

**CITY OF PALO ALTO, CALIFORNIA**

Report to the City Council

For the Year Ended June 30, 2024



Certified  
Public  
Accountants

November 8, 2024

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

We are pleased to present this report related to our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palo Alto, California (City), as of and for the year ended June 30, 2024. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

In addition to the City's basic financial statements, we audit and separately report on the following financial statements as of and for the year ended June 30, 2024.

- City of Palo Alto Regional Water Quality Control Plant
- Palo Alto Public Improvement Corporation
- Cable TV Franchise Statements of Franchise Revenues and Expenditures
- Pedestrian Bicycle Facilities Grant Transportation Development Act Funds, Article III

This report is intended solely for the information and use of the City Council and the City's management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

A handwritten signature in black ink that reads "Macias Gini &amp; O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California

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## REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the City's financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

### **Our Responsibilities With Regard to the Financial Statement Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated June 14, 2024. Our audit of the City's financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have communicated to you the planned scope and timing of our audit in our arrangement letter dated June 14, 2024 regarding the planned scope and timing of our audit.

### **Accounting Policies and Practices**

#### **Preferability of Accounting Policies and Practices**

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

#### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, and requirements of GASB Statement No. 99, *Omnibus 2022* related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53. The implementation of these statements did not have a significant impact on the City's financial statements for the year ended June 30, 2024.

#### **Significant Accounting Policies**

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### **Significant Unusual Transactions**

We did not identify any significant unusual transactions.

## Management’s Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates.

The following summarizes the significant accounting estimates reflected in the City’s financial statements.

Significant Accounting Estimates	
Fair value of investments	The City’s investments are generally carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City’s investments are primarily classified as level 2 of the fair value hierarchy established by GASB Statement No. 72 and are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. The City’s investments in U.S. treasury notes are classified as level 1 and are valued based on quoted prices in an active market for identical assets. The City’s investments in the money market mutual funds, California Local Agency Investment Fund and California Asset Management Program are not subject to the fair value hierarchy.
Estimated allowance for losses on notes and loans receivable	The allowance for losses on notes and loans receivable is based on the types of loans (e.g., forgivable, deferred, grant, or amortizing) and management’s estimate regarding the likelihood of collectability based on loan provisions and collateral.
Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable assets	The estimated useful lives of capital assets were determined based on the nature of the capital assets and management’s estimate of the economic life of the assets. The City uses the straight-line method for depreciation.
Landfill post-closure liability	The City has estimated, based on a study conducted by consultants, the post-closure costs of the Palo Alto landfill based on what it would cost to perform all currently mandated post-closure care. Actual post-closure care costs may be higher due to inflation variances, changes in technology, or changes in State or federal regulations.
Net pension liabilities, contributions, expenses, and other related balances	The balances were estimated based on actuarial valuations, which incorporate actuarial methods and assumptions adopted by the City, performed by the California Public Employees’ Retirement System’s independent actuaries.

## Significant Accounting Estimates

Other postemployment benefits (OPEB) liabilities, contributions, expenses, and other related balances	The balances were estimated based on actuarial valuations, which incorporate actuarial methods and assumptions adopted by the City, performed by the City's independent actuary.
Claims loss reserve	The City is exposed to a variety of risks of loss due to general liability, workers' compensation and other claims and records an estimate of these losses based on actuarial studies performed by third party actuaries. These studies are prepared based on the City's prior claims history, which is used as a basis for extrapolating losses for known and incurred but not reported claims. Actual loss experience may vary from these estimates.
Discount rate used for the calculation of lease liability, lease receivable, and SBITA liability	The discount rate used for the calculation of the lease liability, lease receivable, and SBITA liability are based on the City's estimated incremental borrowing rate using AAA General Obligations interest rates.

### **Audit Adjustments and Uncorrected Misstatements**

In the course of the audits, there were no misstatements identified through the course of audit procedures and corrected by management that were material to the City's financial statements. There were no uncorrected misstatements. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

### **Observations About the Audit Process**

#### **Disagreements With Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

#### **Consultations With Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

#### **Significant Issues Discussed With Management**

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

#### **Significant Difficulties Encountered in Performing the Audit**

We did not encounter any significant difficulties in dealing with management during the audit.

#### **Difficult or Contentious Matters That Required Consultation**

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

## Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Board of Commission, and MGO each play an important role.

### Our Responsibilities

- 1) AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- 2) Maintain a system of quality management over compliance with independence rules and firm policies.

### The Authority's Responsibilities

- 1) Timely inform MGO, before the effective date of transactions or other business changes, of the following:
  - a) New affiliates, directors, or officers.
  - b) Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units, jointly governed organizations.
- 2) Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- 3) Understand and conclude on the permissibility, prior to the Authority and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with MGO.
- 4) Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of the Authority.
- 5) Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the City.

## Management Representations

We have requested certain written representations from management, which are included in the management representation letter dated November 8, 2024.

## Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards:

### *Required Supplementary Information*

We applied certain limited procedures to the management's discussion and analysis and the pension and other postemployment benefits related schedules, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### *Supplementary Information*

We were engaged to report on the following supplementary information, which accompany the financial statements but are not RSI:

- Combining Statements of nonmajor funds
- Schedule of Expenditures of Federal Awards (included in the Single Audit Section)

#### *Other Information*

The other information in the Annual Comprehensive Financial Report (ACFR) comprises the introductory and statistical sections. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

Our responsibility for other information included in the ACFR is to read the information and consider whether its content or the manner of its presentation is materially inconsistent with the financial information covered by our auditor's report, whether it contains a material misstatement of fact or whether the other information is otherwise misleading. We read the City's introductory and statistical sections, and did not identify material inconsistencies with the audited basic financial statements.

#### **Internal Control and Compliance Matters**

We have separately communicated on internal control and compliance over financial reporting identified during our audit of the financial statements and major awards, as required by *Government Auditing Standards* and when applicable, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (Uniform Guidance). This communication is included with the Single Audit Section of the ACFR.

## **EXHIBIT A**

### **Recent Accounting Pronouncements**

## RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of November 8, 2024, but are not yet effective and may affect the future financial reporting by the Authority.

Pronouncement	Summary
<p>GASB Statement No. 101, <i>Compensated Absences</i></p>	<p>The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.</p> <p>Statement No. 101 is effective for the City’s financial statements for the year ending June 30, 2025.</p>
<p>GASB Statement No. 102, <i>Certain Risk Disclosures</i></p>	<p>The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.</p> <p>Statement No. 102 is effective for the City’s financial statements for the year ending June 30, 2025.</p>
<p>GASB Statement No. 103, <i>Financial Reporting Model Improvements</i></p>	<p>The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues.</p> <p>Statement No. 103 are effective for the City’s financial statements for the year ending June 30, 2026.</p>
<p>GASB Statement No. 104, <i>Disclosure of Certain Capital Assets</i></p>	<p>The objective of this statement is to establish requirements for certain types of capital assets to be disclosed separately for purposes of note disclosures, and to establish requirements for capital assets held for sale and note disclosures for those capital assets.</p> <p>Statement No. 104 are effective for the City’s financial statements for the year ending June 30, 2026.</p>