	115	158	393	3,371
4,162	27	-	1,318	(69)	174	14,206
-	-	-	96	-	-	1,979
(2,879)	-	-	-	-	(1,200)	(7,240)
(2,879)	-	-	96	-	(1,200)	(5,261)
1,283	27	-	1,414	(69)	(1,026)	8,945
10,680	112	2	11,154	113	30,784	87,521
$ 11,963	$ 139	$ 2	$ 12,568	$ 44	$ 29,758	$ 96,466

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, 2015
(Amounts in thousands)

	Street Improvement			Federal Revenue		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	$ -	$ -	$ -	$ -	$ -	$ -
Other taxes and fines	1,644	1,696	52	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	507	372	(135)
State of California	-	-	-	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	8	16	8	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	277	170	(107)
Total revenues	1,652	1,712	60	784	542	(242)
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	763	571	192
Development Services						
Public safety	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	24	(24)
Total expenditures	-	-	-	763	595	168
Excess (deficiency) of revenues over (under) expenditures	1,652	1,712	60	21	(53)	(74)
OTHER FINANCING SOURCES (USES):						
Transfers in	994	994	-	-	-	-
Transfers out	(1,917)	(1,917)	-	-	-	-
Total other financing sources (uses)	(923)	(923)	-	-	-	-
Change in fund balances, budgetary basis	$ 729	789	$ 60	$ 21	(53)	$ (74)
Adjustment to Budgetary Basis:						
Current year encumbrances/reappropriations		-			38	
CHANGE IN FUND BALANCE, GAAP BASIS		789			(15)	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		761			4,457	
FUND BALANCES, END OF YEAR, GAAP BASIS		$ 1,550			$ 4,442	

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)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	15	36	21	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,712	1,856	144	-	-	-
-	-	-	195	194	(1)	-	-	-
-	-	-	71	73	2	-	-	-
130	428	298	20	34	14	113	249	136
9	5	(4)	-	-	-	-	-	-
2,530	6,329	3,799	-	-	-	-	-	-
-	-	-	-	-	-	535	3,913	3,378
2,669	6,762	4,093	2,013	2,193	180	648	4,162	3,514
-	-	-	206	190	16	-	-	-
-	-	-	1,154	927	227	-	-	-
3,264	789	2,475	167	146	21	-	-	-
-	131	(131)	-	-	-	-	-	-
-	-	-	15	-	15	-	-	-
179	220	(41)	344	174	170	-	-	-
3,443	1,140	2,303	1,886	1,437	449	-	-	-
(774)	5,622	6,396	127	756	629	648	4,162	3,514
375	375	-	514	514	-	-	-	-
(375)	(375)	-	(869)	(869)	-	(2,879)	(2,879)	-
-	-	-	(355)	(355)	-	(2,879)	(2,879)	-
$ (774)	5,622	$ 6,396	$ (228)	401	$ 629	$ (2,231)	1,283	$ 3,514
	364			155			-	
	5,986			556			1,283	
	28,001			1,457			10,680	
	$ 33,987			$ 2,013			$ 11,963	

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, 2015
(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	-	-	-	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	-	-	-
State of California	106	116	10	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	5	1	(4)	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	-	-	-
Total revenues	111	117	6	-	-	-
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	-	-	-
Development Services						
Public safety	142	129	13	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	142	129	13	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(31)	(12)	19	-	-	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Change in fund balances, Budgetary basis	$ (31)	(12)	$ 19	$ -	-	$ -
Adjustment to Budgetary Basis:						
Current year encumbrances/reappropriations		39			-	
CHANGE IN FUND BALANCE, GAAP BASIS		27			-	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		112			2	
FUND BALANCES, END OF YEAR, GAAP BASIS		$ 139			$ 2	

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)
$ -	$ -	$ -	$ 153	$ 86	$ (67)	$ -	$ -	$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
209	235	26	2	3	1	646	567	(79)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,001	1,198	197	-	-	-	-	-	-
1,210	1,433	223	155	89	(66)	646	567	(79)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
150	115	35	-	-	-	437	424	13
-	-	-	232	158	74	-	-	-
150	115	35	232	158	74	437	424	13
1,060	1,318	258	(77)	(69)	8	209	143	(66)
96	96	-	-	-	-	-	-	-
-	-	-	-	-	-	(1,200)	(1,200)	-
96	96	-	-	-	-	(1,200)	(1,200)	-
$ 1,156	1,414	$ 258	$ (77)	(69)	$ 8	$ (991)	(1,057)	$ (66)
	-			-			31	
	1,414			(69)			(1,026)	
	11,154			113			30,784	
	$ 12,568			$ 44			$ 29,758	

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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, 2015
(Amounts in thousands)

	Downtown Parking Improvement	Library Projects	Total
ASSETS:			
Cash and investments:			
Available for operations	$ 13	$ 6,640	$ 6,653
Cash and investments with fiscal agents	238	-	238
Total assets	251	6,640	6,891
FUND BALANCES:			
Restricted:			
Debt service	$ 251	$ 6,640	$ 6,891

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, 2015
(Amounts in thousands)

	Downtown Parking Improvement	Library Projects	Total
REVENUES:			
Property tax	$ -	$ 4,633	$ 4,633
Total revenues	-	4,633	4,633
EXPENDITURES:			
Debt service:			
Principal retirement	145	1,420	1,565
Interest and fiscal charges	93	3,262	3,355
Total expenditures	238	4,682	4,920
(DEFICIENCY) OF REVENUES (UNDER) EXPENDITURES	(238)	(49)	(287)
OTHER FINANCING SOURCES (USES):			
Transfers in	238	-	238
Total other financing sources (uses)	238	-	238
Change in fund balances	-	(49)	(49)
FUND BALANCES, BEGINNING OF YEAR	251	6,689	6,940
FUND BALANCES, END OF YEAR	$ 251	$ 6,640	$ 6,891

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, 2015
(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	$ -	$ -	$ -	$ 4,682	$ 4,633	$ (49)
Total revenues	-	-	-	4,682	4,633	(49)
EXPENDITURES:						
Debt service:						
Principal retirement	145	145	-	1,420	1,420	-
Interest and fiscal charges	93	93	-	3,262	3,262	-
Total expenditures	238	238	-	4,682	4,682	-
Excess (deficiency) of revenues over (under) expenditures	(238)	(238)	-	-	(49)	(49)
OTHER FINANCING SOURCES (USES):						
Transfers in	238	238	-	-	-	-
Total other financing sources (uses)	238	238	-	-	-	-
Change in fund balances, Budgetary basis	$ -	-	$ -	$ -	(49)	$ (49)
Adjustment to Budgetary Basis:						
Unrealized gain/loss on investments						
Current year encumbrances/reappropriations		-			-	
Prior year encumbrances/reappropriations		-			-	
CHANGE IN FUND BALANCE, GAAP BASIS		-			(49)	
FUND BALANCES, BEGINNING OF YEAR		251			6,689	
FUND BALANCES, END OF YEAR		$ 251			$ 6,640	

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, 2015
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:			
Investment earnings	$ 29	$ 28	$ (1)
Total revenues	29	28	(1)
EXPENDITURES:			
Current:			
Non-Departmental	-	5	(5)
Total expenditures	-	5	(5)
Excess (deficiency) of revenues over (under) expenditures	29	23	(6)
Change in fund balance	$ 29	23	$ (6)
Adjustment to Budgetary Basis:			
Unrealized gain/loss on investments			
Current year encumbrances/reappropriations		-	
Prior year encumbrances/reappropriations		-	
CHANGE IN FUND BALANCE, GAAP BASIS		23	
FUND BALANCE, BEGINNING OF YEAR		1,445	
FUND BALANCE, END OF YEAR		$ 1,468	

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, 2015
(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
ASSETS:								
Current Assets:								
Cash and investments:								
Available for operations	$ 10,183	$ 19,785	$ 21	$ 14,690	$ 20,975	$ 7,322	$ 3,277	$ 76,253
Accounts receivable, net	338	-	-	45	147	250	-	780
Interest receivable	48	84	-	50	84	29	22	317
Inventory of materials and supplies	370	-	-	-	-	-	-	370
Total current assets	10,939	19,869	21	14,785	21,206	7,601	3,299	77,720
Noncurrent Assets:								
Capital assets:								
Nondepreciable	725	625	-	-	-	-	-	1,350
Depreciable, net	11,901	2,064	-	-	-	-	-	13,965
Net OPEB asset	-	-	-	-	-	-	22,871	22,871
Total noncurrent assets	12,626	2,689	-	-	-	-	22,871	38,186
Total assets	23,565	22,558	21	14,785	21,206	7,601	26,170	115,906
DEFERRED OUTFLOWS OF RESOURCES:								
Deferred pension contribution	280	836	26	-	-	-	-	1,142
Total deferred outflows of resources	280	836	26	-	-	-	-	1,142
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	-	196	-	1,363	82	-	-	1,641
Accrued salaries and benefits	45	127	5	11	-	-	-	188
Accrued compensated absences	8	21	1	4,440	-	-	-	4,470
Accrued claims payable - current	-	-	-	146	3,271	1,900	-	5,317
Total current liabilities	53	344	6	5,960	3,353	1,900	-	11,616
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	6,286	-	-	-	6,286
Accrued claims payable	-	-	-	-	15,862	2,939	-	18,801
Net pension liabilities	2,519	8,706	276	-	-	-	-	11,501
Total noncurrent liabilities	2,519	8,706	276	6,286	15,862	2,939	-	36,588
Total liabilities	2,572	9,050	282	12,246	19,215	4,839	-	48,204
DEFERRED INFLOWS OF RESOURCES:								
Differences between expected and actual earnings on investments	436	1,508	48	-	-	-	-	1,992
Total deferred inflows of resources	436	1,508	48	-	-	-	-	1,992
NET POSITION:								
Net Investment in capital assets	12,626	2,689	-	-	-	-	-	15,315
Unrestricted	8,211	10,147	(283)	2,539	1,991	2,762	26,170	51,537
Total net position	$ 20,837	$ 12,836	$ (283)	$ 2,539	$ 1,991	$ 2,762	$ 26,170	$ 66,852

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2015
(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
OPERATING REVENUES:								
Charges for services	$ 7,277	$ 11,774	$ 1,263	$ 44,462	$ 1,994	$ 1,293	$ 13,471	$ 81,534
Other	13	-	-	-	746	178	-	937
Total operating revenues	7,290	11,774	1,263	44,462	2,740	1,471	13,471	82,471
OPERATING EXPENSES:								
Administrative and general	1,195	6,660	822	276	787	1,096	563	11,399
Operations and maintenance	3,535	5,765	425	669	-	-	13,643	24,037
Depreciation and amortization	2,030	359	3	-	-	-	-	2,392
Claim payments and change in estimated self-insured liability	-	-	-	1,499	528	(707)	-	1,320
Refund of charges for services	52	9	-	-	-	-	-	61
Compensated absences and other benefits	-	-	-	41,120	-	-	-	41,120
Total operating expenses	6,812	12,793	1,250	43,564	1,315	389	14,206	80,329
Operating income (loss)	478	(1,019)	13	898	1,425	1,082	(735)	2,142
NONOPERATING REVENUES (EXPENSES):								
Investment earnings	209	334	-	197	365	95	68	1,268
Gain on disposal of capital assets	70	-	-	-	-	-	-	70
Other nonoperating revenues	33	-	-	-	-	-	-	33
Total nonoperating revenues (expenses)	312	334	-	197	365	95	68	1,371
Income (loss) before transfers	790	(685)	13	1,095	1,790	1,177	(667)	3,513
Transfers in	-	2,349	-	-	-	-	-	2,349
Transfers out	(1,070)	(187)	-	-	-	-	-	(1,257)
Change in net position	(280)	1,477	13	1,095	1,790	1,177	(667)	4,605
NET POSITION, BEGINNING OF YEAR	23,878	20,899	7	1,444	201	1,585	26,837	74,851
Restatement for implementation of GASB Statement No. 68	(2,761)	(9,540)	(303)	-	-	-	-	(12,604)
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED	21,117	11,359	(296)	1,444	201	1,585	26,837	62,247
NET POSITION, END OF YEAR	$ 20,837	$ 12,836	$ (283)	$ 2,539	$ 1,991	$ 2,762	$ 26,170	$ 66,852

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2015
(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
Cash flows from operating activities:								
Cash received from customers	$ 7,274	$ 11,774	$ 1,263	$ 44,452	$ 1,847	$ 1,694	$ 13,567	$ 81,871
Cash refunds to customers	(52)	(9)	-	-	-	-	-	(61)
Cash payments to suppliers for goods and services	(3,517)	(5,832)	(433)	(295)	-	-	(13,643)	(23,720)
Cash payments to employees	(1,275)	(6,820)	(821)	(40,837)	(773)	(1,096)	(863)	(52,485)
Cash payments for judgments and claims	13	-	-	(1,499)	(1,439)	(271)	-	(3,196)
Other cash receipts	33	-	-	-	-	-	-	33
Cash flows provided by (used in) operating activities	2,476	(887)	9	1,821	(365)	327	(939)	2,442
Cash flows from noncapital financing activities:								
Transfers in	-	2,349	-	-	-	-	-	2,349
Transfers out	(1,070)	(187)	-	-	-	-	-	(1,257)
Cash flows provided by noncapital financing activities	(1,070)	2,162	-	-	-	-	-	1,092
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(2,689)	(1,071)	-	-	-	-	-	(3,760)
Proceeds from sale of capital assets	172	-	-	-	-	-	-	172
Cash flows (used in) capital and related financing activities	(2,517)	(1,071)	-	-	-	-	-	(3,588)
Cash flows from investing activities:								
Interest received	216	352	-	204	376	96	71	1,315
Cash flows from investing activities	216	352	-	204	376	96	71	1,315
Net change in cash and cash equivalents	(895)	556	9	2,025	11	423	(868)	1,261
Cash and cash equivalents, beginning of year	11,078	19,229	12	12,665	20,964	6,899	4,145	74,992
Cash and cash equivalents, end of year	$ 10,183	$ 19,785	$ 21	$ 14,690	$ 20,975	$ 7,322	$ 3,277	$ 76,253
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	$ 478	$ (1,019)	$ 13	$ 898	$ 1,425	$ 1,082	$ (735)	$ 2,142
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,030	359	3	-	-	-	-	2,392
Other	33	-	-	-	-	-	-	33
Change in assets and liabilities:								
Accounts receivable	(3)	-	-	(10)	(147)	223	96	159
Inventory of materials and supplies	18	-	-	-	-	-	-	18
Net OPEB asset	-	-	-	-	-	-	(261)	(261)
Deferred outflows of resources - pension plans	(46)	(26)	-	-	-	-	-	(72)
Accounts payable and accruals	-	(67)	(8)	374	14	-	(39)	274
Accrued salaries and benefits	6	(6)	5	10	-	-	-	15
Accrued compensated absences	-	8	1	549	-	-	-	558
Accrued claims payable	-	-	-	-	(1,657)	(978)	-	(2,635)
Net pension liability	(476)	(1,644)	(53)	-	-	-	-	(2,173)
Deferred inflows of resources - pension plans	436	1,508	48	-	-	-	-	1,992
Cash flows provided by (used in) operating activities	$ 2,476	$ (887)	$ 9	$ 1,821	$ (365)	$ 327	$ (939)	$ 2,442

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, 2015
(Amounts in thousands)

California Avenue Parking Assessment District	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
ASSETS:				
Cash and investments available for operations	180	-	5	175
LIABILITIES:				
Due to bondholders	180	-	5	175
Cable Joint Powers Authority				
ASSETS:				
Cash and investments available for operations	755	-	95	660
Accounts receivable	-	503	-	503
Interest receivable	4	-	1	3
Total assets	759	503	96	1,166
LIABILITIES:				
Due to other governments	759	407	-	1,166
University Avenue Area Off-Street Parking Assessment District				
ASSETS:				
Cash and investments available for operations	1,984	208	-	2,192
Cash and investments with fiscal agents	2,541	2	-	2,543
Accounts receivable	9	-	-	9
Interest receivable	10	-	1	9
Total assets	4,544	210	1	4,753
LIABILITIES:				
Due to bondholders	4,544	209	-	4,753
Total Agency Funds				
ASSETS:				
Cash and investments available for operations	2,919	208	100	3,027
Cash and investments with fiscal agents	2,541	2	-	2,543
Accounts receivable	9	503	-	512
Interest receivable	14	-	2	12
Total assets	5,483	713	102	6,094
LIABILITIES:				
Due to bondholders	4,724	209	5	4,928
Due to other governments	759	407	-	1,166
Total liabilities	5,483	616	5	6,094

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

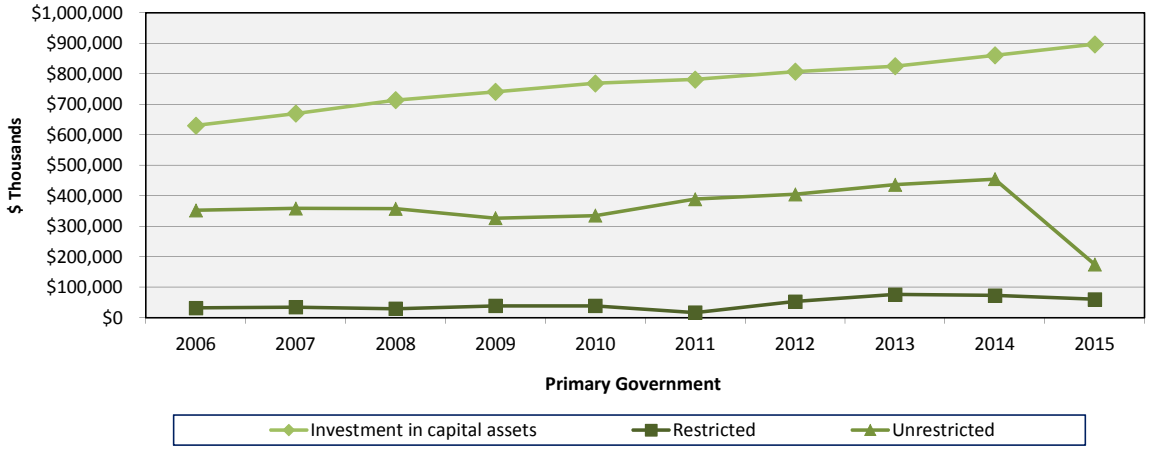
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- 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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Activities										
Investment in capital assets	$ 311,335	$ 326,411	$ 343,537	$ 356,657	$ 369,499	$ 364,747	$ 370,111	$ 378,047	$ 386,696	$ 405,921
Restricted	29,885	32,576	27,428	36,632	34,323	16,437	52,934	71,717	68,331	55,963
Unrestricted	123,823	127,190	130,460	118,133	102,199	134,722	142,102	165,810	187,386	1,972
Total Governmental Activities Net Position	$ 465,043	$ 486,177	$ 501,425	$ 511,422	$ 506,021	$ 515,906	$ 565,147	$ 615,574	$ 642,413	$ 463,856
Business-type Activities										
Investment in capital assets	$ 318,738	$ 342,922	$ 370,303	$ 384,313	$ 399,317	$ 416,418	$ 437,151	$ 446,597	$ 473,795	$ 490,874
Restricted	1,732	1,732	1,732	1,732	4,300	-	-	4,060	4,166	4,142
Unrestricted	228,032	230,912	226,539	208,025	232,420	253,740	262,602	269,926	266,794	172,802
Total Business-type Activities Net Position	$ 548,502	$ 575,566	$ 598,574	$ 594,070	$ 636,037	$ 670,158	$ 699,753	$ 720,583	$ 744,755	$ 667,818
Primary Government										
Investment in capital assets	$ 630,073	$ 669,333	$ 713,840	$ 740,970	$ 768,816	$ 781,165	$ 807,262	$ 824,644	$ 860,491	$ 896,795
Restricted	31,617	34,308	29,160	38,364	38,623	16,437	52,934	75,777	72,497	60,105
Unrestricted	351,855	358,102	356,999	326,158	334,619	388,462	404,704	435,736	454,180	174,774
Total Primary Government Net Position	$ 1,013,545	$ 1,061,743	$ 1,099,999	$ 1,105,492	$ 1,142,058	$ 1,186,064	$ 1,264,900	$ 1,336,157	$ 1,387,168	$ 1,131,674

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)

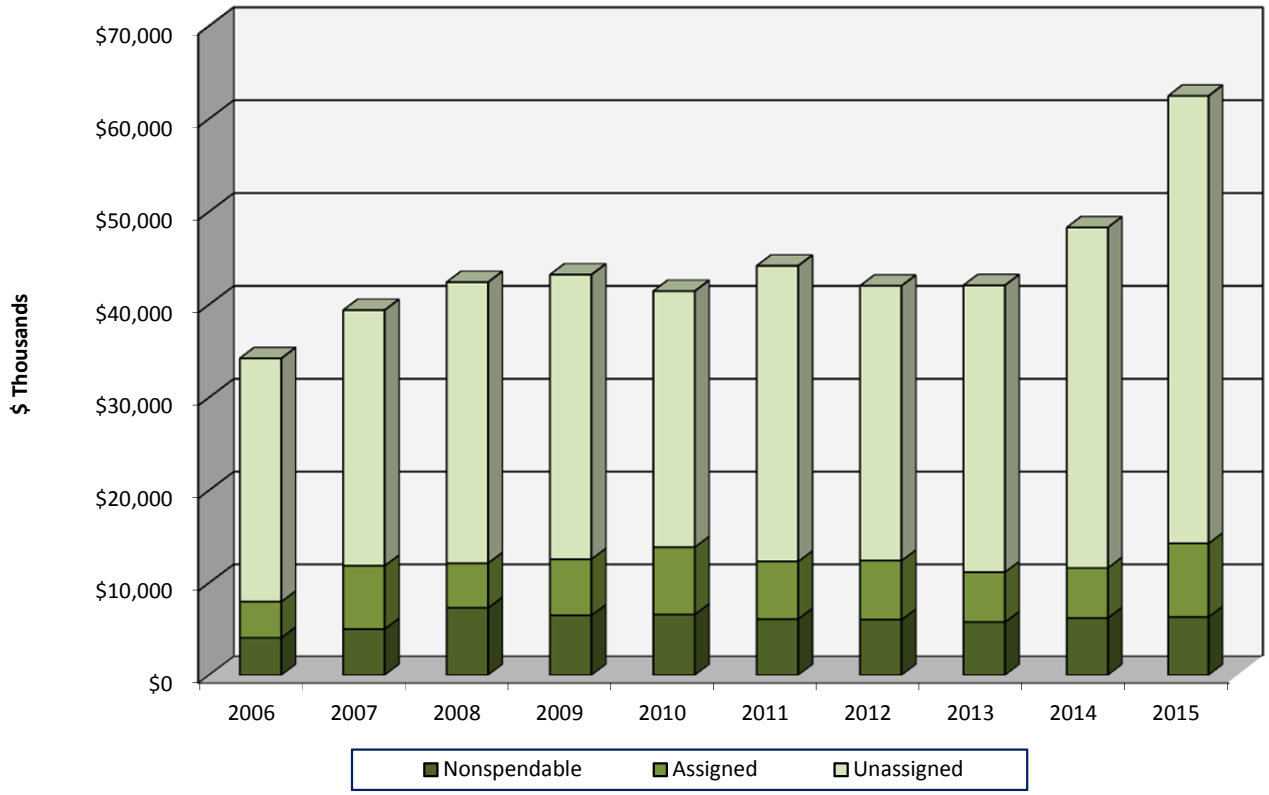
	Fiscal Year Ended June 30									
PROGRAM REVENUES	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Activities										
Charges for services										
City Attorney	$ 22	$ 13	$ 16	$ 12	$ 53	$ -	$ -	$ -	$ -	$ -
City Clerk	2	-	-	-	-	-	-	-	-	-
City Auditor	-	-	-	-	-	-	-	-	-	-
Administrative Services	627	835	870	726	984	2,889	1,647	15,629	4,055	5,460
People Strategy and Operations	-	11	-	-	-	-	-	-	-	-
Public Works	805	968	1,310	1,169	1,258	2,419	1,008	1,314	1,093	1,209
Planning & Community Environment	5,509	6,267	5,498	4,704	4,813	7,237	31,491	28,768	12,896	8,090
Development Services[3]	-	-	-	-	-	-	-	-	-	12,019
Public Safety	13,256	13,789	13,692	14,670	14,337	15,274	15,658	16,139	14,902	15,726
Community Services	10,803	9,128	10,314	8,522	8,729	7,724	11,365	13,808	20,882	20,912
Library	129	146	176	177	199	480	1,600	187	166	137
Operating grants and contributions	3,976	5,642	4,029	3,599	4,829	2,884	3,441	5,038	5,360	5,300
Capital grants and contributions	3,156	1,756	1,930	3,810	1,280	1,903	1,064	515	917	619
Total Governmental Activities Program Revenues	38,285	38,555	37,835	37,389	36,482	40,810	67,274	81,398	60,271	69,472
Business-type Activities										
Charges for services										
Water	21,108	23,495	26,510	27,120	26,259	26,624	31,467	37,746	40,291	35,847
Electric	119,418	102,549	103,833	119,320	121,900	122,109	118,886	121,805	121,916	120,842
Fiber Optics[1]	-	-	-	3,336	3,105	3,322	3,662	4,382	4,485	4,627
Gas	36,977	42,221	49,021	47,838	44,450	43,584	41,774	34,633	35,737	30,751
Wastewater Collection	13,801	14,848	15,102	14,486	15,136	15,094	14,942	16,077	15,599	16,182
Wastewater Treatment	18,778	16,957	22,889	28,425	16,915	18,830	22,200	21,528	18,460	24,120
Refuse	24,795	25,532	28,805	29,101	28,568	30,469	30,645	30,583	30,297	31,576
Storm Drainage	5,174	5,181	5,450	5,505	5,647	5,796	5,892	6,053	6,183	6,281
Airport	-	-	-	-	-	-	-	-	-	683
External Services	854	789	112	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	361	610	605	572	549	534
Capital grants and contributions	-	756	1,594	639	475	3,004	1,526	2,224	2,005	2,080
Total Business-type Activities Program Revenues	240,905	232,328	253,316	275,770	262,816	269,442	271,599	275,603	275,522	273,523
Total Primary Government Program Revenues	$ 279,190	$ 270,883	$ 291,151	$ 313,159	$ 299,298	$ 310,252	$ 338,873	$ 357,001	$ 335,793	$ 342,995
EXPENSES										
Governmental Activities										
City Council	$ 141	$ 180	$ 323	$ 394	$ 455	$ 15	$ 345	$ 94	$ 387	$ 271
City Manager	1,563	1,760	2,273	2,085	2,399	1,842	1,960	1,237	2,180	2,155
City Attorney	2,598	2,390	2,653	2,575	2,621	953	1,656	1,642	1,797	1,759
City Clerk	945	900	1,241	1,098	1,369	803	908	330	641	680
City Auditor	843	838	1,379	2,053	2,601	138	235	464	489	362
Administrative Services[2]	6,972	6,419	15,477	17,784	17,893	9,888	10,100	7,614	11,388	9,980
People Strategy and Operations	2,546	2,472	2,806	3,448	3,707	1,346	1,071	1,420	1,346	1,464
Public Works	17,596	16,645	18,565	21,270	18,658	19,357	14,568	20,816	24,577	21,075
Planning & Community Environment	9,931	12,929	16,388	12,940	12,114	15,031	12,074	13,549	14,926	8,423
Development Services[3]	-	-	-	-	-	-	-	-	-	10,449
Public Safety	42,158	43,391	50,126	52,487	55,799	58,996	62,817	59,452	62,883	58,660
Community Services	17,296	15,729	17,736	19,862	17,171	22,845	21,915	22,705	23,822	24,688
Library	5,323	5,347	6,321	6,244	6,143	6,920	7,323	7,319	7,758	7,721
Non-departmental[2]	10,400	12,133	-	-	-	-	-	-	-	-
Interest on long term debt	512	477	438	404	370	2,742	2,575	2,562	3,367	3,658
Total Governmental Activities Expenses	118,824	121,610	135,726	142,644	141,300	140,876	137,547	139,204	155,561	151,345
Business-type Activities										
Water	15,881	16,794	18,842	20,271	21,037	24,268	29,093	30,707	31,593	33,205
Electric	91,570	99,294	108,032	122,268	107,910	100,130	102,030	106,438	113,004	122,499
Fiber Optics[1]	-	-	-	1,284	1,407	1,561	1,489	1,437	1,661	1,891
Gas	29,107	30,690	37,211	34,603	32,498	32,051	28,878	26,749	26,869	23,525
Wastewater Collection	11,005	10,085	12,023	14,875	10,696	12,275	14,825	14,313	13,235	14,595
Wastewater Treatment	16,747	15,901	18,902	36,896	13,466	19,731	20,712	20,635	21,018	21,553
Refuse	26,989	25,372	28,827	37,217	28,119	30,684	31,900	28,542	28,413	27,974
Storm Drainage	2,673	2,517	3,202	2,943	2,491	3,229	3,103	3,703	3,644	3,721
Airport	-	-	-	-	-	31	153	246	466	1,004
External Services	868	767	984	-	-	-	-	-	-	-
Total Business-type Activities Expenses	194,840	201,420	228,023	270,357	217,624	223,960	232,183	232,770	239,903	249,967
Total Primary Government Expenses	$ 313,664	$ 323,030	$ 363,749	$ 413,001	$ 358,924	$ 364,836	$ 369,730	$ 371,974	$ 395,464	$ 401,312

	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NET (EXPENSE)/REVENUE										
Governmental Activities	$ (80,539)	$ (83,055)	$ (97,891)	$ (105,255)	$ (104,818)	$ (100,066)	$ (70,273)	$ (57,806)	$ (95,290)	$ (81,873)
Business-type Activities	46,065	30,908	25,293	5,413	45,192	45,482	39,416	42,833	35,619	23,556
Total Primary Government										
Net (Expense)/Revenue	$ (34,474)	$ (52,147)	$ (72,598)	$ (99,842)	$ (59,626)	$ (54,584)	$ (30,857)	$ (14,973)	$ (59,671)	$ (58,317)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS										
Governmental Activities										
Taxes										
Property tax	$ 18,731	$ 21,466	$ 23,084	$ 25,432	$ 25,981	$ 29,156	$ 30,104	$ 31,929	$ 35,299	$ 38,750
Sales tax	20,315	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675
Utility user tax	8,759	9,356	10,285	11,030	11,295	10,851	10,834	10,861	11,008	10,861
Transient occupancy tax	6,393	6,709	7,976	7,111	6,858	8,082	9,664	10,794	12,255	16,699
Other taxes	7,033	6,293	6,261	3,364	4,055	8,156	8,173	10,504	9,660	11,867
Investment earnings	2,567	8,747	12,313	8,525	6,514	3,500	6,238	(1,228)	5,859	5,010
Rents and miscellaneous	10,440	13,670	11,896	15,682	12,729	12,377	14,943	518	2,575	3,428
Transfers	21,545	15,754	18,701	24,020	13,994	17,083	17,426	19,249	17,103	16,405
Total Governmental Activities	95,783	104,189	113,139	115,253	99,417	109,951	119,514	108,233	123,183	132,695
Business-type Activities										
Investment earnings	3,631	11,910	16,416	14,103	10,769	5,722	7,605	(2,754)	6,379	4,857
Transfers	(21,545)	(15,754)	(18,701)	(24,020)	(13,994)	(17,083)	(17,426)	(19,249)	(17,103)	(16,405)
Total Business-type Activities	(17,914)	(3,844)	(2,285)	(9,917)	(3,225)	(11,361)	(9,821)	(22,003)	(10,724)	(11,548)
Total Primary Government	$ 77,869	$ 100,345	$ 110,854	$ 105,336	$ 96,192	$ 98,590	$ 109,693	$ 86,230	$ 112,459	$ 121,147
CHANGE IN NET POSITION										
Governmental Activities	$ 15,244	$ 21,134	$ 15,248	$ 9,998	$ (5,401)	$ 9,885	$ 49,241	$ 50,427	$ 27,893	$ 50,822
Business-type Activities	28,151	27,064	23,008	(4,504)	41,967	34,121	29,595	20,830	24,895	12,008
Total Primary Government										
Change in Net Position	$ 43,395	$ 48,198	$ 38,256	$ 5,494	$ 36,566	$ 44,006	$ 78,836	$ 71,257	$ 52,788	$ 62,830

Notes: [1]Prior to 2009, Fiber Optics was included in Electric.
[2]Beginning in 2008, includes Non-departmental expenses.
[3]The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Statement of Activities

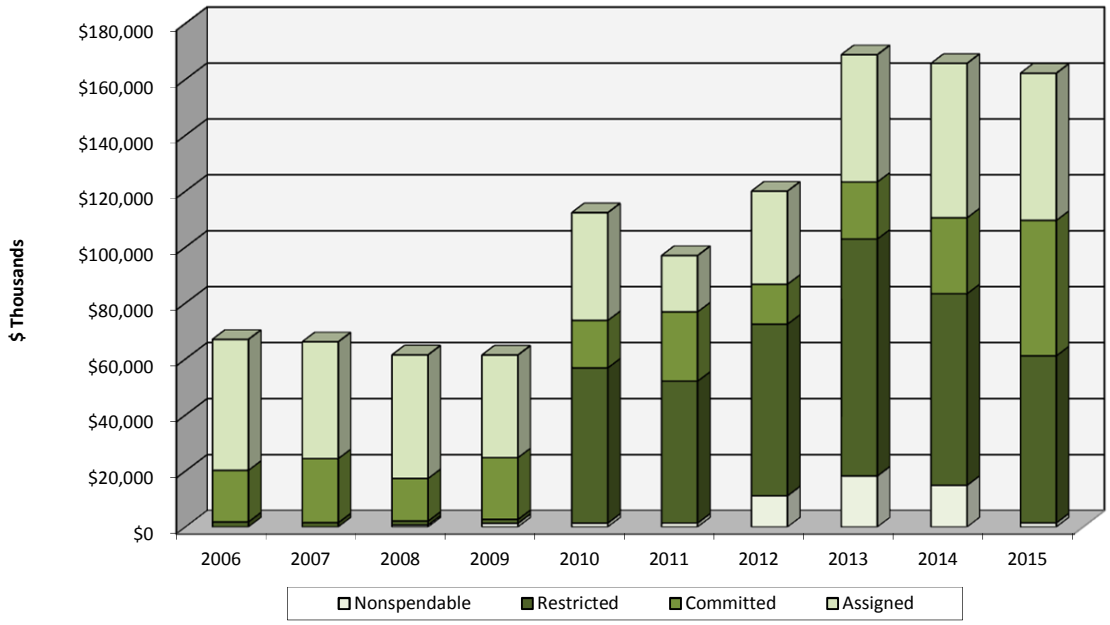
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
Nonspendable	$ 4,052	$ 5,002	$ 7,286	$ 6,476	$ 6,581	$ 6,085	$ 6,007	$ 5,749	$ 6,188	$ 6,296
Assigned	3,914	6,855	4,851	6,100	7,295	6,235	6,400	5,415	5,432	7,976
Unassigned	26,251	27,551	30,278	30,648	27,581	31,859	29,616	30,913	36,690	48,198
Total General Fund	$ 34,217	$ 39,408	$ 42,415	$ 43,224	$ 41,457	$ 44,179	$ 42,023	$ 42,077	$ 48,310	$ 62,470

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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
All Other Governmental Funds										
Nonspendable	$ -	$ -	$ 731	$ 1,308	$ 1,402	$ 1,422	$ 11,112	$ 18,189	$ 14,869	$ 1,468
Restricted	1,822	1,540	1,406	1,412	55,400	50,646	61,324	84,688	68,468	59,650
Committed	18,430	22,883	15,207	22,043	16,962	24,775	14,284	20,400	27,145	48,434
Assigned	46,723	41,684	44,116	36,629	38,538	20,114	33,264	45,514	55,211	52,627
Total All Other Governmental Funds	$ 66,975	$ 66,107	$ 61,460	$ 61,392	$ 112,302	$ 96,957	$ 119,984	$ 168,791	$ 165,693	$ 162,179

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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Property tax	$ 18,731	$ 21,466	$ 23,084	$ 25,432	$ 25,981	$ 29,248	$ 30,216	$ 32,040	$ 35,393	$ 38,836
Sales tax	20,315	22,194	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675
Other taxes and fines	25,840	26,215	27,385	24,843	25,063	27,890	29,231	32,141	35,305	41,576
Charges for services	18,672	19,929	19,610	19,837	19,775	22,311	46,273	38,976	23,962	25,973
From other agencies	5,931	3,448	4,300	5,984	3,035	1,614	1,116	4,109	5,700	7,727
Permits and licenses	4,305	4,711	4,761	4,033	4,408	5,433	7,136	8,218	8,990	9,179
Interest and rentals	13,776	17,750	20,507	19,183	19,045	16,553	18,583	12,136	18,445	18,658
Other revenue	4,058	7,503	4,713	6,223	4,724	8,624	12,739	17,570	7,471	12,837
Total Revenues	111,628	123,216	126,983	125,624	120,022	132,419	167,426	170,796	164,690	184,461
Expenditures										
Administration[1]	14,299	14,399	16,250	16,002	17,353	8,351	9,412	8,291	9,961	10,806
Public Works	9,036	9,256	10,072	10,064	9,787	11,317	11,304	11,489	12,439	12,276
Planning and Community Environment	9,292	11,874	9,861	10,462	9,480	10,309	11,966	13,474	14,761	8,628
Development Services[3]	-	-	-	-	-	-	-	-	-	11,152
Public Safety	40,393	42,451	48,650	48,957	51,022	58,874	62,418	59,537	62,028	61,447
Community Services[2]	19,740	16,533	17,138	17,451	16,451	20,029	20,860	21,661	22,644	23,553
Library[2]	5,170	5,260	6,219	5,985	5,900	6,509	7,072	6,902	7,340	7,980
Non-departmental	10,389	12,122	14,089	10,765	10,149	7,352	6,819	4,567	8,135	6,180
Special revenue and capital projects	13,243	17,478	21,626	21,485	22,006	35,486	29,154	29,542	37,035	41,754
Debt service - principal payments	810	850	885	800	840	870	1,743	1,489	1,524	1,948
Debt service -interest and fiscal fees	523	489	451	416	382	1,815	2,757	2,659	3,196	3,404
Payment to bond refunding escrow	-	-	-	-	-	-	586	540	-	-
Total Expenditures	122,895	130,712	145,241	142,387	143,370	160,912	164,091	160,151	179,063	189,128
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,267)	(7,496)	(18,258)	(16,763)	(23,348)	(28,493)	3,335	10,645	(14,373)	(4,667)
Other Financing Sources (Uses)										
Transfers in	26,640	27,701	33,437	39,903	34,835	30,323	47,200	50,343	41,683	45,137
Transfers out	(12,390)	(15,882)	(16,819)	(22,399)	(21,415)	(14,352)	(29,782)	(33,833)	(24,175)	(29,824)
Other	-	-	-	-	-	(101)	-	-	-	-
Proceeds from long term debt	-	-	-	-	59,071	-	3,222	21,706	-	-
Payments to refund bond escrow	-	-	-	-	-	-	(3,104)	-	-	-
Total Other Financing Sources (Uses)	14,250	11,819	16,618	17,504	72,491	15,870	17,536	38,216	17,508	15,313
Net Change in Fund Balances	$ 2,983	$ 4,323	$ (1,640)	$ 741	$ 49,143	$ (12,623)	$ 20,871	$ 48,861	$ 3,135	$ 10,646
Debt Service as a Percentage of Non-Capital Expenditures	1.2%	1.2%	1.1%	1.0%	1.0%	2.2%	3.5%	3.2%	3.3%	3.7%

Notes: [1]Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and PS&O.
[2]Prior to 2005, Library was included in Community Services.
[3]The Development Services Department was formed in FY15.

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	Residential	Commercial and Industrial	City of Palo Alto	Total
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
2015	17,404	88,257	3,234	108,895

Top Ten Electric Customers by Revenue[1]

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 Hospital & Clinics	Hospital
Tesla Motors, Inc.	Manufacturing
Varian Medical Systems, Inc.	Manufacturing
Veterans Admin Hospital	Hospital
VMware, Inc.	Computer

[1]The top ten customers accounted for approximately 39.4% of total kWh consumption (369,555,836 kWh) and 35.7% of revenue ($40,203,443). The largest customer accounted for 8.2% of total kWh consumption and 7.4% of revenue. The smallest customer accounted for 1.3% of total kWh consumption and 1.2% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges, and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	Number of Customers	Kilowatt-hour Sales (kWh)	Revenue[2]
Residential	25,226	145,447,087	$ 17,404
Commercial	3,682	558,601,438	66,457
Industrial	106	202,838,666	21,800
CPA	122	29,935,877	3,234
Total	29,136	936,823,068	$ 108,895

City of Palo Alto Power Purchase

Western Area Power Administration	22%
Forward Market Purchases	41%
Wind Energy	10%
Landfill Gas Energy	10%
Northern California Power Agency Hydroelectric	4%
Short-Term Market	13%

[2]Revenue includes metered and non-metered charges and revenue adjustments. Revenue does not include California Energy Commission (CEC) surcharges, Utility Users Tax (UUT), Primary Voltage and Rate Assistance (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 2015

Top Ten Largest Water Utility Customers (alphabetical order)

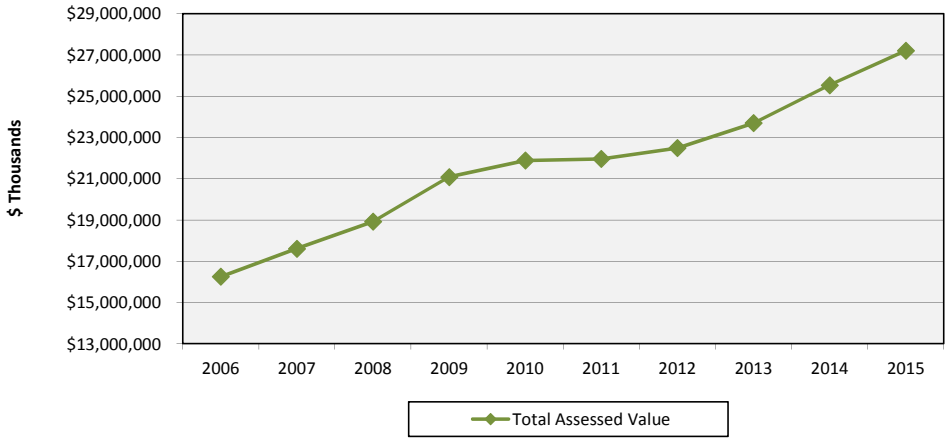
City of Palo Alto
Hewlett-Packard Company
Oak Creek Apartments
Palo Alto Hills Golf & Country Club
Palo Alto Unified School District
Space Systems/Loral, Inc.
Stanford Hospital & Clinics
Stanford West Management
Veterans Admin Hospital
VMware Inc.

The top ten customers total consumption is 781,735 CCF with revenue of $6,840,781. This amount accounts for approximately 17.6% of total consumption and 19% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 2% of consumption and 1.5% of revenue. The smallest customer accounted for 0.8% of consumption and 0.7% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

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)

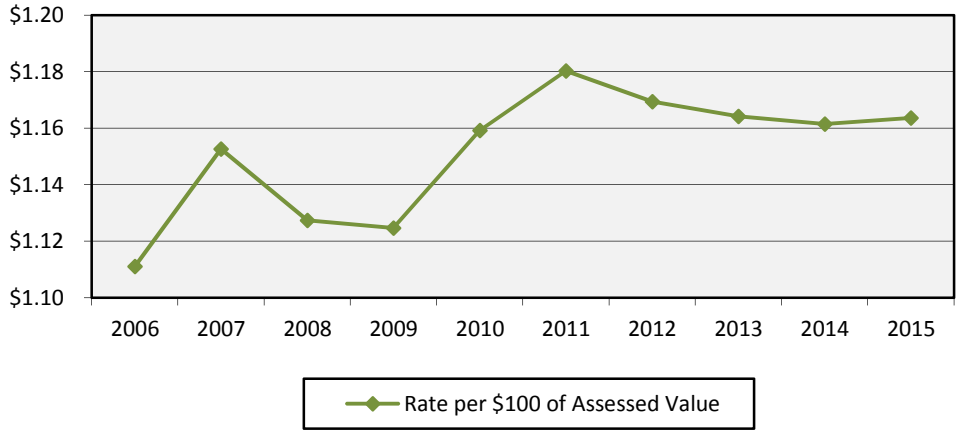


	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Local Secured Roll										
Land	$ 7,941,482	$ 8,725,485	$ 9,497,746	$ 10,420,139	$ 11,007,650	$ 11,011,160	$ 11,352,993	$ 12,255,515	$ 13,357,851	$ 14,409,837
Improvements	8,364,668	8,915,623	9,453,436	10,527,617	10,752,671	10,962,928	11,703,597	12,381,306	12,984,735	13,633,986
Personal property	174,666	213,154	228,875	303,688	288,148	241,280	257,436	287,296	307,499	290,590
	16,480,816	17,854,262	19,180,057	21,251,444	22,048,469	22,215,368	23,314,026	24,924,117	26,650,085	28,334,413
Less:										
Exemptions net of state aid	(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)	(2,761,495)
Total Net Local Secured Roll	14,884,945	16,214,406	17,382,730	19,380,152	20,239,350	20,458,127	20,967,298	22,334,464	24,039,564	25,572,918
Public utilities	4,084	3,923	3,174	2,573	2,573	2,573	2,573	2,573	2,573	2,573
Unsecured property	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	1,622,636
Total Assessed Value	$ 16,250,146	$ 17,609,613	$ 18,922,488	$ 21,085,609	$ 21,880,359	$ 21,956,274	$ 22,486,708	$ 23,693,007	$ 25,536,059	$ 27,198,127
Total Direct Tax Rate	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)[1]	City Library G.O. Bond (Measure N)[2]	Santa Clara Valley Water District	School District	Community College	Total Direct and Overlapping Rates
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
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276	1.16

Notes: [1]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.

[2]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[1] for FY	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years[2]	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%
2015	34,117	34,117	100%	-	34,117	100%

Notes: [1]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.

[2]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)

	Fiscal Year 2015			Fiscal Year 2006		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**
Leland Stanford Jr. University	$ 3,783,665	1	13.9%	$ 2,518,267	1	15.5%
Loral Space & Communications	214,151	2	0.8%	179,249	2	1.1%
EOSII Palo Alto Technology Center LLC	119,308	3	0.4%			
Whisman Ventures, LLC	109,807	4	0.4%			
Google Inc.	103,834	5	0.4%			
SI 43 LLC	75,318	6	0.3%			
BVK Hamilton Ave LLC	67,933	7	0.2%			
Ronald & Ann Williams Charitable Foundation	61,457	8	0.2%			
PPC Forest Towers LLC	55,558	9	0.2%			
Blackhawk Parent, LLC	52,461	10	0.2%			
Agilent Technologies				72,852	3	0.4%
CEP Town & Country Investors, LLC				49,858	4	0.3%
Harbor Investment Partners				47,150	5	0.3%
Hamilton Associates				38,082	6	0.2%
505 Hamilton Avenue Partners				37,085	7	0.2%
California Pacific Commercial Corp.				34,232	8	0.2%
EOP-Embarcadero Place, LLC				30,500	9	0.2%
Thoits Bros Inc.				29,168	10	0.2%
Total	$ 4,643,492		17.0%	$ 3,036,443		18.6%

Total City Taxable Assessed Value:	
FY 2015	$ 27,198,127
FY 2006	$ 16,250,144

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2015

	2014-15 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Non-Residential:						
Agricultural/forest	$ 32,067,390	0.13 %	49	0.24 %	31	0.15 %
Commercial	1,413,002,575	5.53	456	2.21	452	2.24
Professional/office	3,200,308,520	12.51	524	2.54	507	2.51
Industrial/research & development	1,734,139,074	6.78	180	0.87	175	0.87
Recreational	42,838,953	0.17	15	0.07	13	0.06
Government/social/institutional	41,282,153	0.16	115	0.56	46	0.23
Miscellaneous	6,914,500	0.03	18	0.09	17	0.08
Subtotal Non-Residential	$ 6,470,553,165	25.30 %	1,357	6.59 %	1,241	6.14 %
Residential:						
Single family residence	$ 15,153,425,336	59.26 %	14,957	72.61 %	14,910	73.75 %
Condominium/townhouse	2,000,938,397	7.82	3,033	14.72	3,027	14.97
Mobile Home	64,334	0.00	7	0.03	7	0.03
2-4 Residential units	386,303,941	1.51	509	2.47	509	2.52
5+ Residential units	1,398,921,694	5.47	336	1.63	321	1.59
Subtotal Residential	$ 18,939,653,702	74.06 %	18,842	91.47 %	18,774	92.87 %
Vacant Parcels	$ 162,711,081	0.64 %	400	1.94 %	201	0.99 %
Total	$ 25,572,917,948	100 %	20,599	100 %	20,216	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.

[1]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, 2015

	No. of Taxable Parcels[1]	2014-2015 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	14,910	$15,153,425,336	$1,016,326	$750,567

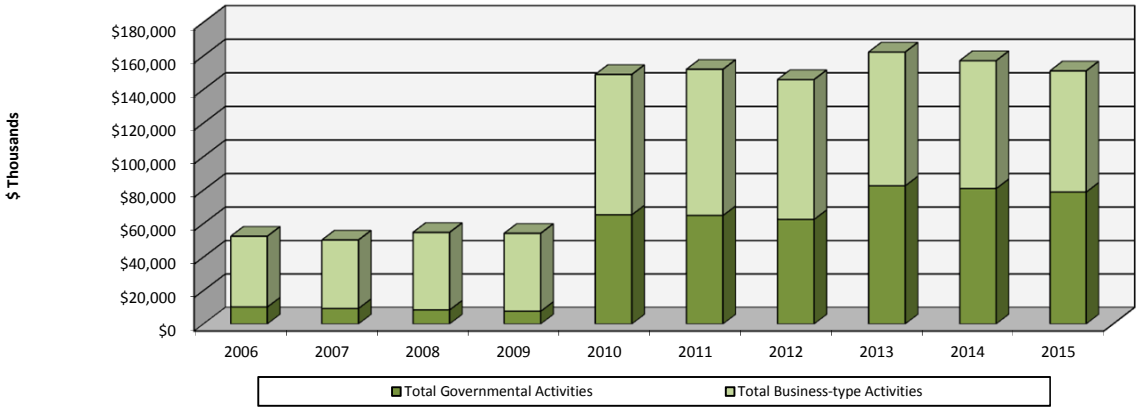
2014-2015 Assessed Valuation	No. of Taxable Parcels[1]	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
$0-99,999	1,465	9.83	9.83	$ 114,731,680	0.76	0.76
$100,000-199,999	1,858	12.46	22.29	255,942,040	1.69	2.45
$200,000-299,999	888	5.96	28.24	221,391,874	1.46	3.91
$300,000-399,999	757	5.08	33.32	263,766,428	1.74	5.65
$400,000-499,999	700	4.69	38.01	315,421,421	2.08	7.73
$500,000-599,999	791	5.31	43.32	434,646,695	2.87	10.60
$600,000-699,999	670	4.49	47.81	435,176,578	2.87	13.47
$700,000-799,999	576	3.86	51.68	430,228,563	2.84	16.31
$800,000-899,999	658	4.41	56.09	559,887,672	3.69	20.00
$900,000-999,999	654	4.39	60.48	620,644,574	4.10	24.10
$1,000,000-1,099,999	617	4.14	64.61	646,624,664	4.27	28.37
$1,100,000-1,199,999	493	3.31	67.92	564,912,023	3.73	32.09
$1,200,000-1,299,999	503	3.37	71.29	629,028,933	4.15	36.25
$1,300,000-1,399,999	467	3.13	74.43	631,020,323	4.16	40.41
$1,400,000-1,499,999	432	2.90	77.32	625,636,280	4.13	44.54
$1,500,000-1,599,999	426	2.86	80.18	659,486,816	4.35	48.89
$1,600,000-1,699,999	340	2.28	82.46	560,438,912	3.70	52.59
$1,700,000-1,799,999	316	2.12	84.58	552,894,621	3.65	56.24
$1,800,000-1,899,999	254	1.70	86.28	468,837,341	3.09	59.33
$1,900,000-1,999,999	233	1.56	87.85	454,063,084	3.00	62.33
$2,000,000 and greater	1,812	12.15	100.00	5,708,644,814	37.67	100.00
Total	14,910	100.00		$ 15,153,425,336	100.00	

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.

[1]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)



	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Activities										
Certificates of Participation	$ 9,915	$ 9,175	$ 8,405	$ 7,605	$ 6,765	$ 5,895	$ 1,685	$ 1,560	$ 1,430	$ 1,285
General Obligation Bonds	-	-	-	-	55,305	55,305	54,540	74,235	73,215	71,795
Special Assessment Debt	225	115	-	-	-	-	-	-	-	-
2011 Lease-Purchase Agreement	-	-	-	-	-	-	2,764	2,400	2,026	1,643
Add: unamortized premium	-	-	-	-	3,766	3,640	3,514	4,400	4,242	4,084
Less: unamortized discount/ issuance costs	-	-	-	-	(571)	-	-	-	-	-
Total Governmental Activities	10,140	9,290	8,405	7,605	65,265	64,840	62,503	82,595	80,913	78,807
Business-type Activities										
Utility Revenue Bonds	43,325	41,859	40,334	38,744	72,104	69,551	65,879	63,104	60,224	57,224
Energy Tax Credits	-	-	1,400	1,300	1,200	1,100	1,000	900	800	700
State Water Resources Loan	-	-	5,629	9,000	13,080	16,696	15,900	15,109	14,309	13,500
Less: unamortized discount/ issuance costs	(1,037)	(972)	(1,053)	(2,479)	(2,737)	(229)	580	543	867	803
Total Business-type Activities	42,288	40,887	46,310	46,565	83,647	87,118	83,359	79,656	76,200	72,227
Total Primary Government Outstanding Debt	$ 52,428	$ 50,177	$ 54,715	$ 54,170	$ 148,912	$ 151,958	$ 145,862	$ 162,251	$ 157,113	$ 151,034
Percentage of Personal Income[1]	1.69%	1.51%	1.53%	1.50%	4.48%	4.10%	3.61%	3.80%	3.39%	3.09%
Population	62,148	62,615	63,367	64,484	65,408	64,417	65,544	66,368	66,861	66,029
Debt Per Capita	$ 0.84	$ 0.80	$ 0.86	$ 0.84	$ 2.28	$ 2.36	$ 2.23	$ 2.44	$ 2.35	$ 2.29

Notes: [1]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.

Sources: County of Santa Clara (assessed valuation)
2015 Official City Data Set (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, 2015

2014-2015 Assessed Valuation	$ 27,198,127,032		
Direct and Overlapping Tax and Assessment Debt	**Total Debt Outstanding**	**Percentage Applicable to City of Palo Alto[1]**	**Amount Applicable to City of Palo Alto**
Santa Clara County	$ 799,180,000	7.62%	$ 60,865,549
Foothill-DeAnza Community College District	635,069,288	22.51%	142,928,694
Palo Alto Unified School District	293,929,249	89.62%	263,416,454
Fremont Union High School District	378,045,088	0.01%	49,145
Los Gatos-Saratoga Joint Union High School District	79,245,000	0.01%	11,094
Mountain View-Los Altos Union High School District	62,407,734	0.95%	595,370
Cupertino Union School District	249,418,462	0.02%	52,378
Los Altos School District	72,518,760	1.07%	773,050
Mountain View-Whisman School District	41,800,000	0.85%	353,628
Saratoga Union School District	37,170,075	0.03%	11,151
Whisman School District	21,244,500	2.18%	462,493
City of Palo Alto	**71,795,000**	**100%**	**71,795,000**
El Camino Hospital District	138,345,000	0.08%	117,593
City of Palo Alto Special Assessment Bonds	28,280,000	100%	28,280,000
Santa Clara Valley Water District Benefit Assessment District	106,690,000	7.62%	8,125,510
Total Direct and Overlapping Tax and Assessment Debt			577,837,109
Direct and Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	707,613,810	7.62%	53,891,868
Santa Clara County Pension Obligations	371,443,651	7.62%	28,289,148
Santa Clara County Board of Education Certificates of Participation	9,030,000	7.62%	687,725
Foothill-DeAnza Community College District Certificates of Participation	11,617,623	22.51%	2,614,662
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	6,995,000	0.01%	979
Mountain View-Los Altos Union High School District Certificates of Participation	2,940,000	0.95%	28,048
Saratoga Union High School District Certificates of Participation	4,925,000	0.03%	1,478
City of Palo Alto General Fund Obligations	**2,928,242**	**100%**	**2,928,242**
Santa Clara County Vector Control District Certificates of Participation	3,085,000	7.62%	234,954
Midpeninsula Regional Open Space Park District General Fund Obligations	127,086,851	13.25%	16,835,195
Total Gross Direct and Overlapping General Fund Debt			$ 105,512,299
Less: Santa Clara County supported obligations			38,453,079
Total Net Direct and Overlapping General Fund Debt			$ 67,059,220
Total Combined Debt			$ 644,896,329
	Ratio to Assessed Valuation		
Total Direct Debt	0.27%		$ 74,723,242
Total Overlapping Debt	2.10%		570,173,087
Total Direct and Overlapping Debt	2.37%		$ 644,896,329 [2]

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.

[1]Percentage of overlapping agency's assessed valuation located within boundaries of the city.

[2]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, 2015
(Amounts in thousands)

Assessed Valuation:		
Secured property assessed value, net of exempt real property	$ 27,198,127	
Bonded Debt Limit (3.75% of Assessed Value) [1]		1,019,930
Direct Debt:		
Certificates of Participation	1,285	
Lease Purchase Agreement	1,643	
General Obligation bonds	71,795	
Total Direct Debt	74,723	
Less: Amount of Debt Not Subject to Limit [2]	2,928	
Total Net Debt Applicable to Limit		71,795
Legal Bonded Debt Margin		$ 948,135

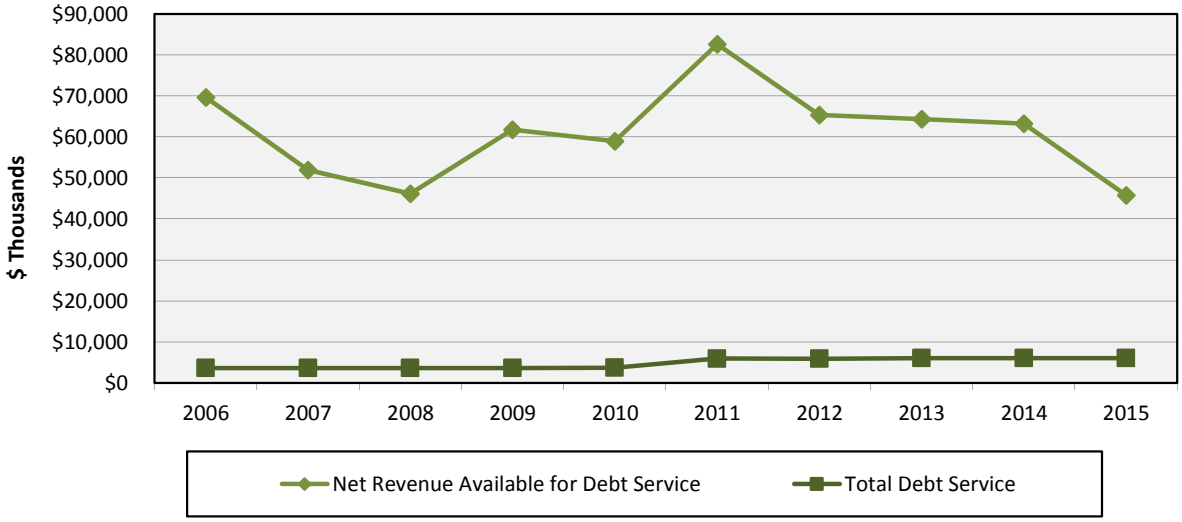
Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable to the Debt as a %	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2006	16,250,144	609,380	-	609,380	62,148	0.00%	-	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	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09

Notes: [1]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.

[2]In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%.

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[1]
Last Ten Fiscal Years
(Amounts in thousands)



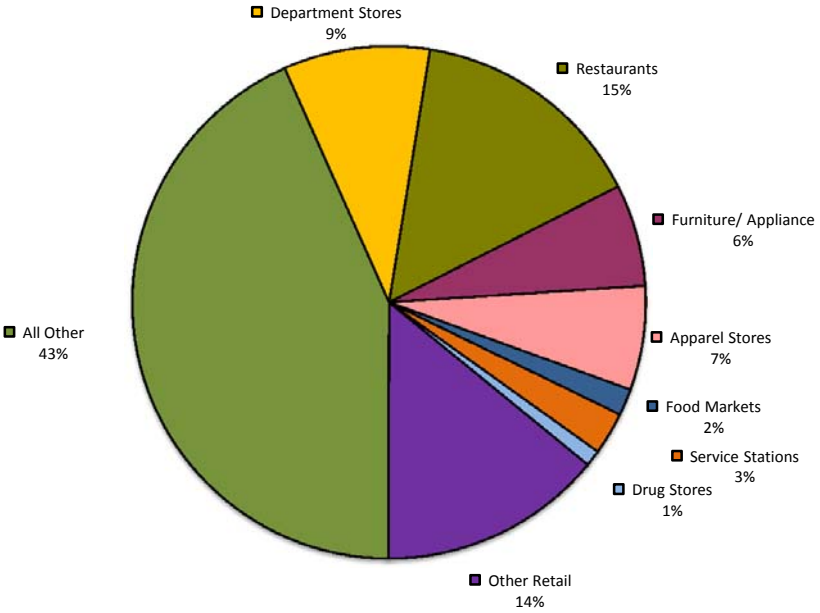
Fiscal Year	Gross Revenue	Less: Direct Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest[3]	Total	
2006	213,337	143,703	69,634	1,410	2,203	3,613	19.27
2007	203,146	151,196	51,950	1,465	2,147	3,612	14.38
2008	219,801	173,620	46,181	1,525	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
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56

Notes: [1]Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.
[2]Excludes depreciation and amortization expense.
[3]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 2015



	ECONOMIC SEGMENT									
Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
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
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998

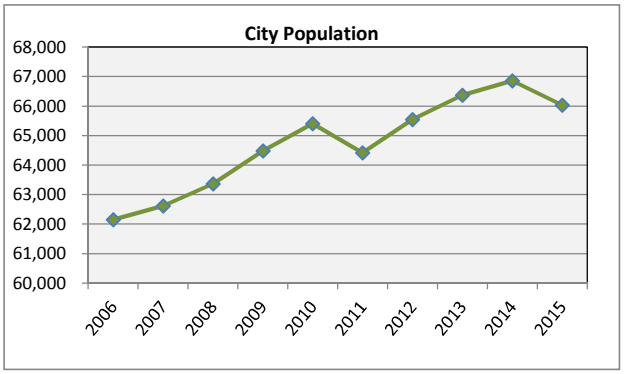
Source: California State Board of Equalization, compiled by MuniServices LLC

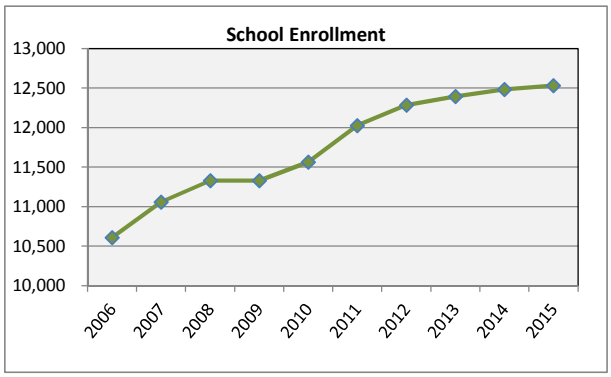
Sales Tax Rates for the Fiscal Year ended June 30, 2015

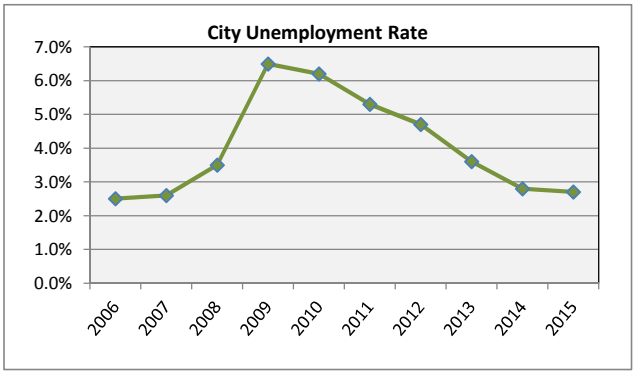
State Rate:	7.50%
Special District Tax Rates:	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
Total Sales and Use Tax Rate:	**8.750%**

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)
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%	95,200,000 *	52,653 *
2008	63,367	3.5%	11,329	1,837,075	3.45%	102,300,000 *	55,686 *
2009	64,484	6.5%	11,329	1,857,621	3.47%	101,800,000 *	54,801 *
2010	65,408	6.2%	11,565	1,880,876	3.48%	95,000,000 *	50,508 *
2011	64,417	5.3%	12,024	1,781,427	3.62%	101,700,000 *	57,089 *
2012	65,544	4.7%	12,286	1,816,486	3.61%	112,800,000 *	62,098 *
2013	66,368	3.6%	12,396	1,842,254	3.60%	124,800,000 *	67,743 *
2014	66,861	2.8%	12,483	1,868,558	3.58%	130,600,000 *	69,893 *
2015	66,029	2.7%	12,532	1,889,638	3.49%	139,800,000 *	73,982 *

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

Source: Beginning in 2015 population is sourced from the US Census Bureau Community Survey (via the City of Palo Alto's Official City Data Set).
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 Seven Years Ago

	FY 2015[2]			FY 2008[1]		
Employer	**Number of Employees**	**Rank**	**Percentage of Total City Employment**	**Number of Employees**	**Rank**	**Percentage of Total City Employment**
Stanford University	11,300	1	9.2%	9,821	1	7.0%
Stanford Health Care	5,900	2	4.8%	5,025	2	3.6%
Lucile Packard Children's Hospital	4,200	3	3.4%	3,326	4	2.4%
Veteran's Affairs Palo Alto Health Care System	3,900	4	3.2%	3,500	3	2.5%
VMware Inc.	3,500	5	2.8%			
SAP	3,500	6	2.8%			
Space Systems/Loral	2,800	7	2.3%	1,700	7	1.2%
Hewlett-Packard Company	2,500	8	2.0%	2,001	5	1.4%
Palo Alto Medical Foundation	2,200	9	1.8%	2,000	6	1.4%
Varian Medical Systems	1,400	10	1.1%			
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%
Total	41,200		33.4%	31,251		22.3%

Estimated Total City Day Population:

FY 2015	123,403
FY 2008	140,000

Notes: [1]Comparable data was not available until FY 2008.
[2]**Available data sources are limited and may be unreliable. 2015 numbers are rounded.**

Source: 2015 Official City Data Set (total City day population); AtoZdatabases; Stanford website.

CITY OF PALO ALTO
Operating Indicators by Function/Program
Last Ten Fiscal Years[1]

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30				
	2005	2006	2007	2008	2009
Governmental activities					
Community Services					
Number of theater performances	172	183	171	166	159
Total hours of athletic field usage[2]	65,748	65,791	70,769	63,212	45,762
Number of rounds of golf	78,410	76,000	76,241	74,630	72,170
Enrollment in recreation classes (includes summer camps)	15,127	14,768	14,460	13,851	13,091
Planning and Community Environment					
Planning applications completed	327	390	299	257	273
Building permits issued	3,081	3,081	3,136	3,046	2,543
Caltrain average weekday boarding[3]	3,264	3,882	4,132	4,589	4,407
Police					
Calls for service	52,233	57,017	60,079	58,742	53,275
Total arrests	2,134	2,530	3,059	3,253	2,612
Parking citations issued	52,235	56,502	57,222	50,706	49,996
Animal Services					
Number of service calls	4,994	2,861	2,990	3,059	2,873
Number of animals handled	3,514	3,839	3,578	3,532	3,422
Fire					
Calls for service	6,414	6,897	7,236	7,723	7,549
Number of fire incidents	224	211	221	192	239
Number of fire inspections	1,488	899	1,021	1,277	1,028
Library					
Total number of cardholders	52,001	55,909	53,099	53,740	54,878
Total number of items in collection	264,511	260,468	270,755	279,403	293,735
Total checkouts	1,282,888	1,280,547	1,414,509	1,542,116	1,633,955
Public Works					
Street resurfacing (lane miles)	20	20	32	27	23
Number of potholes repaired	3,221	2,311	1,188	1,977	3,727
Sq. ft. of sidewalk replaced or permanently repaired	132,430	126,574	94,620	83,827	56,909
Number of trees planted	164	263	164	188	250
Total tons of waste landfilled	60,777	59,276	59,938	61,866	68,228
Tons of materials recycled	50,311	56,013	56,837	52,196	49,911
Business-type activities					
Electric					
Number of customer accounts	28,556	28,653	28,684	29,024	28,527
Residential MWH consumed	161,440	161,202	162,405	162,680	159,899
Gas					
Number of customer accounts	23,301	23,353	23,357	23,502	23,090
Residential therms consumed	12,299,158	11,745,883	11,759,842	11,969,151	11,003,088
Water					
Number of customer accounts	19,605	19,645	19,726	19,942	19,442
Residential water consumption (CCF)	2,686,507	2,647,758	2,807,477	2,746,980	2,566,962
Wastewater collection					
Number of customer accounts	21,763	21,784	21,789	21,970	21,210
Millions of gallons processed	8,497	8,972	8,853	8,510	7,958

Notes: [1]Ten most recent years available.
[2]According to the department, this measure was not accurately tracked during FY13 or FY14.
[3]Prior-year data has been updated based on annual counts revised by Caltrain.

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

Fiscal Year Ended June 30				
2010	2011	2012	2013	2014
174	175	175	184	108
41,705	42,687	44,226	-	-
69,791	67,381	65,653	60,153	46,527
12,880	12,310	11,703	11,598	11,997
226	238	204	307	310
2,847	3,559	3,320	3,682	3,624
4,359	4,923	5,730	6,763	7,564
55,860	52,159	51,086	54,628	58,559
2,451	2,288	2,212	2,274	2,589
42,591	40,426	41,875	43,877	36,551
2,692	2,804	3,051	2,909	3,093
3,147	3,323	3,379	2,675	2,480
7,468	7,555	7,796	7,904	7,829
182	165	186	150	150
1,526	1,807	1,654	2,069	1,741
51,969	53,246	60,283	51,007	46,950
298,667	314,154	306,361	277,749	309,150
1,624,785	1,476,648	1,559,932	1,512,975	1,364,872
32	29	40	36	36
3,149	2,986	3,047	2,726	3,418
54,602	71,174	72,787	82,118	74,051
201	150	143	245	148
48,955	38,524	43,947	45,411	47,088
48,811	56,586	51,725	47,941	49,594
29,430	29,708	29,545	29,299	29,338
163,098	160,318	160,604	156,411	153,190
23,724	23,816	23,915	23,659	23,592
11,394,712	11,476,609	11,522,999	10,834,793	10,253,776
20,134	20,248	20,317	20,043	20,037
2,415,467	2,442,415	2,513,595	2,521,930	2,496,549
22,231	22,320	22,421	22,152	22,105
8,184	8,652	8,130	7,546	7,186

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

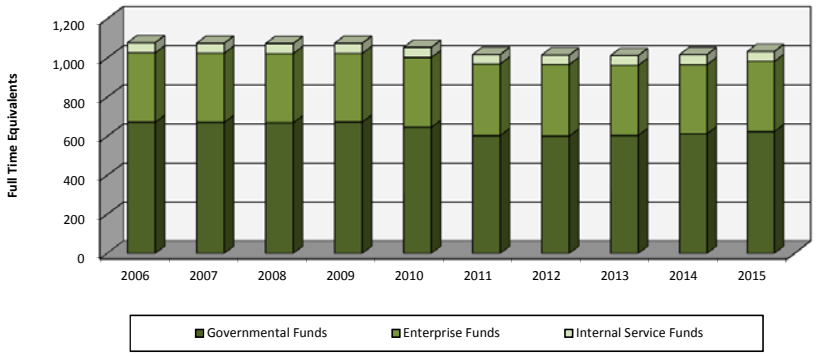
	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
FUNCTION/PROGRAM					
Public Safety					
Fire:					
Fire Stations	8	8	8	8	8
Fire Apparatus	25	25	23	28	28
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
Community Services					
Acres - Downtown/Urban Parks	170	157	157	157	157
Acres - Open Space	3,731	3,744	3,744	3,744	3,744
Parks and Preserves	35	36	36	36	36
Golf Course	1	1	1	1	1
Tennis Courts	52	51	51	51	51
Athletic Center	1	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	2	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	34,841	34,556	35,058	34,991	35,025
Electric Utility[1]					
Miles of Overhead Lines	217	194	193	193	193
Miles of Underground Lines	210	252	253	253	253
Water Utility					
Miles of Water Mains	217	217	217	214	214
Gas Utility					
Miles of Gas Mains	207	207	207	207	205
Waste Water					
Miles of Sanitary Sewer Lines	202	202	202	207	207

Note: [1]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				
2011	2012	2013	2014	2015
8	7	7	7	7
27	29	28	28	29
1	1	1	1	1
30	30	30	30	30
157	157	157	157	157
3,744	3,744	3744	3744	3752
36	36	36	36	36
1	1	1	1	1
51	51	51	51	51
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
34,977	34,874	34,907	34,741	34,636
193	223	222	223	223
253	245	246	249	262
214	234	233	236	236
205	210	210	214	211
207	217	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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Funds										
General Fund:										
Administrative	97	99	98	98	89	83	83	85	83	84
Community Services	99	97	96	97	94	74	74	74	74	76
Development Services[6]	-	-	-	-	-	-	-	-	-	38
Fire	127	127	127	127	123	121	122	119	116	107
Library	44	44	44	44	42	41	41	41	42	44
Office of Emergency Services[5]	-	-	-	-	-	-	-	-	3	3
Planning and Community Environment[6]	53	53	53	53	49	44	43	48	49	28
Police	164	163	163	164	161	157	157	154	155	155
Public Works[1]	68	68	68	69	64	59	56	57	56	53
Subtotal General Fund	**652**	**651**	**649**	**652**	**622**	**579**	**576**	**578**	**578**	**588**
All Other Funds:										
Capital Projects Fund	20	20	20	21	24	24	24	26	27	27
Special Revenue Fund	1	1	1	1	1	2	2	2	9	10
Total Governmental Funds	**673**	**672**	**670**	**674**	**647**	**605**	**602**	**606**	**614**	**625**
Enterprise Funds										
Public Works[2]	113	113	113	113	115	115	115	104	99	100
Utilities[3]	236	235	235	238	242	251	251	254	255	258
External Services[4]	6	6	6	-	-	-	-	-	-	-
Total Enterprise Funds	**355**	**354**	**354**	**351**	**357**	**366**	**366**	**358**	**354**	**358**
Internal Service Funds										
Printing and Mailing	5	4	4	4	4	2	2	2	2	2
Technology	30	30	30	31	31	30	30	31	32	32
Vehicle Replacement	16	16	16	16	16	16	16	17	17	17
Total Internal Service Funds	**51**	**50**	**50**	**51**	**51**	**48**	**48**	**50**	**51**	**51**
Total	1,079	1,076	1,074	1,076	1,055	1,019	1,016	1,014	1,019	1,034

[1]Fleet and Facilities Management
[2]Refuse, Storm Drainage, Wastewater Treatment
[3]Electric, Gas, Wastewater Collection, Water
[4]Effective in 2009, External Services was dissolved. 5 FTEs were eliminated and 1 FTE was transferred to the Technology Fund.
[5]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.
[6]In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services.
Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2015 Adopted Operating Budget

CITY OF PALO ALTO
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For the Year Ended June 30, 2015

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Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

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, 2015, 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 3, 2015.

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 3, 2015

Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

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 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, 2015. 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, 2015.

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 3, 2015

CITY OF PALO ALTO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures	Subrecipients Expenditures
U.S. Department of Housing and Urban Development				
Direct				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	B-10-MC-06-0020	14.218	$ 556,227	$ 481,976
U.S. Department of Justice				
Direct				
Equitable Sharing Program	CA0431200	16.CA0431200	5,754	-
U.S. Department of Transportation				
Direct				
Airport Improvement Program	3-06-0182-009-2014	20.106	299,664	-
Pass-through from State of California Department of Transportation				
Highway Planning and Construction	BRLS-5100(017)	20.205	20,360	-
Pass-through from Santa Clara Valley Transportation Authority				
Highway Planning and Construction	CML-5100(018)	20.205	15,649	-
Total Highway Planning and Construction			36,009	-
Total U.S. Department of Transportation			335,673	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 897,654**	**$ 481,976**

See Notes to the Schedule of Expenditures of Federal Awards

CITY OF PALO ALTO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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, 2015

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:	20.106 Airport Improvement Program
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, 2015

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:	Corrected

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

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. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.

City of Palo Alto 250 Hamilton Avenue, Palo Alto, CA 94301 **P** 650.329.2100 **W** cityofpaloalto.org