

2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT 2012



CUPERTINO



*For fiscal
year ended
June 30, 2012*



City of Cupertino, California
www.cupertino.org

CITY OF CUPERTINO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED
JUNE 30, 2012

PREPARED BY:
CITY OF CUPERTINO
ADMINISTRATIVE SERVICES DEPARTMENT
FINANCE DIVISION

CITY OF CUPERTINO
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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COMMUNITY PROFILE

INTRODUCTORY SECTION



CITY OF CUPERTINO

CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3202
(408) 777-CITY • WWW.CUPERTINO.ORG

November 16, 2012

To the Citizens of Cupertino, Honorable Mayor,
Members of the City Council, and City Manager

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the City of Cupertino (the City) for the fiscal year ended June 30, 2012. The report is prepared in accordance with generally accepted accounting principles (GAAP) set by the Governmental Accounting Standards Board (GASB). The report presents City information on an entity-wide basis and on a more detailed fund level basis. The fund-level reports emphasize the City's major funds. A Management Discussion and Analysis (MD&A) presents a comparative analysis of current and prior year results, changes in financial position, a comparison of actual versus budget, financial highlights, trends, and disclosure of any known significant events or decisions that affect the financial condition of the City. This transmittal letter is designed to complement the MD&A, and should therefore be read in conjunction with it. The MD&A is required supplementary information and is found in the Financial Section of the CAFR.

The accuracy of the data presented and the completeness and fairness of the presentations, including all disclosures, are the responsibility of the management of the City. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed to protect the City's assets and provide sufficient, reliable information for the proper preparation of these financial statements. We believe the data is accurate in all material respects and is presented in a manner that fairly sets forth the City's financial position. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included.

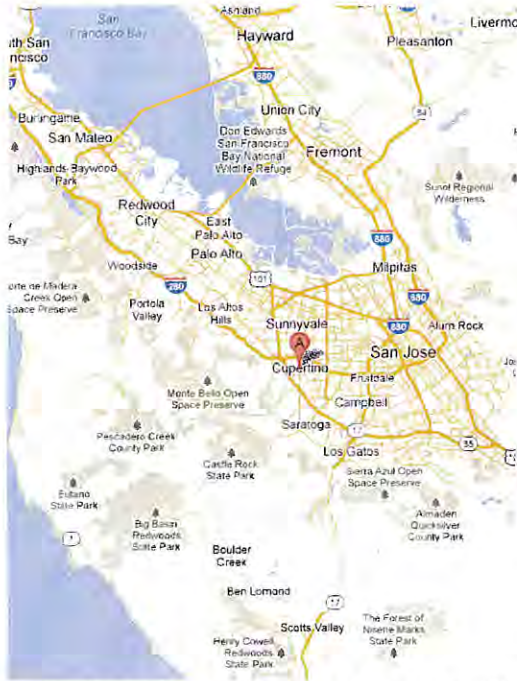
REPORTING ENTITY

This CAFR includes all component units and funds of the City. It reports all activities for which the City is considered to be financially accountable. The general governmental funds support a full range of services, including law enforcement, community development, recreation, public works, public and environmental affairs, and general administration. This financial report incorporates data for the City of Cupertino and its component units, the Cupertino Public Facilities Corporation and the Cupertino Redevelopment Agency. Per state law, the Agency ceased to exist as of January 31, 2012, with the wind down of the Agency's affairs assumed by the City as a successor agency.

The City operates under a Council-City Manager form of government. There are five council members, including the Mayor, who serve staggered four-year terms. The City Council appoints the City Manager who is responsible for the daily administration of City affairs. The City Council also appoints the City Attorney and the City Treasurer. All other employees are appointed by the City Manager.

ECONOMIC CONDITIONS

The City of Cupertino is located in Santa Clara County at the southern end of the San Francisco Bay Peninsula. The City is comprised of 13 square miles and is bordered by the cities of San Jose, Saratoga, Sunnyvale, Santa Clara and Los Altos. It has a residential population of 59,022.



Situated at the west end of Silicon Valley, Cupertino has earned the reputation of a balanced community with a healthy climate for business and well maintained residential neighborhoods, community parks and public facilities. The excellent reputation of Cupertino's schools has been a major attraction for families wishing to settle in close proximity to jobs in Silicon Valley. The City recognizes the importance of quality school facilities and programs to all Cupertino residents, and works in partnership with the schools in many programs affecting education and youth. National surveys rank the City high in education levels, median household incomes, and registered patent numbers.

Cupertino is the corporate headquarters of almost twenty companies including Apple, Durect Corporation, Mirapath, Seagate Technology, Trend Micro, and Verigy and houses sixty high-tech firms. Other major employers include DeAnza College, one of the largest single-campus

community colleges in the country, the Fremont Union High School District, and Cupertino Union School District.

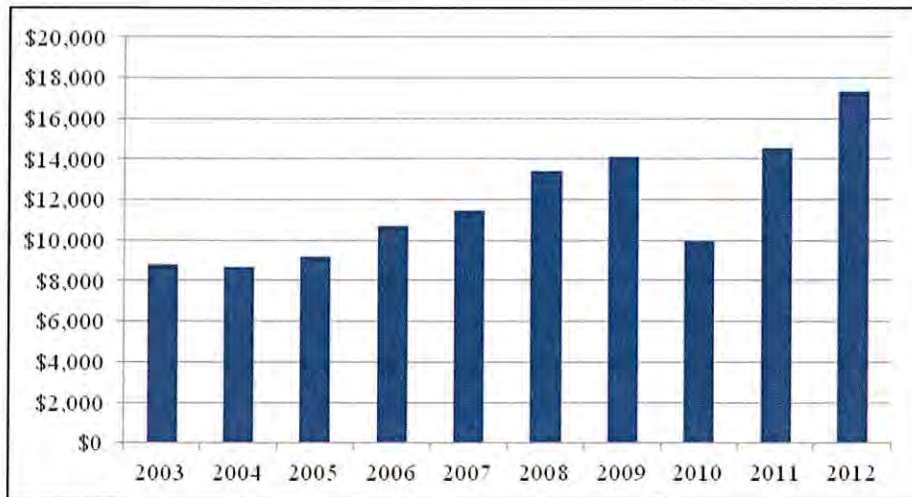
With Hewlett-Packard, a primary employer, leaving the City in 2012, Apple purchased their properties as part of 155 acres acquired for a major expansion between Interstate 280, Homestead Road, Wolfe Road and Tantau Avenue. Apple has submitted plans for a new circular-shaped research building at the site that will accommodate 13,000 people. As of third quarter 2012, 8.7 million square feet of office and research and development space existed in the City with the lowest vacancy rates in Silicon Valley at 1.4% for office and zero percent for research and development. The City's 2011 annual unemployment rate of 6.3% fell below the statewide rate of 11.7%.

City retail space encompasses 3.6 million square feet, with over 160 eating establishments. The 1.2 million square foot Vallco Shopping Mall features two levels of enclosed shopping, three anchor stores, a 16-screen AMC theatre, a bowling center, ice rink, international food court, and a new upscale health club. In spite of recent additions and remodel, the shopping center continues to underperform. Macy's, JCPenney, Target, Sears, and Whole Foods Market are leading City retailers.

The assessed value of properties in the City will grow 6.35% for fiscal 2012-13, up markedly from the 1.87% growth experienced for 2011-12. Cupertino ranked second in this percentage change in the county as Apple's property purchases led the county in adding value to the tax roll. On the other hand, the number of City properties receiving a temporary reduction in assessed value increased from 2,934 to 3,368, and the dollar cost of the reductions rose from \$509 million to \$536 million, as the county continues to adjust tax rolls to market value. The City's popular school districts and high median income levels allowed it to avoid the steep property value declines suffered in other regions during the housing recession and to experience strong growth during recoveries. Apple is the leading assessed value property owner in the City and is fourth, county-wide, for business personal property assessment.

Cupertino has a high 75% of its sales taxes coming from business-to-business commerce, compared to California and San Francisco Bay Area averages of 17% and 21% respectively. Three companies comprise a large part of that sector and one of those companies, Hewlett-Packard, is leaving the City. The City may receive significantly less from a second firm starting in 2013 because of a sales tax allocation issue with the state. The City is not as diversified into retail, food products, and transportation as the state and Bay Area. The City's fiscal strategic plan, part of the City's adopted budget, supports the economic development of the Vallco Shopping Mall and recommends that quality retail components be incorporated into future developments. The following chart shows City sales tax variations over the past ten years, reflecting two recessions, their subsequent recoveries, and the volatility of the business-to-business and company concentration.

Sales Tax Trend



With the economic recovery and easing of credit, commercial development activity picked up in 2012 led by plan reviews of the new Apple campus along with tenant improvement work in various office buildings. Cupertino Crossroads retail center improvement projects and the new 123-room Aloft Hotel are under construction. Two major mixed-use projects postponed during the recession, Main Street Cupertino and the Rose Bowl, have received approval of revised plans and resumed construction, respectively. The Biltmore residential and commercial expansion was recently approved. On the other hand, postponement continues for previously approved commercial projects such as the 10,582 sq. ft. retail building at Tantau Avenue and Stevens Creek Blvd and the Homestead Square shopping center reconstruction.

The City's pension and retiree medical unfunded actuarial accrued liabilities are discussed in the Notes to the Basic Financial Statements. The City must pay CalPERS, the state's government pension system, annually to reduce this long-term liability. Cupertino's pension actuarial valuation report of June 2010 reports a pension unfunded liability of \$18,582,000 with annual payments to CalPERS of 20.7% and 21.1% of payroll for 2011-12 and 2012-13, with ongoing increases after that because of CalPERS' earlier investment losses, demographic changes, and assumed rate of return decrease. To address long-term rising costs, Cupertino and state law has reduced pension benefits and employer contributions for new hires. As of the January 2011 health cost actuarial valuation report, the City has a retiree medical unfunded liability of \$13,431,000 that the City's 2012-13 budget plans to significantly pay down. The City has been setting aside monies annually for health costs since 2004, accumulating \$10.8 million in a retiree health plan trust as of June 30, 2012.

Regarding other fiscal strategies, because the City contracts out police services to the County Sheriff and because fire protection is handled by a special district, the City avoids the high pension, capital, and operating costs of a City-operated public safety function. The City caps its contributions to employee health insurance premiums and works with its bargaining units to come up with labor agreements that benefit both the City and employees. A build-up of operating reserves from strong revenue years, such as 2011-12, along with a traditional under-spending of budgets, enables the City to withstand the weak revenue years that periodically occur, such as in 2009-10.

ECONOMIC INITIATIVES

The recessions and the departure of a major company, Hewlett-Packard, demonstrates the need for diversification of the City's revenue base and a long-term balance of revenues and expenditures as described in the City's Fiscal Strategic Plan. The City needs to find other revenues to mitigate the fluctuating nature of sales taxes, hotel taxes, user fees, and state grabs of local taxes in times of budget distress. It needs to reduce the concentration of sales taxes among its top companies and top economic sector, the volatile business-to-business area. Legislation raising the City's property tax share, the opening of a regional sales office of a major technology provider, the update of the utility user tax, and increase in the transient occupancy tax are successes of the strategic plan. The City will consider raising the storm drain/clean creeks parcel tax to eliminate the General Fund subsidy. On the other hand, other tax or fee initiatives in the plan have incurred local opposition and two legislative efforts to further increase the property tax share have failed. The City's Community Development department strives to generate revenues by recruiting and retaining retail, by finding office tenants, facilitating development, branding and outreaching to new business, revising policies, coordinating with regional organizations, and promoting economic vitality.

The City has taken advantage of stimulus opportunities from grant programs for streets, parks, energy efficiency, housing improvements, and emergency preparedness. The City has installed streetlight and irrigation systems that save utility costs and energy. As part of its service delivery automation and streamlining initiative, Cupertino has digitized documents and restructured the agenda for City Council meetings. Plans to enhance building and planning permit usage on the Internet will bring City Hall closer to the customer at reduced cost. The fiscal strategic plan promotes the streamlining and repositioning of the workforce as opportunities arise and to pursue alternate energy sources for the City's infrastructure, vehicle replacement and operational needs.

State budget deficits continue to pressure cities' resources throughout the state. Besides eliminating all redevelopment agencies and the property taxes that came to the cities with it, the state halted the cities' share of vehicle license fees.

ACCOUNTING AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. The City's controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against losses from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the costs of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

The City's budget is a detailed operating plan that identifies estimated costs and results in relation to estimated revenues. The budget includes 1) the programs, projects, services and activities to be provided during the fiscal year; 2) estimated revenue available to finance the operating plan; and 3) the estimated

spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled.

INDEPENDENT AUDIT

City ordinance requires an annual audit of the financial records by an independent certified public accounting firm selected by the City Council and its audit committee. Maze and Associates audited the City's Basic Financial Statements, and their opinion thereon is included in the Financial Section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cupertino for its CAFR for the year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,



David Woo
Finance Director

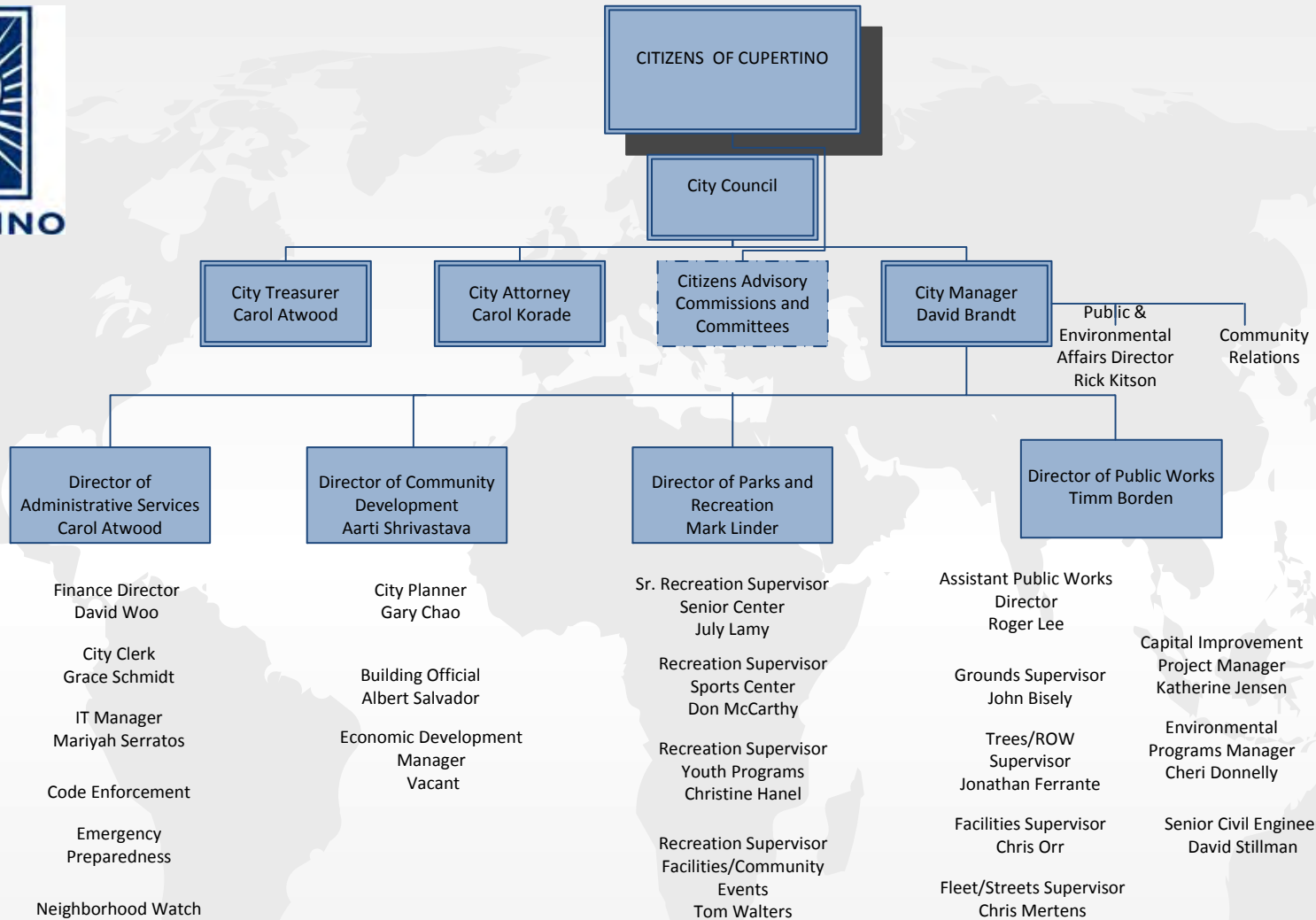
ACKNOWLEDGMENTS

I would like to express my appreciation to the City employees, City Manager, and the members of the City Council for their interest in conducting the financial operations of the City in a responsible manner. Special thanks go to Tina Mao, Yulia Rumalean, and Richard Wong of the Finance staff for their continued support and dedication. Special recognition goes to Jennifer Chang, Liz Nunez, and David Woo for their efforts in the preparation and production of this report.

Reviewed by,



Carol A. Atwood
Director of Administrative Services



CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2011-12

CITY COUNCIL



Mark Santoro
Mayor



Orrin Mahoney
Vice Mayor



Barry Chang
Councilmember



Rod Sinks
Councilmember



Gilbert Wong
Councilmember

DIRECTORY OF CITY OFFICIALS

David Brandt - City Manager

Carol Korade - City Attorney

Carol Atwood – Director of Administrative Services

Timm Borden – Director of Public Works

Mark Linder – Director of Parks and Recreation

Aarti Shrivastava - Director of Community Development

CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2011/12

COMMISSIONS AND COMMITTEES

AUDIT COMMITTEE

Angela Chen
Barry Chang
Rod Sinks
Eno Schmidt
Raymond Yin

HOUSING COMMISSION

Harvey Barnett
Jimmy Chien
Krista Wilson
Nicole Maroko
Rajeev Raman

FINE ARTS COMMISSION

KC Chandratreya
Jessi Kaur
Russell Leong
Rajeswari Mahaliagan
Marvin Spielman

PUBLIC SAFETY COMMISSION

Nina Daruwalla
Andy Huang
Lily Lim
Robert McCoy
Daniel Nguyen

TEEN COMMISSION

| | |
|---------------|----------------|
| Jacqueline Do | Sanika Puranik |
| Ashley Ding | Hadar Sachs |
| Anand Hemmady | Emily Szeto |
| Dana Lujack | Madeline Yip |
| Greg Pommier | |

TECHNOLOGY, INFORMATION & COMMUNICATIONS COMMISSION

Peter Friedland
Wallace Imura
Shishir Chavan
Rod Livingood
Beverly Siegel

PARKS & RECREATION COMMISSION

David Fung
David Greenstein
David Lee
Darcy Paul
Marcia St. Clair

LIBRARY COMMISSION

Rose Grymes
Adrian Kolb
Janet Riddell
Ann Stevenson
Susanna Tsai

PLANNING COMMISSION

Paul Brophy
Clinton Brownley
Winnie Lee
Marty Miller
Don Sun

BICYCLE PEDESTRIAN COMMISSION

William Chan
Mark Fantozzi
Ashish Kolli
Jill Mitsch
Alan Takahashi

ECONOMIC DEVELOPMENT

| | |
|---------------|-------------------|
| Carol Atwood | Erin Cooke |
| Orrin Mahoney | Aarti Shrivastava |
| Timm Borden | Rod Sinks |
| Mike Foulkes | John Zirelli |
| Mike Rohde | Kevin McClelland |
| Darcy Paul | Maria Streeby |
| Winnie Lee | |

FISCAL STRATEGIC COMMITTEE

| | |
|--------------|-------------------|
| Gilbert Wong | Mark Linder |
| Mark Santoro | Aarti Shrivastava |
| Carol Atwood | David Woo |
| Timm Borden | |

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cupertino
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

President

Jeffrey R. Emen

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
City Council of the City of Cupertino, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cupertino, California (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic 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 of Cupertino, California as of June 30, 2012 and the respective changes in the financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Redevelopment Agency of the City of Cupertino has been dissolved and its assets turned over to and liabilities assumed by Successor Agencies effective January 31, 2012. Certain transactions undertaken by the Redevelopment Agency of the City of Cupertino prior to the date of dissolution may be subject to review by the State as discussed in Note 14, but the effect of that review can not be determined as of June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 this information in accordance with generally accepted auditing standards 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is 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.

Maze & Associates

September 20, 2012

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

This describes the City of Cupertino's financial performance for the year. Please read it in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

2011-12 FINANCIAL HIGHLIGHTS

- Governmental activity revenues climbed 3% over last year while expenses increased 1%.
- Revenues from business-type activities were flat while expenses went up 3% from the prior year.
- Governmental net assets increased 1% to \$163,130,000 while business-type net assets rose 3% to \$10,882,000.
- General Fund revenues increased 10% from the prior year while General Fund expenditures rose 4%.
- General Fund expenditures came in 10% under budget, with revenues 10% over budget.
- The General Fund balance grew 32% to end the year at \$26,098,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and position.

The City-Wide Financial Statements provide a long-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. These statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole. The accrual basis of accounting is similar to the accounting used by most private sector companies. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities. The Statement of Activities provides information about all the City's revenues and all its expenses, with the 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 Assets for the year. Over time, increases or decreases in net assets can be indicators of whether the financial condition of the City is improving or deteriorating.

All of the City's activities are grouped into Governmental activities and Business-type activities, as explained below. The Statement of Net Assets and the Statement of Activities provide a summary of these two types of activities for the City as a whole.

- **Governmental activities**—Most of the City's basic services are considered to be governmental activities, including public works, law enforcement, community development, recreation, public & environmental affairs, and general administration. These services are supported by general City revenues such as property, sales and other taxes, and by specific program revenues such as developer fees and grants.

The City's governmental activities include the activities of a separate legal entity, the Cupertino Redevelopment Agency, because the City is considered to be financially accountable for the Agency. The Cupertino Public Facilities Corporation, from which the City leases its major facilities through the payment of long-term debt, is also included as a component unit. As allowed in the State's redevelopment agency dissolution acts, the City's Redevelopment Agency Special Revenue Fund elected to transfer its housing assets and liabilities into the City's Low and Moderate Income Housing Assets Special Revenue Fund as of February 1, 2012. See Note 14 to the Basic Financial Statements.

- **Business-type activities**—All the City's enterprises are reported here, including solid waste management and some of the City's recreational operations. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other major funds. The Fund Financial Statements measure only current revenues, expenditures, assets, and liabilities; they exclude long-term assets and liabilities. Because these statements focus on the near-term inflows and outflows of spendable resources, such information may be useful in evaluating near-term financing requirements.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called *major funds*. Cupertino's Fund Financial Statements include governmental, enterprise and internal service funds as discussed below. Each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules, which follow the Notes to Basic Financial Statements, present the detail of these non-major funds. Major funds present the significant activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities and public interest. For example, the Capital Improvement Projects Fund may or may not appear as a major fund depending on the volume of construction activity in a certain year.

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. They present essentially the same functions reported as governmental activities in the government-wide financial statements. However, capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund financial statements. Reconciliations are provided to facilitate a comparison between governmental funds and governmental activities statements to allow a better understanding of the long-term impact of the government's near-term financial decisions.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis and include all their assets and liabilities, current and long-term. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, and in more detail in the fund financial statements.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal Service Funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the Internal Service Funds. For this City, internal service activities predominantly benefit governmental rather than business-type functions, and are therefore included within governmental activities in the government-wide financial statements.

Comparisons of budget and actual financial information are included in the Basic Financial Statements for the General Fund and other major Special Revenue Funds. Since none of the City's Special Revenue Funds are considered major funds, budgetary comparison schedules for these funds are included in this document as supplemental information only.

Fiduciary Fund statements provide financial information about the activities of the Successor Agency to the Redevelopment Agency and of a special assessment district. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

As stipulated in the State's redevelopment agency dissolution acts, the City's Redevelopment Agency Special Revenue Fund transferred its non-housing assets and liabilities into a Successor Agency Private-Purpose Trust Fund as of February 1, 2012. See Note 14 to the Basic Financial Statements.

The City additionally acts strictly as an agent for a special assessment district holding amounts collected from property owners prior to transferring the money to the districts' bond trustees.

CITY OF CUPERTINO
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The Notes to Basic Financial Statements provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

CITY-WIDE FINANCIAL ACTIVITIES

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Tables 1 and 2) and Business-Type Activities (Tables 3 and 4) presented in the City-wide Statement of Net Assets and Statement of Activities that follow. The Change in Net Asset Tables 2 and 4 show activity from a revenue and expense perspective.

Governmental Activities

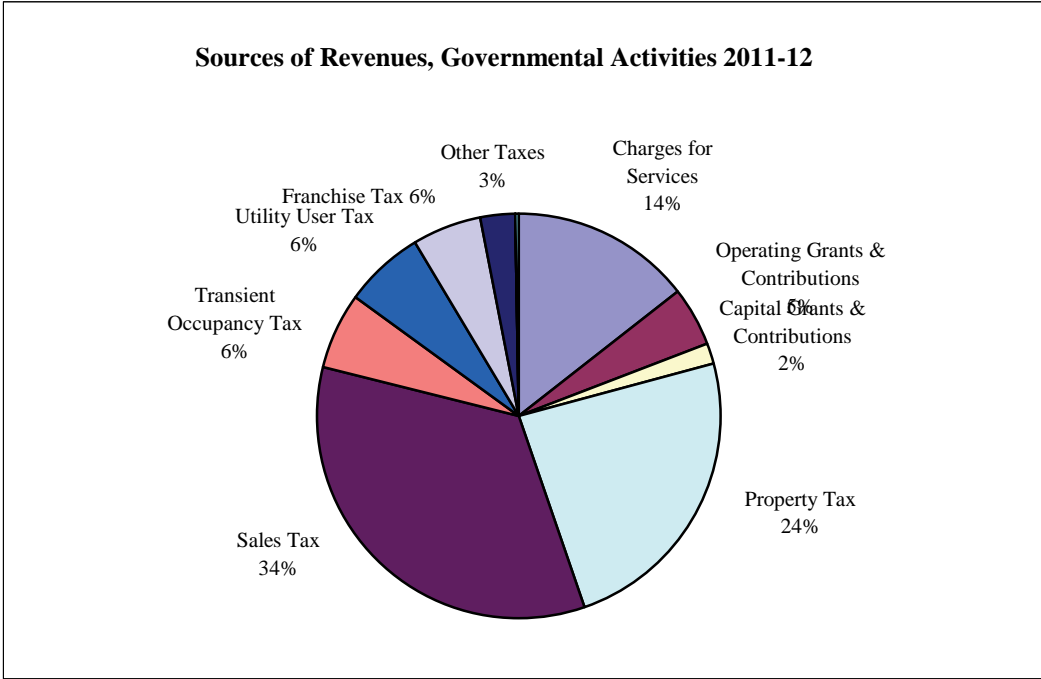
Table 1
Condensed Statement of Net Assets at June 30
(in thousands)

| | Governmental Activities | |
|---|--------------------------------|-------------------|
| | 2012 | 2011 |
| Assets: | | |
| Cash and investments | \$ 45,832 | \$ 43,353 |
| Other assets | 10,474 | 11,685 |
| Capital assets | 161,380 | 164,734 |
| Total assets | 217,686 | 219,772 |
| Liabilities: | | |
| Long term debt | 43,940 | 44,010 |
| Other liabilities | 10,615 | 14,130 |
| Total liabilities | 54,555 | 58,140 |
| Net assets: | | |
| Invested in capital assets, net of debt | 117,440 | 120,724 |
| Restricted | 7,573 | 7,779 |
| Unrestricted | 38,117 | 33,129 |
| Total net assets | \$ 163,130 | \$ 161,632 |

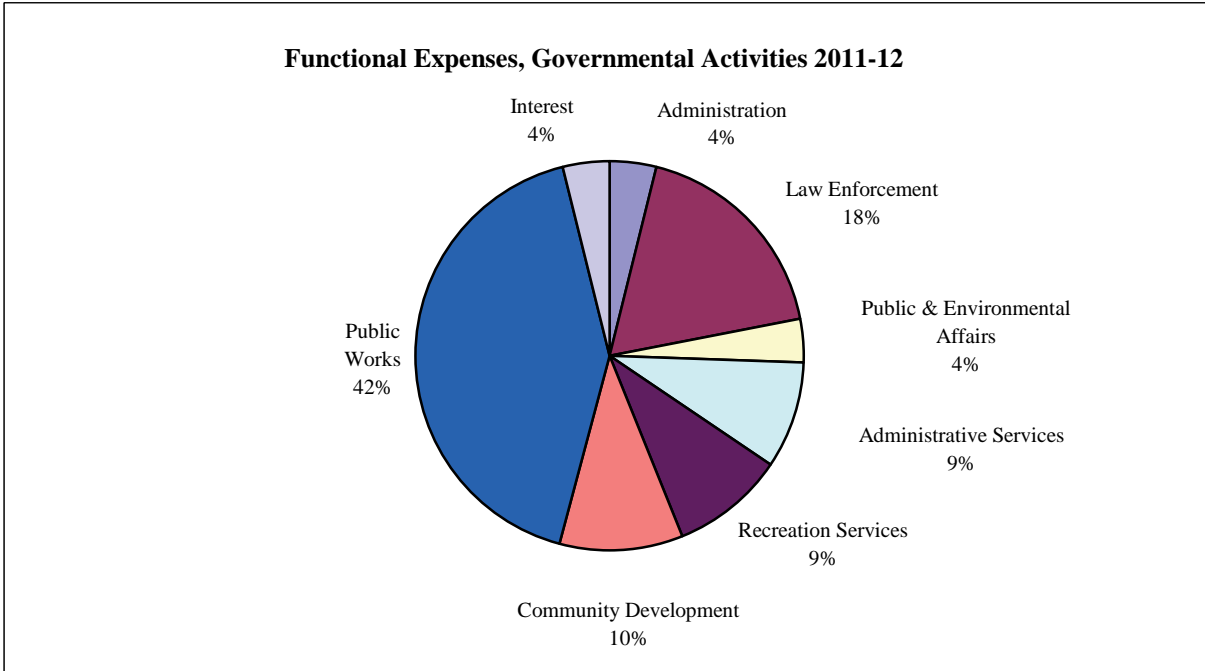
The City's net assets from governmental activities rose 1% from the prior year. The following significant changes within asset, liability, and net asset categories occurred:

- Increased sales tax receipts were the primary cause of the cash and investments increase.
- Normal depreciation lowered capital assets. Other liabilities declined because a May 2012 debt refunding eliminated, for this year only, the debt service payment usually due every July 1. Sales tax consulting agreement liabilities also fell.
- Approximately 45% of the unrestricted net assets increase came from revenues, non-capital expenses, transfers and extraordinary items, 50% came from capital asset and long-term debt decreases, and 5% from a decrease in assets restricted for debt, transportation, housing, storm drain, environmental, park, and public communication purposes.

CITY OF CUPERTINO
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As the Sources of Revenue chart above shows, property and sales taxes make up more than half of governmental revenue. The Functional Expenses chart below includes only current year expenses with Public Works action on streets, facilities, parks and storm drains comprising the largest activity. The chart does not include capital outlays or principal payments on debt. Capital outlays are instead shown as additions to capital assets and principal payments are reported as long-term liability reductions.



The Statement of Activities presents program revenues, expenses, and general revenues. These are all elements of the Changes in Governmental Net Assets summarized in the next table.

CITY OF CUPERTINO
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For the Year Ended June 30, 2012

Table 2
Condensed Changes in Net Assets for the Year Ended June 30
(in thousands)

| | <u>Governmental Activities</u> | |
|---|--------------------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| Expenses | | |
| Administration | \$1,837 | \$1,860 |
| Law enforcement | 8,777 | 8,435 |
| Public and environmental affairs | 1,743 | 1,626 |
| Administrative services | 4,309 | 3,994 |
| Recreation services | 4,577 | 4,529 |
| Community development | 4,922 | 5,962 |
| Public works | 20,388 | 19,667 |
| Interest on long-term debt | <u>1,838</u> | <u>2,032</u> |
| Total expenses | <u>48,391</u> | <u>48,105</u> |
| Revenues | | |
| Program revenues: | | |
| Charges for services | 7,292 | 6,533 |
| Operating grants and contributions | 2,509 | 2,351 |
| Capital grants and contributions | <u>781</u> | <u>1,973</u> |
| Total program revenues | <u>10,582</u> | <u>10,857</u> |
| General revenues: | | |
| Taxes: | | |
| Property tax | 7,479 | 7,297 |
| Property tax in-lieu of motor vehicle fee | 4,487 | 4,405 |
| Incremental property tax | 203 | 1,252 |
| Sales tax | 17,326 | 14,539 |
| Transient occupancy tax | 3,113 | 2,537 |
| Utility user tax | 3,265 | 3,228 |
| Franchise tax | 2,808 | 2,841 |
| Other taxes | 1,377 | 1,491 |
| Intergovernmental, unrestricted: | | |
| Motor vehicle license fee | 29 | 259 |
| Investment earnings | 61 | 259 |
| Gain on sale of capital assets | ---- | 497 |
| Miscellaneous | <u>83</u> | <u>90</u> |
| Total general revenues | <u>40,231</u> | <u>38,695</u> |
| Total revenues | <u>50,813</u> | <u>49,552</u> |
| Excess of revenues over expenses, | | |
| before extraordinary item and transfers | <u>2,422</u> | <u>1,447</u> |
| Extraordinary item – Assets transferred to Successor Agency | (1,131) | ---- |
| Transfers | 207 | ---- |
| Change in net assets | <u>1,498</u> | <u>1,447</u> |
| Beginning net assets | 161,632 | 160,185 |
| Ending net assets | 163,130 | 161,632 |

CITY OF CUPERTINO
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City-wide Governmental Revenues

Table 2 shows that total governmental revenues climbed \$1,261,000 or 3% over last year, finishing at \$50,813,000.

Sales taxes rose significantly due to reason stated in the General Fund portion of this Analysis.

Incremental property taxes received before the Redevelopment Agency's dissolution on January 31, 2012, fell \$1,049,000 or 84% from last year. After the Agency's dissolution, \$1,131,000 in remaining non-housing assets was transferred to the City's Successor Agency trust fund that is reported separately within this CAFR.

General property taxes and property taxes in-lieu of motor vehicle fees rose 2% over last year as further described in the General Fund portion of this Analysis.

The prior year \$497,000 one-time gain on the sale of capital assets resulted from the June 2011 sale of the City's equity share in the former City Manager's residence.

Program revenues declined \$275,000 or 3% from last year, with less received in public works capital project grants, but more earned in charges for services because of building and development application growth including Apple's new corporate headquarters and several tenant improvements. Capital project grants revenues fluctuate every year because of different grants awarded annually.

To finance the Stevens Creek Corridor Park capital project, the City's recreational enterprise transferred \$207,000 to the City's public works governmental unit this year.

The state stopped allocating motor vehicle license fees to cities in 2011-12. Continued low interest rates and increased portfolio liquidity caused the investment earning decrease.

City-wide Governmental Expenses

City-wide governmental expenses in Table 2 rose \$286,000 or 1% above 2010-11. Law Enforcement, Public & Environmental Affairs, Administrative Services, and Public Works rose while Community Development and debt interest declined. Administration and Recreation Services were relatively stable.

Law Enforcement was higher because of internal service charges. Public & Environmental Affairs rose due to smoking cessation and green program grant spending and due to communication equipment replacement. Administrative Services climbed because of the biannual election. More Public Works outlays went into infrastructure repair, maintenance, and depreciation. Community Development fell because the Redevelopment Agency paid \$1 million to the Santa Clara County Housing Trust in 2010-11. Annual debt service interest dropped because of the Public Facilities Corporation's May 2012 refunding of its certificates of participation.

Change in Net Assets

The City-wide \$1,498,000 governmental net asset increase was 4% improved over the increase of a year ago. Excluding an extraordinary item and transfer, the increase was 67% over the increase of a year ago.

Business Type Activities

Business-type activities in the City-wide Financial Statements include the City's four enterprise funds. Enterprise funds are used to account for recreational and solid waste management operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services and facilities to the general public on a continuing basis can be financed or recovered primarily through user fees. The major proprietary funds section of this report provides more information on business-type results.

CITY OF CUPERTINO
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As shown in Table 3, business-type net assets totaled \$10,882,000 at June 30, 2012, an increase of \$325,000 from the prior year with unrestricted net assets and capital assets rising \$278,000 and \$47,000 respectively.

As described in Table 4, overall revenues of \$6,442,000 this year were similar to last year. Expenses for all business-type activities rose 3% over last year to \$5,910,000. The \$325,000 net asset increase fell below the \$705,000 increase of 2010-11, caused by a current year \$207,000 transfer to governmental activities for the Stevens Creek Corridor Park project along with lower operating incomes from the Recreation and Blackberry Farm enterprises.

Table 3
Condensed Statement of Net Assets at June 30
(in thousands)

| | Business Type Activities | |
|----------------------------|---------------------------------|------------------|
| | 2012 | 2011 |
| Assets: | | |
| Cash and investments | \$ 10,905 | \$ 10,394 |
| Other assets | 258 | 389 |
| Capital assets | 825 | 778 |
| Total assets | 11,988 | 11,561 |
| Other liabilities | 1,106 | 1,004 |
| Total liabilities | 1,106 | 1,004 |
| Net assets: | | |
| Invested in capital assets | 825 | 778 |
| Unrestricted | 10,057 | 9,779 |
| Total net assets | \$ 10,882 | \$ 10,557 |

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

Table 4
Condensed Changes in Net Assets For The Year Ended June 30
(in thousands)

| | Business Type Activities | |
|------------------------------------|---------------------------------|------------------|
| | 2012 | 2011 |
| Expenses | | |
| Resources recovery | \$ 1,566 | \$ 1,801 |
| Blackberry farm | 461 | 457 |
| Sports center | 1,897 | 1,717 |
| Recreation programs | 1,986 | 1,753 |
| Total expenses | 5,910 | 5,728 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | 6,430 | 6,362 |
| Operating contributions and grants | - | - |
| Total program revenues | 6,430 | 6,362 |
| General revenues: | | |
| Investment income | 12 | 71 |
| Total revenues | 6,442 | 6,433 |
| Transfers | (207) | - |
| Change in net assets | 325 | 705 |
| Beginning net assets | 10,557 | 9,852 |
| Ending assets | \$ 10,882 | \$ 10,557 |

MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund Revenues

General Fund revenues of \$47,533,000 ended up \$4,316,000 or 10% above the final budget and \$4,675,000 above the original budget for the year ended June 30, 2012. This was \$4,338,000 or 10% above last year. Sales taxes, transient occupancy taxes, and charges for services showed the strongest gains from a year ago while intergovernmental and use of money and property suffered the largest declines. Similarly, sales taxes, transient occupancy taxes, and charges for services accounted for much of the revenue exceeding budget. Table 5 displays year-to-year variations, while Table 6 shows budget versus actual differences.

Property taxes ended the year at \$11,916,000, up 2% or \$266,000 from last year and consistent with the final and original budgets. The increase reflects a 0.753% consumer price index increase for existing property owners, assessed value increases on certain properties under Proposition 8, and beginning signs of recovery in the South Bay real estate market.

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Sales taxes jumped \$2,787,000 or 19% above last year to finish at \$17,326,000. It exceeded the final budget by \$2,631,000 or 18%, with the final budget \$412,000 or 3% above the original. Quarterly tax collections exceeded the prior year in three of the four quarters, with growth in the business-to-business sector, led by Apple, Inc., driving the increase. Business-to-business, historically a volatile sector, comprised 75% of sales taxes, far exceeding San Francisco Bay Area and State averages. The City's sales tax per capita of \$333 tops other County cities. Future revenues will be impacted when Hewlett-Packard, a major sales tax provider, leaves the City in fiscal 2012-13. The California State Board of Equalization notified the City on October 10, 2012 that the Board proposes a \$10,550,721 reallocation of the City's past sales taxes to the county-wide pool. Under the Board's procedures, the City will petition and appeal the reallocation. Up to half of the potential loss may be recovered by a refund of what the City paid under a sales tax consulting agreement and by what the City would receive back through the county-wide pool.

The City's four hotels paid \$3,113,000 in transient occupancy taxes this year; \$576,000 or 23% over last year's performance. It was 20% or \$523,000 better than the final and original budget. Average revenue per available room for all four hotels rose from \$101 to \$111 reflecting the pickup in business travel to companies located in the City. Additionally, the voter-approved increase in the City's transient occupancy tax rate from 10% to 12% of the room charge became effective January 1, 2012.

The City's 2.4% utility user tax on telecommunication, gas, and electric services provided \$3,265,000 in revenues that were relatively flat compared to last year. However, it was \$275,000 or 8% under the original and final budget as growth in taxable telecom services did not occur as expected.

Franchise taxes, other taxes, licenses and permit fees were relatively unchanged from last year. Other taxes surpassed the original and final budget by 12% led by unexpected construction tax growth. Licenses and permits exceeded original and final budget by 11% as commercial development and tenant improvements continued from last year. Franchise taxes originate from electric, gas, water, solid waste, and cable utilities. Other taxes include business license, construction, and property transfer taxes. The County assesses the transfer tax, at \$1.10 per \$1,000 in sales price, upon recording the ownership change, and gives the City one-half of the tax.

Zoning, planning, and engineering review fees comprise three-quarters of the charges for services category, with non-enterprise recreational programs encompassing the rest. The category improved from \$1,945,000 last year to \$2,880,000 this year, a 48% rise. It finished \$1,229,000 or 74% over the final budget. Entitlement fees for Apple's new corporate headquarters and other commercial developments continued to be collected, the Senior Center's recreational trip revenues grew, and Blackberry Farm pool, concession, and picnic fees climbed. The Senior Center and Blackberry Farm revenue budget increased \$99,000 during the year.

Intergovernmental revenues of \$413,000 fell 40% or \$276,000 from last year, and fell short of the final budget by 11% or \$42,000. To balance their budget, the State halted the distribution of vehicle license fees to cities in 2011-12 and reduced State mandated cost reimbursements. The City decreased the budget by \$184,000 during the year to reflect the net loss of vehicle license fees offset by new grants awarded.

General Fund cash is part of the City's pooled investment portfolio. Investment returns of the pool are allocated to the Fund based on the Fund's monthly cash balance. These returns plus the renting of City facilities comprise use of money and property revenues that declined 11% from 2010-11, to finish at \$648,000, a result that was \$321,000 or 33% under budget expectations. The continued low interest rate environment and the portfolio's concentration in safe, short-term Treasuries because of market turmoil and credit risk, has kept investment returns at a steady, but relatively low amount for the last three years. Since interest rates did not increase as anticipated and the City has not diversified into higher-yielding, less secure investments, the interest income fell below budget. Additionally the City increased the liquidity of the portfolio in spring 2012 in anticipation of a large transfer of cash to the retiree health trust in 2012-13. Rent income rose 8% over last year from increased recreational and public facility usage. A further explanation of the investment picture for the year is in Note 2 of the Basic Financial Statements.

CITY OF CUPERTINO
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Fines and forfeitures fell 5% or \$34,000 off of prior year and \$12,000 or 2% below budget, to complete the year at \$662,000. Revenues have been decreasing for several years as courts assess lower fines.

Other revenues of \$264,000 nearly tripled over last year because of energy saving reimbursements and rebates.

A one-time \$1,055,000 sale of the City's equity share in the City Manager's residence occurred last year. Transfers into the General Fund dropped 90% from \$337,000 last year to \$35,000 this year. The Capital Project Improvement Fund returned less capital project savings to the General Fund.

Table 5
Revenue Changes
General Fund, Fiscal 2012 vs. 2011
(in thousands)

| Revenue by Source | Fiscal 2012 | | Increase/(Decrease) From Fiscal 2011 | |
|--------------------------------------|--------------------|-------------------|---|----------------|
| | Amount | % of Total | Amount | Percent |
| Taxes: | | | | |
| Property | \$ 11,916 | 25% | \$ 266 | 2% |
| Sales | 17,326 | 36% | 2,787 | 19% |
| Transient occupancy | 3,113 | 7% | 576 | 23% |
| Utility user | 3,265 | 7% | 37 | 1% |
| Franchise | 2,808 | 6% | (33) | -1% |
| Other | 1,337 | 3% | (44) | -3% |
| Use of money & property | 648 | 1% | (80) | -11% |
| Intergovernmental | 413 | 1% | (276) | -40% |
| Licenses and permits | 2,901 | 6% | (1) | 0% |
| Charges for services | 2,880 | 6% | 935 | 48% |
| Fines and forfeitures | 662 | 1% | (34) | -5% |
| Other | 264 | 1% | 205 | 347% |
| Total revenues | \$ 47,533 | 100% | \$ 4,338 | 10% |
| Other financing sources: | | | | |
| Sale of capital assets | - | 0% | (1,055) | -100% |
| Transfers in | 35 | 100% | (302) | -90% |
| Total other financing sources | \$ 35 | 100% | \$ (1,357) | -97% |

CITY OF CUPERTINO
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Table 6
Revenue Budget and Actual Comparisons
General Fund, 2011-12
(in thousands)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over/(Under)</u> |
|-------------------------|-------------------------|------------------|------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final</u> |
| Taxes: | | | | |
| Property | \$ 11,951 | \$ 11,951 | \$ 11,916 | \$ (35) |
| Sales | 14,283 | 14,695 | 17,326 | 2,631 |
| Transient occupancy | 2,590 | 2,590 | 3,113 | 523 |
| Utility user | 3,540 | 3,540 | 3,265 | (275) |
| Franchise | 2,860 | 2,860 | 2,808 | (52) |
| Other | 1,190 | 1,190 | 1,337 | 147 |
| Use of money & property | 969 | 969 | 648 | (321) |
| Intergovernmental | 555 | 371 | 413 | 42 |
| Licenses and permits | 2,618 | 2,618 | 2,901 | 283 |
| Charges for services | 1,552 | 1,651 | 2,880 | 1,229 |
| Fines and forfeitures | 650 | 650 | 662 | 12 |
| Other | 100 | 132 | 264 | 132 |
| Total revenues | <u>\$ 42,858</u> | <u>\$ 43,217</u> | <u>\$ 47,533</u> | <u>\$ 4,316</u> |
| Transfers in | <u>\$ 35</u> | <u>\$ 35</u> | <u>\$ 35</u> | <u>\$ -</u> |

General Fund Expenditures

Fiscal 2011-12 overall expenditures, at \$34,846,000, were \$1,184,000 or 4% higher than last year. However, this result came in 10% or \$3,883,000 under the final budget and \$2,662,000 below the original budget. Year-to-year and budget versus actual results by General Fund department are described below and in Tables 7 and 8.

Administration expenditures of \$1,533,000 were flat compared to last year while finishing \$222,000 or 13% under final budget. Budget savings came from the City Manager position vacancy and contingency budget, AlertSCC sign-up program and City Attorney salaries and supplies.

Law Enforcement sheriff contract costs of \$8,446,000 were under the final budget by \$574,000 or 6%. The budget contains dollars for anticipated service levels and unexpected events or incidences. By the end of the year, the actual rate of general law enforcement, service requests, emergency calls, patrol, and investigations resulted in budget savings for the City. Having the Sheriff contract helps the City contain public safety costs as reflected in the steadiness of the expense with the previous year. Funds for school traffic safety were carried over from the previous year and added to the original budget.

Public and Environmental Affairs expenditures of \$1,660,000 rose \$163,000 or 11% over prior year, but came in \$66,000 and 4% under budget. Smoking cessation and green program grant spending and equipment replacement set-asides for the City television channel and website were higher. The budget increased \$67,000 during the year mostly because of the new grants.

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Administrative Services outlays were \$409,000 or 11% above a year ago and finished 14% or \$700,000 under final budget. The biannual City Council election and one-time transient occupancy tax ballot measure occurred this year and the City paid more to the County for additional library operating hours. Most of the budget savings were realized in finance, city clerk, human resources and insurance. The budget was increased \$261,000 during the year for debt refunding, election, personnel litigation, and volunteer management purposes.

Non-enterprise Recreation expenditures ended up \$104,000 or 2% below final budget, but exceeded last year's spending by \$203,000 or 5%. Senior Center recreational trip and class expenses went up in line with increased revenues. One-time smoking cessation grant expenditures occurred in this department also. The budget rose \$180,000 during the year because of the new grant, higher Senior Center outlays, and budget carryovers for the renovated bocce ball court and redesigned department catalog.

Community Development costs of \$3,434,000 were \$869,000 or 20% below the final budget due to personnel savings in the planning, economic development and building code enforcement divisions and contract service savings in mid and long-term planning. Costs grew 6% or \$196,000 from last year in order to process more planning and building applications. Prior year budget carryovers for municipal code updates, permit process improvements, microfilming, Apple campus, and area plan reviews made the final budget \$168,000 higher than the original.

Public Works maintenance, repair, and engineering expenditures of \$11,337,000 rose a modest 2% or \$185,000 over the prior year. It was \$1,360,000 or 11% under final budget due to staff vacancies, lower-than-expected maintenance and repair costs and lower traffic engineering & street lighting costs. Outstanding purchase and job orders and a school traffic safety budget carried over from last year comprised the \$490,000 increase from original to final budget.

Transfers out of the General Fund dropped from \$7,049,000 in 2010-11 to \$6,431,000 in 2011-12, with \$3,534,000 for annual debt service, \$1,000,000 for retiree health obligations, \$750,000 for road maintenance, \$634,000 for capital project reserves, \$200,000 for accrued leave payouts, \$215,000 for new information technology and equipment, and a \$68,000 subsidy for storm drain management. The decrease from 2010-11 resulted primarily from lower information technology and retiree health funding.

Table 7
Expenditure Changes from Prior Year
General Fund, Fiscal 2012 vs. 2011
(in thousands)

| Service Area | Fiscal 2012 | | Increase/(Decrease) From Fiscal 2011 | |
|----------------------------------|-------------|------------|---|---------|
| | Amount | % of Total | Amount | Percent |
| Administration | \$ 1,533 | 4% | \$ 5 | 0% |
| Law enforcement | 8,446 | 24% | 11 | 0% |
| Public and environmental affairs | 1,660 | 5% | 163 | 11% |
| Administrative services | 4,104 | 12% | 409 | 11% |
| Recreation services | 4,320 | 12% | 203 | 5% |
| Community development | 3,434 | 10% | 196 | 6% |
| Public works | 11,337 | 33% | 185 | 2% |
| Capital outlay | 12 | 0% | 12 | 100% |
| Total expenditures | \$ 34,846 | 100% | \$ 1,184 | 4% |
| Transfers out | \$ 6,431 | 100% | \$ (618) | -9% |

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
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Table 8
Expenditure Budget and Actual Comparison
General Fund, 2011-12
(in thousands)

| Service Area | Budgeted Amounts | | Actual | Under |
|----------------------------------|------------------|-----------|-----------|----------|
| | Original | Final | | (Over) |
| | | | | Final |
| Administration | \$ 1,740 | \$ 1,755 | \$ 1,533 | \$ 222 |
| Law enforcement | 8,980 | 9,020 | 8,446 | 574 |
| Public and environmental affairs | 1,659 | 1,726 | 1,660 | 66 |
| Administrative services | 4,543 | 4,804 | 4,104 | 700 |
| Recreation services | 4,244 | 4,424 | 4,320 | 104 |
| Community development | 4,135 | 4,303 | 3,434 | 869 |
| Public works | 12,207 | 12,697 | 11,337 | 1,360 |
| Capital outlay | - | - | 12 | (12) |
| Total expenditures | \$ 37,508 | \$ 38,729 | \$ 34,846 | \$ 3,883 |
| Transfers out | \$ 6,431 | \$ 6,431 | \$ 6,431 | \$ - |

General Fund Balance

The General Fund carried a June 30, 2012 ending fund balance of \$26,098,000, up 32% or \$6,291,000 from the prior year. The City assigns \$12,500,000 of this for general economic uncertainty, \$1,400,000 for state budget actions that impact City revenues, \$2,000,000 for economic fluctuations, \$500,000 for potential PERS liabilities, and \$1,329,000 in one-time revenues for future projects. \$1,004,000 represents non-spendable rehabilitation and employee housing loan receivables and prepaid expenses. \$696,000 is restricted for public access programming. Finally, \$6,669,000 is unassigned as of June 30, 2012, but intended for purchase orders and future budget actions.

The fund balance rise resulted from revenues exceeding expenditures by \$12,686,000 offset by a net of transfers and sale proceeds of \$6,395,000. The unassigned fund balance benefitted the most from the increase, growing by \$2,984,000 after excluding encumbrances. The fund balance growth allowed the City to establish economic fluctuation, PERS liability, and one-time revenue reserve assignments totaling \$3,829,000. The remaining \$534,000 utility user tax reserve was transferred to capital projects. Loan receivables and prepaid expenses decreased by \$21,000. Public access programming funds increased \$33,000.

Public Facilities Corporation

On May 9, 2012, a \$43,940,000 par amount of 2012 Certificates of Participation (COPs) was issued to currently refund the 2002 COPs, to fund a reserve fund for the 2012 COPs, and pay costs in connection with issuance. This current refunding was undertaken to reduce debt service payments over the next eighteen years by \$6,518,000 or \$362,000 per year. On a present value basis, adjusted for issuance and reserve funds, the debt service savings total \$6,637,000 or 15% of the refunded principal. The new COPs fixed interest rates range from 0.35% to 3.125% through the July 1, 2030 maturity, with a true interest cost of 2.81% over that time. The COPs were issued with an \$884,000 premium. \$44,898,000 in new debt proceeds and Corporation funds were given to the bond trustee to accomplish the refunding.

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The Corporation paid \$995,000 in interest and trustee expenditures on the old 2002 COPs this year prior to the refunding. The 2012 refunding cost the Corporation \$615,000 in underwriter discounts and \$228,000 in issuance costs. Since the old COPs were refunded before their principal and interest payment due in June 2012, and since the first debt payment on the new COPs is not due until December 2013, essentially one semiannual debt service payment was eliminated and instead used toward refunding costs and the creation of a six-month debt payment reserve held in trust and reported as a restricted cash asset.

See Note 7 to the Basic Financial Statements and the Debt Administration section of this Analysis for more information.

MAJOR PROPRIETARY FUNDS

Resources Recovery

The City renewed its Recology solid waste franchise agreement for five years commencing in November 2010 with a minor revenue rate increase and a restructuring of how the City and franchisee share revenues and costs. Accordingly, in the first full year of the renewal, this solid waste enterprise fund experienced an 11% comparative yearly decrease in residential and commercial pickup revenues, offset by 15% lower contract expenses for collection, landfill disposal, and recycling. Operating income improved from \$129,000 last year to \$162,000 this year. With interest earnings, net assets increased by \$169,000, close to the growth of last year, to end the year with a \$6,175,000 unrestricted balance.

Blackberry Farm

City employees, with a teaching professional on contract, staff the City-owned Blackberry Farm golf course and pro shop. Golfing green fees declined from the previous year, as the older demographics of golf course users continued to negatively impact rounds played. Operating revenues of \$411,000 in 2011-12 represented an 8% or \$37,000 fall from the prior year. Expenses were flat at \$461,000 this year with minimal staffing levels maintained at the course and water costs kept steady until a capital project can get underway that will look at cost-saving irrigation alternatives. Four-hundred thousand dollars transferred from Recreation Programs last year will finance the project. With lower revenues, the golf course's operating loss increased from \$9,000 last year to \$50,000 this year. After interest income, net assets declined \$49,000, compared to last year's \$397,000 increase that included the \$400,000 transfer from Recreation. At June 30, 2012, unrestricted net assets were \$820,000.

Cupertino Sports Center

Tennis lesson, membership, fitness class and rent revenues of \$1,966,000 rose by \$243,000 or 14% over last year, resulting from more lesson revenues generated by the private tennis program operator. With contract instructor, facility support, and maintenance costs growing by \$181,000 or 11%, operating income in 2011-12 improved to \$68,000, compared to \$6,000 produced in 2010-11. After adding-in interest earnings, the increase in net assets of \$69,000 brought unrestricted net assets to \$441,000 by year-end.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

Recreation Programs

Cultural events, youth and teen programs, sports, dance and fitness classes generated \$2,326,000 in revenues that were a modest 3% better than last year, for this enterprise operating out of the Quinlan Community Center, Monta Vista Recreation Center, McClellan Ranch, Creekside Park building, eight school sites, and various parks. Ongoing program expenses, including full-time administrative and programming staff, part-time activity leaders, and class instructors on contract increased \$233,000 or 13% from 2010-11. Operating income declined to \$340,000 compared to \$507,000 a year ago. The fund transferred \$207,000 to Other Governmental Funds for the Stevens Creek Corridor Park project. After interest earnings and transfers, the fund ended up with an increase in net assets of \$137,000 and an unrestricted net asset balance of \$2,621,000 that is intended for future capital, equipment, insurance, and reserve needs.

CAPITAL ASSETS

At June 30, 2012 the City had \$162,205,000, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in Table 9 and in Note 6 to the Basic Financial Statements. While the City's capital asset total declined by 2%, equipment acquisitions and street lights provided major capital additions with depreciation of existing assets offsetting the additions.

Table 9
Capital Assets, Net of Depreciation, at June 30
(in thousands)

| | 2012 | 2011 |
|---|-------------|-------------|
| Governmental Activities: | | |
| Land | \$ 60,471 | \$ 60,471 |
| Easements | 19,492 | 19,105 |
| Buildings | 22,465 | 23,961 |
| Improvements other than buildings | 16,107 | 17,042 |
| Machinery and equipment | 1,616 | 1,195 |
| Roads, curbs, gutters, sidewalks, medians and bridges | 33,373 | 34,511 |
| Streetlights | 1,937 | 1,777 |
| Storm drain structures and mains | 4,591 | 5,304 |
| Traffic signals | 1,328 | 1,368 |
| Total Governmental Activities | 161,380 | 164,734 |
| Business-Type Activities | | |
| Buildings | 273 | 257 |
| Improvements other than buildings | 494 | 435 |
| Machinery and equipment | 58 | 86 |
| Total Business-Type Activities | 825 | 778 |
| Total City | \$ 162,205 | \$ 165,512 |

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012

DEBT ADMINISTRATION

The City's only long-term debt liability at June 30, 2012, comes from \$43,940,000 in Certificates of Participation (COPs) issued in May 2012 by the Cupertino Public Facilities Corporation. The certificates refunded previously issued COPs that financed the Wilson Park, Blackberry Farm, and Creekside Park purchases, the Memorial Park expansion, the Quinlan Community Center construction, the City Hall remodel, and the new library opened in 2004. The serial, fixed interest rate debt ranging from 0.35% to 3.125% requires annual debt payments of approximately \$3,171,000 that are covered by the General Fund. The June 30, 2012 outstanding principal of \$43,940,000 is due to be paid off by 2030. More information can be found in Note 7 to the Basic Financial Statements and in the Public Facilities Corporation discussion earlier in this Analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide a general overview of the City's finances. Further information can be provided by the City of Cupertino Finance Department, 10300 Torre Avenue, Cupertino CA 95014, phone (408) 777-3220, or by the City website at www.cupertino.org.

| |
|--|
| STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES |
|--|

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis – the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to a balance sheet, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column which presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues, that are revenues which are generated directly by these programs, are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the Cupertino Redevelopment Agency, and the Cupertino Public Facilities Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for their activities.

CITY OF CUPERTINO
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Cash and investments (Note 2) | \$44,211,375 | \$10,905,464 | \$55,116,839 |
| Restricted cash and investments (Note 2) | 1,620,874 | | 1,620,874 |
| Receivables: | | | |
| Accounts | 2,661,665 | 249,267 | 2,910,932 |
| Interest | 35,460 | 8,702 | 44,162 |
| Intergovernmental - State Proposition 1A (Note 3) | 1,419,497 | | 1,419,497 |
| Loans (Note 4) | 1,705,288 | | 1,705,288 |
| Prepaid expenses and other assets | 100,777 | | 100,777 |
| Property held for resale (Note 1g) | 262,782 | | 262,782 |
| Net OPEB asset (Note 12) | 4,287,955 | | 4,287,955 |
| Capital assets (Note 6): | | | |
| Non-depreciable | 79,962,928 | | 79,962,928 |
| Depreciable, net of accumulated depreciation | 81,417,329 | 824,687 | 82,242,016 |
| | <u>217,685,930</u> | <u>11,988,120</u> | <u>229,674,050</u> |
| Total Assets | | | |
| LIABILITIES | | | |
| Accounts payable and accruals | 2,796,467 | 418,184 | 3,214,651 |
| Accrued payroll and benefits | 625,043 | 59,947 | 684,990 |
| Deposits | 1,973,986 | | 1,973,986 |
| Unearned revenue | 934,108 | 589,744 | 1,523,852 |
| Compensated absences (Note 1i): | | | |
| Due in one year | 31,490 | 4,078 | 35,568 |
| Due in more than one year | 2,758,375 | 34,149 | 2,792,524 |
| Claims payable (Note 10): | | | |
| Due in one year | 333,694 | | 333,694 |
| Due in more than one year | 1,162,284 | | 1,162,284 |
| Long-term debt (Note 7): | | | |
| Due in one year | 1,920,000 | | 1,920,000 |
| Due in more than one year | 42,020,000 | | 42,020,000 |
| | <u>54,555,447</u> | <u>1,106,102</u> | <u>55,661,549</u> |
| Total Liabilities | | | |
| NET ASSETS (Note 8) | | | |
| Invested in capital assets, net of related debt | 117,440,257 | 824,687 | 118,264,944 |
| Restricted for: | | | |
| Special revenue projects | 3,139,926 | | 3,139,926 |
| Affordable housing | 2,056,778 | | 2,056,778 |
| Public access television | 695,564 | | 695,564 |
| Debt service | 1,680,597 | | 1,680,597 |
| | <u>7,572,865</u> | | <u>7,572,865</u> |
| Total Restricted Net Assets | | | |
| Unrestricted | 38,117,361 | 10,057,331 | 48,174,692 |
| | <u>\$163,130,483</u> | <u>\$10,882,018</u> | <u>\$174,012,501</u> |
| Total Net Assets | | | |

See accompanying notes to financial statements

CITY OF CUPERTINO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|---|---------------------|-------------------------|--|--|----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | | | |
| Administration | \$1,835,551 | \$6,454 | \$191,523 | | (\$1,637,574) | (\$1,637,574) |
| Law enforcement | 8,767,652 | 696,498 | 100,000 | | (7,971,154) | (7,971,154) |
| Public and environmental affairs | 1,743,703 | | | | (1,743,703) | (1,743,703) |
| Administrative services | 4,313,647 | | | | (4,313,647) | (4,313,647) |
| Recreation services | 4,578,762 | 1,166,323 | 59,585 | | (3,352,854) | (3,352,854) |
| Community development | 4,923,481 | 4,919,216 | 426,371 | | 422,106 | 422,106 |
| Public works | 20,390,551 | 503,225 | 1,731,438 | \$780,761 | (17,375,127) | (17,375,127) |
| Interest on long - term debt | 1,837,655 | | | | (1,837,655) | (1,837,655) |
| Total Governmental Activities | 48,391,002 | 7,291,716 | 2,508,917 | 780,761 | (37,809,608) | (37,809,608) |
| Business-type Activities: | | | | | | |
| Resource recovery | 1,566,229 | 1,727,783 | | | \$161,554 | 161,554 |
| Blackberry farm | 460,698 | 411,056 | | | (49,642) | (49,642) |
| Cupertino sports center | 1,897,611 | 1,965,684 | | | 68,073 | 68,073 |
| Recreation programs | 1,985,618 | 2,325,705 | | | 340,087 | 340,087 |
| Total Business-type Activities | 5,910,156 | 6,430,228 | | | 520,072 | 520,072 |
| Total | \$54,301,158 | \$13,721,944 | \$2,508,917 | \$780,761 | (37,809,608) | 520,072 |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | | 7,479,132 | 7,479,132 |
| Property tax in lieu of motor vehicle fee | | | | | 4,487,412 | 4,487,412 |
| Incremental property tax | | | | | 202,793 | 202,793 |
| Sales taxes | | | | | 17,326,460 | 17,326,460 |
| Transient occupancy tax | | | | | 3,112,934 | 3,112,934 |
| Utility user tax | | | | | 3,264,896 | 3,264,896 |
| Franchise tax | | | | | 2,808,136 | 2,808,136 |
| Other taxes | | | | | 1,377,211 | 1,377,211 |
| Intergovernmental, unrestricted: | | | | | | |
| Motor vehicle license fee | | | | | 29,064 | 29,064 |
| Investment earnings | | | | | 61,096 | 12,338 |
| Miscellaneous | | | | | 82,684 | 82,684 |
| Extraordinary item (Note 14): | | | | | | |
| Assets transferred to Successor Agencies | | | | | (1,130,797) | (1,130,797) |
| Transfers (Note 5) | | | | | 207,000 | (207,000) |
| Total general revenues, transfers and extraordinary item | | | | | 39,308,021 | (194,662) |
| Change in Net Assets | | | | | 1,498,413 | 325,410 |
| Net assets, beginning of year | | | | | 161,632,070 | 10,556,608 |
| Net assets, end of year | | | | | \$163,130,483 | \$10,882,018 |

See accompanying notes to financial statements

| |
|----------------------------------|
| FUND FINANCIAL STATEMENTS |
|----------------------------------|

In the Fund Financial Statements only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2011-12. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The general fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

PUBLIC FACILITIES CORPORATION DEBT SERVICE FUND

This fund accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of the Civic Center, Library, Wilson Park, Memorial Park, and other City facilities.

CITY OF CUPERTINO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

| | <u>General</u> | <u>Public Facilities Corporation</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|--|---|---|
| ASSETS | | | | |
| Cash and investments (Note 2) | \$29,043,944 | \$59,749 | \$8,033,706 | \$37,137,399 |
| Restricted cash and investments (Note 2) | | 1,620,874 | | 1,620,874 |
| Receivables: | | | | |
| Accounts | 2,492,473 | | 169,192 | 2,661,665 |
| Interest | 26,434 | | 3,461 | 29,895 |
| Intergovernmental - State Proposition 1A (Note 3) | 1,419,497 | | | 1,419,497 |
| Loans (Note 3) | 937,011 | | 768,277 | 1,705,288 |
| Prepaid items | 66,428 | | | 66,428 |
| Property held for resale (Note 1g) | | | 262,782 | 262,782 |
| Other assets | 3,884 | | | 3,884 |
| | <u>33,989,671</u> | <u>1,680,623</u> | <u>9,237,418</u> | <u>44,907,712</u> |
| Total Assets | | | | |
| LIABILITIES | | | | |
| Accounts payable and accruals | \$2,490,506 | \$26 | \$239,195 | \$2,729,727 |
| Accrued payroll and benefits | 569,399 | | 25,844 | 595,243 |
| Deposits | 1,973,986 | | | 1,973,986 |
| Advance from other funds (Note 5) | 504,497 | | | 504,497 |
| Unearned revenue | 934,108 | | | 934,108 |
| Deferred revenue | 1,419,497 | | 129,602 | 1,549,099 |
| | <u>7,891,993</u> | <u>26</u> | <u>394,641</u> | <u>8,286,660</u> |
| Total Liabilities | | | | |
| Fund balances (Note 8): | | | | |
| Nonspendable | 1,003,439 | | | 1,003,439 |
| Restricted | 695,564 | 1,680,597 | 5,196,704 | 7,572,865 |
| Assigned | 17,729,297 | | 3,646,073 | 21,375,370 |
| Unassigned | 6,669,378 | | | 6,669,378 |
| | <u>26,097,678</u> | <u>1,680,597</u> | <u>8,842,777</u> | <u>36,621,052</u> |
| TOTAL FUND BALANCES | | | | |
| Total Liabilities and Fund Balances | <u>33,989,671</u> | <u>1,680,623</u> | <u>9,237,418</u> | <u>44,907,712</u> |

See accompanying notes to financial statements

CITY OF CUPERTINO
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances reported on the governmental funds balance sheet \$36,621,052

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 159,967,332

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are used by management to charge the costs of activities such as information technology, insurance, equipment acquisition and maintenance, and certain employees' benefits to governmental funds. The assets and liabilities of the internal service funds are therefore included in the governmental activities of the statement of net assets. 11,646,556

RECEIVABLES NOT AVAILABLE

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds. 1,549,099

LONG TERM LIABILITIES

The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:

| | |
|----------------------|---------------|
| Long-term debt | (43,940,000) |
| Compensated absences | (2,713,556) |
| | \$163,130,483 |

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$163,130,483

See accompanying notes to financial statements

CITY OF CUPERTINO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

| | General | Public Facilities Corporation | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$39,764,203 | | \$501,741 | \$40,265,944 |
| Use of money and property | 647,858 | | 13,744 | 661,602 |
| Intergovernmental | 413,145 | | 2,265,743 | 2,678,888 |
| Licenses and permits | 2,900,936 | | | 2,900,936 |
| Charges for services | 2,880,400 | | 393,546 | 3,273,946 |
| Fines and forfeitures | 661,899 | | | 661,899 |
| Other revenue | 264,302 | | | 264,302 |
| Total Revenues | 47,532,743 | | 3,174,774 | 50,707,517 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 1,533,070 | | | 1,533,070 |
| Law enforcement | 8,445,917 | | | 8,445,917 |
| Public and environmental affairs | 1,659,856 | | | 1,659,856 |
| Administrative services | 4,103,982 | | | 4,103,982 |
| Recreation services | 4,319,983 | | | 4,319,983 |
| Community development | 3,434,084 | | 1,328,145 | 4,762,229 |
| Public works | 11,336,973 | | 1,191,221 | 12,528,194 |
| Capital outlay | 12,518 | | 3,510,529 | 3,523,047 |
| Debt service: | | | | |
| Payment to refunded COP escrow agent | | \$44,897,800 | | 44,897,800 |
| Interest and fiscal charges | | 1,837,655 | | 1,837,655 |
| Total Expenditures | 34,846,383 | 46,735,455 | 6,029,895 | 87,611,733 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 12,686,360 | (46,735,455) | (2,855,121) | (36,904,216) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 421 | | | 421 |
| Issuance of refunding COP's | | 43,940,000 | | 43,940,000 |
| Premium on COPs issued | | 883,839 | | 883,839 |
| Transfers in (Note 5) | 34,820 | 3,534,000 | 2,915,606 | 6,484,426 |
| Transfers (out) (Note 5) | (6,430,800) | | (1,261,626) | (7,692,426) |
| Total Other Financing Sources (Uses) | (6,395,559) | 48,357,839 | 1,653,980 | 43,616,260 |
| NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM | 6,290,801 | 1,622,384 | (1,201,141) | 6,712,044 |
| EXTRAORDINARY ITEM (NOTE 14) | | | | |
| Assets transferred to Successor Agency and Housing Successor | | | (1,130,797) | (1,130,797) |
| NET CHANGE IN FUND BALANCES | 6,290,801 | 1,622,384 | (2,331,938) | 5,581,247 |
| BEGINNING FUND BALANCES | 19,806,877 | 58,213 | 11,174,715 | 31,039,805 |
| ENDING FUND BALANCES | \$26,097,678 | \$1,680,597 | \$8,842,777 | \$36,621,052 |

See accompanying notes to financial statements

CITY OF CUPERTINO
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

| | |
|--|-------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$5,581,247 |
|--|-------------|

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets reported as:

| | |
|-----------------------------------|-----------|
| Capital outlay | 3,252,093 |
| Easement received during the year | 386,816 |

| | |
|--|-------------|
| Depreciation expense is deducted from the fund balance | (7,477,056) |
|--|-------------|

LONG TERM DEBT TRANSACTIONS

| | |
|--|--------------|
| Proceeds from issuance of long term debt is deducted from fund balance | (43,940,000) |
| Premium on long-term debt is deducted from fund balance | (883,839) |
| Payment to escrow agent is added to fund balance | 44,897,800 |

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

| | |
|----------------------|-----------|
| Compensated absences | (70,671) |
| Deferred revenue | (289,751) |

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

| | |
|---|--------|
| Change in Net Assets - All Internal Service Funds | 41,774 |
|---|--------|

| | |
|---|-------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$1,498,413 |
|---|-------------|

See accompanying notes to financial statements

CITY OF CUPERTINO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|----------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>(Negative)</u> |
| Revenues: | | | | |
| Taxes | \$36,414,000 | \$36,826,240 | \$39,764,203 | \$2,937,963 |
| Use of money and property | 969,000 | 969,000 | 647,858 | (321,142) |
| Intergovernmental | 555,000 | 370,928 | 413,145 | 42,217 |
| Licenses and permits | 2,618,000 | 2,618,000 | 2,900,936 | 282,936 |
| Charges for services | 1,552,000 | 1,651,000 | 2,880,400 | 1,229,400 |
| Fines and forfeitures | 650,000 | 650,000 | 661,899 | 11,899 |
| Other revenue | 100,000 | 131,500 | 264,302 | 132,802 |
| | <u>42,858,000</u> | <u>43,216,668</u> | <u>47,532,743</u> | <u>4,316,075</u> |
| Amounts available for appropriation | | | | |
| Charges for appropriation (outflows) | | | | |
| Current | | | | |
| Administration | 1,740,559 | 1,754,548 | 1,533,070 | 221,478 |
| Law enforcement | 8,979,762 | 9,020,304 | 8,445,917 | 574,387 |
| Public and environmental affairs | 1,659,182 | 1,725,882 | 1,659,856 | 66,026 |
| Administrative services | 4,542,741 | 4,804,399 | 4,103,982 | 700,417 |
| Recreation services | 4,244,038 | 4,423,994 | 4,319,983 | 104,011 |
| Community development | 4,134,702 | 4,303,324 | 3,434,084 | 869,240 |
| Public works | 12,207,380 | 12,696,719 | 11,336,973 | 1,359,746 |
| Capital outlay | | | 12,518 | (12,518) |
| Total charges for appropriations | <u>37,508,364</u> | <u>38,729,170</u> | <u>34,846,383</u> | <u>3,882,787</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>5,349,636</u> | <u>4,487,498</u> | <u>12,686,360</u> | <u>8,198,862</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | | | 421 | 421 |
| Transfers in | 34,820 | 34,820 | 34,820 | |
| Transfers (out) | <u>(6,430,800)</u> | <u>(6,430,800)</u> | <u>(6,430,800)</u> | |
| Total other financing sources (uses) | <u>(6,395,980)</u> | <u>(6,395,980)</u> | <u>(6,395,559)</u> | <u>421</u> |
| NET CHANGE IN FUND BALANCE | <u>(\$1,046,344)</u> | <u>(\$1,908,482)</u> | 6,290,801 | <u>\$8,199,283</u> |
| BEGINNING FUND BALANCE | | | <u>19,806,877</u> | |
| ENDING FUND BALANCE | | | <u>\$26,097,678</u> | |

See accompanying notes to financial statements

| |
|--------------------------------|
| MAJOR PROPRIETARY FUNDS |
|--------------------------------|

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City has identified the funds below as major proprietary funds for fiscal 2011-12.

RESOURCES RECOVERY FUND

This fund accounts for activity related to the collection, disposal, and recycling of solid waste. A private company has been issued an exclusive franchise to perform these services.

BLACKBERRY FARM FUND

This fund accounts for activities related to operating the City-owned golf course.

CUPERTINO SPORTS CENTER FUND

This fund accounts for the operation and maintenance of the Cupertino Sports Center.

RECREATION PROGRAMS FUND

This fund accounts for activities of the City's community centers and park facilities.

CITY OF CUPERTINO
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | Business-type Activities-Enterprise Funds | | | | Totals | Governmental Activities- Internal Service Funds |
|---|---|--------------------|-------------------------------|------------------------|---------------------|--|
| | Resources Recovery | Blackberry Farm | Cupertino Sports Center | Recreation Programs | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and investments (Note 2) | \$6,159,077 | \$865,047 | \$620,278 | \$3,261,062 | \$10,905,464 | \$7,073,976 |
| Accounts receivable | 247,587 | | | 1,680 | 249,267 | |
| Interest receivable | 4,974 | 695 | 497 | 2,536 | 8,702 | 5,565 |
| Prepaid items | | | | | | 30,465 |
| Total current assets | 6,411,638 | 865,742 | 620,775 | 3,265,278 | 11,163,433 | 7,110,006 |
| Noncurrent assets: | | | | | | |
| Advances to other funds (Note 5) | | | | | | 504,497 |
| Net OPEB asset (Note 12) | | | | | | 4,287,955 |
| Capital Assets (Note 6): | | | | | | |
| Depreciable, net of accumulated depreciation | 33,834 | 67,250 | 109,622 | 613,981 | 824,687 | 1,412,925 |
| Total noncurrent assets | 33,834 | 67,250 | 109,622 | 613,981 | 824,687 | 6,205,377 |
| Total Assets | 6,445,472 | 932,992 | 730,397 | 3,879,259 | 11,988,120 | 13,315,383 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable and accruals | 225,128 | 14,121 | 97,823 | 81,112 | 418,184 | 66,740 |
| Accrued payroll and benefits | 7,239 | 4,867 | 10,859 | 36,982 | 59,947 | 29,800 |
| Compensated absences (Note 1i) | 453 | 2,892 | 733 | | 4,078 | 31,490 |
| Claims payable (Note 10) | | | | | | 333,694 |
| Unearned revenue | | | 64,012 | 525,732 | 589,744 | |
| Total current liabilities | 232,820 | 21,880 | 173,427 | 643,826 | 1,071,953 | 461,724 |
| Non-current Liabilities: | | | | | | |
| Compensated absences (Note 1i) | 3,793 | 24,219 | 6,137 | | 34,149 | 44,819 |
| Claims payable (Note 10) | | | | | | 1,162,284 |
| Total Liabilities | 236,613 | 46,099 | 179,564 | 643,826 | 1,106,102 | 1,668,827 |
| NET ASSETS (Note 8) | | | | | | |
| Invested in capital assets Unrestricted | 33,834 | 67,250 | 109,622 | 613,981 | 824,687 | 1,412,925 |
| | 6,175,025 | 819,643 | 441,211 | 2,621,452 | 10,057,331 | 10,233,631 |
| Total Net Assets | \$6,208,859 | \$886,893 | \$550,833 | \$3,235,433 | \$10,882,018 | \$11,646,556 |

See accompanying notes to financial statements

CITY OF CUPERTINO
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

| | Business-type Activities-Enterprise Funds | | | | Totals | Governmental Activities- Internal Service Funds |
|---------------------------------------|---|--------------------|-------------------------------|------------------------|---------------------|--|
| | Resources Recovery | Blackberry Farm | Cupertino Sports Center | Recreation Programs | | |
| OPERATING REVENUES | | | | | | |
| Charges for services | \$1,711,749 | \$394,711 | \$1,964,486 | \$2,324,233 | \$6,395,179 | \$3,184,342 |
| Other | 16,034 | 16,345 | 1,198 | 1,472 | 35,049 | 7,550 |
| Total Operating Revenues | 1,727,783 | 411,056 | 1,965,684 | 2,325,705 | 6,430,228 | 3,191,892 |
| OPERATING EXPENSES | | | | | | |
| Salaries and benefits | 192,249 | 144,079 | 310,558 | 470,229 | 1,117,115 | 2,778,597 |
| Materials and supplies | 7,264 | 79,526 | 154,907 | 111,632 | 353,329 | 375,974 |
| Contractual services | 1,363,365 | 232,940 | 1,403,836 | 1,312,019 | 4,312,160 | 497,316 |
| Insurance and claims and premium | | | | | | 465,848 |
| Depreciation (Note 6) | 3,351 | 4,153 | 28,310 | 91,738 | 127,552 | 455,592 |
| Total Operating Expenses | 1,566,229 | 460,698 | 1,897,611 | 1,985,618 | 5,910,156 | 4,573,327 |
| Operating Income (Loss) | 161,554 | (49,642) | 68,073 | 340,087 | 520,072 | (1,381,435) |
| NONOPERATING REVENUES | | | | | | |
| Investment income | 7,308 | 914 | 551 | 3,565 | 12,338 | 8,209 |
| Total Nonoperating Revenues | 7,308 | 914 | 551 | 3,565 | 12,338 | 8,209 |
| Income (Loss) Before Transfers | 168,862 | (48,728) | 68,624 | 343,652 | 532,410 | (1,373,226) |
| Transfers in (Note 5) | | | | | | 1,445,000 |
| Transfers (out) (Note 5) | | | | (207,000) | (207,000) | (30,000) |
| Change in net assets | 168,862 | (48,728) | 68,624 | 136,652 | 325,410 | 41,774 |
| Net Assets-Beginning of year | 6,039,997 | 935,621 | 482,209 | 3,098,781 | 10,556,608 | 11,604,782 |
| Net Assets-End of year | \$6,208,859 | \$886,893 | \$550,833 | \$3,235,433 | \$10,882,018 | \$11,646,556 |

See accompanying notes to financial statements

CITY OF CUPERTINO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

| | Business-type Activities-Enterprise Funds | | | | Totals | Governmental Activities- Internal Service Funds |
|--|---|--------------------------|-------------------------------|---------------------------|----------------------------|--|
| | Resources Recovery | Blackberry Farm | Cupertino Sports Center | Recreation Programs | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Cash received from customers | \$1,737,742 | \$411,169 | \$1,946,600 | \$2,451,507 | \$6,547,018 | \$3,191,892 |
| Cash payments to suppliers for goods and services | (1,262,778) | (306,815) | (1,609,937) | (1,383,296) | (4,562,826) | (2,611,989) |
| Cash payments to employees | (190,108) | (139,448) | (321,485) | (462,056) | (1,113,097) | (884,774) |
| Cash payments for judgment and claims | | | | | | (465,848) |
| Net cash provided (used) by operating activities | <u>284,856</u> | <u>(35,094)</u> | <u>15,178</u> | <u>606,155</u> | <u>871,095</u> | <u>(770,719)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfers in | | | | | | 1,445,000 |
| Transfers out | | | | (207,000) | (207,000) | (30,000) |
| Cash Flows from Noncapital Financing Activities | | | | <u>(207,000)</u> | <u>(207,000)</u> | <u>1,415,000</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Acquisitions of capital assets | | (45,539) | (24,888) | (104,292) | (174,719) | (935,830) |
| Cash Flows from Capital and Related Financing Activities | | <u>(45,539)</u> | <u>(24,888)</u> | <u>(104,292)</u> | <u>(174,719)</u> | <u>(935,830)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Interest received | 12,729 | 1,891 | 1,169 | 5,922 | 21,711 | 15,651 |
| Cash Flows from Investing Activities | <u>12,729</u> | <u>1,891</u> | <u>1,169</u> | <u>5,922</u> | <u>21,711</u> | <u>15,651</u> |
| Net Cash Flows | 297,585 | (78,742) | (8,541) | 300,785 | 511,087 | (275,898) |
| Cash and investments at beginning of year | <u>5,861,492</u> | <u>943,789</u> | <u>628,819</u> | <u>2,960,277</u> | <u>10,394,377</u> | <u>7,349,874</u> |
| Cash and investments at end of year | <u><u>\$6,159,077</u></u> | <u><u>\$865,047</u></u> | <u><u>\$620,278</u></u> | <u><u>\$3,261,062</u></u> | <u><u>\$10,905,464</u></u> | <u><u>\$7,073,976</u></u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | \$161,554 | (\$49,642) | \$68,073 | \$340,087 | \$520,072 | (\$1,381,435) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation | 3,351 | 4,153 | 28,310 | 91,738 | 127,552 | 455,592 |
| Change in assets and liabilities: | | | | | | |
| Accounts receivable | 9,959 | 113 | 67 | 111,459 | 121,598 | 9,000 |
| Prepaid expense | | | | | | (12,517) |
| Net OPEB assets | | | | | | 277,451 |
| Accounts payable and accruals | 107,851 | 5,651 | (51,194) | 40,355 | 102,663 | 43,342 |
| Accrued payroll and benefits | 1,120 | 585 | 1,002 | 8,173 | 10,880 | 2,414 |
| Deposits | | | | | | (8,591) |
| Deferred revenue | | | (19,151) | 14,343 | (4,808) | |
| Claims payable | | | | | | (155,975) |
| Compensated absences | 1,021 | 4,046 | (11,929) | | (6,862) | |
| Net cash provided (used) by operating activities | <u><u>\$284,856</u></u> | <u><u>(\$35,094)</u></u> | <u><u>\$15,178</u></u> | <u><u>\$606,155</u></u> | <u><u>\$871,095</u></u> | <u><u>(\$770,719)</u></u> |

See accompanying notes to financial statements

FIDUCIARY FUNDS

Fiduciary Funds include a private-purpose trust fund that accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future.

Fiduciary Funds also include agency funds that account for assets held by the City as an agent for individuals, private organizations, other governmental units, or other entities. Agency Funds are custodial in nature and do not involve measurement of operation results. Such funds have no equity since all assets are due to individuals or other entities in the future.

SUCCESSOR AGENCY TO REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

This fund holds the net assets of the City's former redevelopment agency. The net assets are dedicated to remaining agency obligations.

AGENCY FUNDS

Special district assessments held by the City, acting as an agent for bond debt service payments, comprise City Agency funds. The City is not liable for the debt payments.

CITY OF CUPERTINO
 FIDUCIARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | Successor Agency to Redevelopment Agency Private-purpose Trust Fund | Agency Funds |
|---------------------------------------|--|-----------------|
| ASSETS | | |
| Cash and investments (Note 2) | \$1,018,175 | \$81,403 |
| Interest receivable | 794 | |
| Total Assets | \$1,018,969 | \$81,403 |
| LIABILITIES | | |
| Accounts payable | \$248,624 | |
| Deposits | | \$81,403 |
| Total Liabilities | 248,624 | \$81,403 |
| NET ASSETS | | |
| Held in trust for restricted purposes | \$770,345 | |

See accompanying notes to financial statements

CITY OF CUPERTINO
 FIDUCIARY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 JUNE 30, 2012

| | Successor Agency to Redevelopment Agency Private-purpose Trust Fund |
|--|--|
| ADDITIONS | |
| Use of money and property | <u>\$1,668</u> |
| Total additions | <u><u>\$1,668</u></u> |
| DEDUCTIONS | |
| Community development activities | <u>\$362,120</u> |
| Total deductions | <u>\$362,120</u> |
| Change in net assets before extraordinary item | (360,452) |
| EXTRAORDINARY ITEM (NOTE 14) | |
| Assets transferred to Successor Agency | <u>1,130,797</u> |
| Change in net assets | 770,345 |
| Net assets - beginning of year | <u> </u> |
| Held in trust for restricted purposes | <u><u>\$770,345</u></u> |

See accompanying notes to financial statements

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Reporting Entity*

The City of Cupertino, California (the City) was incorporated on October 3, 1955, under the laws of the State of California. The City operates under a Council - City Manager form of government and provides services through the following departments: Administrative Services, Community Development, City Manager, Parks and Recreation, Public and Environmental Affairs, and Public Works/Engineering. Fire services are provided by the Santa Clara County Fire District, and the City contracts with the Santa Clara County Sheriff's Department for police services, and with Recology for garbage and recycling services.

The accompanying basic financial statements include all funds and boards and commissions that are controlled by the City Council. The basic financial statements include the City's blended component units, entities for which the City is considered to be financially accountable. A blended component unit, although a legally separate entity, is in substance, part of the City's operations and so data from this unit is combined with the City.

Blended component units - The Cupertino Public Facilities Corporation (the Corporation) was incorporated in May 1986, under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was organized as a nonprofit corporation for the purpose of assisting the City in the acquisition, construction, and financing of public improvements which are of public benefit to the City. The Corporation, after acquiring certain properties from the City, leases these back to the City. The lease money provides the funds for the debt service for the Certificates of Participation issued by the Corporation to acquire the properties.

The Cupertino Redevelopment Agency (the Agency) was formed in 2000 under the California Health & Safety Code to assist in the elimination of areas considered to be in a blighted condition. The City Council acts as the Board of Directors of the Corporation and the Agency. The Mayor and Vice Mayor of the City have been elected President and Vice President, respectively, of the Corporation. The City Clerk has been elected Secretary, and the City's Director of Administrative Services has been appointed Treasurer of both entities. Pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Agency has been dissolved and its assets turned over and liabilities assumed by the successor agency effective January 31, 2012. Separate financial statements are not issued for the Redevelopment Agency.

The Corporation does not issue separate financial statements, since it is reported separately in the City's basic financial statements.

(b) *Measurement Focus, Basis of Accounting and Basis of Presentation*

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States. The Government 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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Government-wide Statements - The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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 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. Expenses include direct and indirect types. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses such as depreciation, information technology, insurance and equipment replacement are included in expenses for individual activities and functions. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital needs of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues. Program revenues and direct expenses related to interfund services are included and indirect expenses funded by interfund transfers are excluded from the Statement of Activities. The Statement of Net Assets eliminates interfund balances between governmental funds and interfund balances between proprietary funds.

Fund Financial Statements - The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. 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 funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as 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 nonexchange transactions or ancillary activities.

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

Major funds are defined as funds, which have either assets, liabilities, revenues or expenditures in excess of ten percent of their fund-type total and five percent of the aggregate total for both governmental funds and enterprise funds. The General Fund is always a major fund. The City may select other funds it believes should be presented as major funds.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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

- The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.
- The *Public Facilities Corporation Debt Service Fund* accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of City Hall, Library, Wilson Park, Memorial Park, and other City facilities.

The City reports all its enterprise funds as major funds in the accompanying financial statements:

- The *Resources Recovery Fund* accounts for activity related to the collection, disposal, and recycling of solid waste. A private company has been issued an exclusive franchise to perform these services.
- The *Blackberry Farm Fund* accounts for activities related to the municipal golf course.
- The *Cupertino Sports Center Fund* accounts for the operation and maintenance of the Cupertino Sports Center.
- The *Recreation Programs Fund* accounts for activities of the City's community centers and park facilities.

The City also reports the following fund types:

Internal Service Funds. These funds account for workers' compensation, management information systems maintenance and replacement, equipment maintenance and replacement, retiree health costs, accrued leave payouts, and long-term disability coverage; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Fund Types. The financial activities of these funds are excluded from the Government-wide financial statements. The *Successor Agency to Redevelopment Agency Private-Purpose Trust Fund* accounts for net assets restricted to satisfying the remaining obligations of the former Redevelopment Agency. See Note 14 for more information. The *Agency Fund* accounts for the City's role as an agent for repaying special assessment debt described in Note 7.

Basis of Accounting - The government-wide and proprietary 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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)*

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 all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditures to the extent the City has provided financial resources to a debt service fund for payment of these liabilities that mature early in the following year. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Unearned revenues are considered on a full accrual basis, while *deferred* revenues are based on the modified accrual measure.

Fiduciary financial statements consist of a private-purpose trust fund and agency fund. The measurement focus and basis of accounting of the private-purpose trust fund is similar to a proprietary fund. The agency fund reports only assets and liabilities and therefore has no measurement focus. It recognizes receivables and payables on a full accrual basis.

Property taxes, transient occupancy taxes, utility taxes, franchise taxes, interest and special assessments are susceptible to accrual. Other receipts and taxes are recognized as revenue when the cash is received. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Sales tax consultant payments which are contingent on revenues collected are netted against the related revenues.

Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenue. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary. Grant revenues are recognized after eligibility and billing occurs, but may be deferred if not received within sixty days of year-end. Because of the cost-reimbursement and recognition nature of some grants, certain capital project funds may carry deficit fund balances until billing and receipt of grants. The City may also front the capital outlays with cash advances from other funds.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants is recognized as described above. Entitlement and donation revenues are recognized when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide statements for the business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Budgetary Practices*

The budget of the City is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenue available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. The City prohibits expending funds for which there is no legal appropriation. Operating appropriations lapse at fiscal year end.

In May of each year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning July 1. Public hearings on the proposed budget are held during the month of June and the budgets for all fund types are legally adopted by Resolution prior to June 30. Original budget amounts are presented on the accompanying budgetary statements include these legally adopted amounts.

The City's legal level of budgetary control is at the functional level. The City Manager is responsible for controlling the City's expenditures in accordance with the adopted budget. The City Manager is authorized to administer and transfer appropriations between budget accounts within the operating budget when in his opinion such transfers become necessary for administrative purposes. Any revision which increases total appropriations must be approved by the City Council. Requests for additional personnel or capital outlay also require the approval of the City Council.

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles. Budget information is presented for the general, special revenue and debt service funds only. Capital projects funds are budgeted on a long-term project-by-project basis and, hence, budgets for these funds are not presented in the basic financial statements.

(d) *Cash and Investments*

The City pools its cash resources, consisting of cash and investments, of all funds for investment except for restricted funds generally held by an outside fiscal agent. Cash amounts are reported net of outstanding warrants. Investments are stated at fair value.

(e) *Capital Assets*

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value on the date donated. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs, gutters, medians, sidewalks, drainage and lighting systems have been capitalized and depreciated. Capital assets are defined as assets with an initial individual cost of more than \$5,000 for general capital assets and \$100,000 for intangible assets.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Capital Assets (Continued)

Depreciation is recorded using the straight-line method over the following useful lives:

| | <u>Years</u> |
|--|--------------|
| Buildings | 15 - 25 |
| Improvements | 10 - 15 |
| Vehicles | 4 - 10 |
| Street equipment | 3 - 20 |
| Water equipment | 3 - 50 |
| Office equipment | 3 - 5 |
| Road, curbs, gutters, sidewalks, medians and bridges | 30 - 40 |
| Streetlights | 20 |
| Storm drain structure and mains | 40 |
| Traffic signals | 20 |

Major outlays for capital assets and improvements are capitalized as projects are constructed. For enterprise funds, interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

(f) Land Held for Redevelopment

Land held for redevelopment is stated at the lowest of historical cost, net realizable value determined upon the execution of disposition and development agreement, or agreed-upon sales price. The land was purchased using Federal grant funds for housing activities.

On July 1, 2010, the City entered into a Disposition and Development Agreement (DDA) with a developer. In accordance with the DDA, the City would transfer the land held for redevelopment in the amount of \$615,000 to the developer at no cost for the purpose of developing four single-family detached homes at an affordable price to very low income homebuyers. At September 13, 2011, the City transferred the property to the developer. At June 30, 2012, there are no remaining balances for land held for Redevelopment.

(g) Property Held for Resale

The City operates an affordable housing program funded by development impact fees that are recorded in the Housing Development Special Revenue Fund. To effectuate a change in private ownership of a condominium built under the program, the City, using Housing Development Fund cash, purchased the unit from the former owner on August 11, 2011 for \$262,557 and recorded the asset as Property Held for Resale in the same Fund until the City ultimately sold the unit to a new owner on July 6, 2012 for the same price, with the cash proceeds deposited into the same Fund.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *Claims and Judgment Payable*

Claims and judgments payable are accrued when the liability is incurred and the amount can be reasonably estimated. Claims and judgments payable are recorded in an internal service fund for workers' compensation and long-term disability, and other claims and judgments are recorded in the General Fund or enterprise funds, as appropriate.

(i) *Compensated Absences*

Compensated absences comprise vested accumulated vacation and sick leave. The City's liability for compensated absences is recorded in governmental or business-type activities as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be "permanently liquidated," such as what is due to be paid because of a realized employment action, are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences are liquidated primarily by the General Fund, using the Compensated Absences and Long-Term Disability internal service fund to account for termination payouts.

The changes in compensated absences for the year ended June 30, 2012 were as follows:

| | Governmental Activities | Business-Type Activities | Total |
|---------------------|----------------------------|-----------------------------|--------------------|
| Beginning Balance | \$2,727,785 | \$45,089 | \$2,772,874 |
| Additions | 458,515 | | 458,515 |
| Payments | (396,435) | (6,862) | (403,297) |
| Ending Balance | <u>\$2,789,865</u> | <u>\$38,227</u> | <u>\$2,828,092</u> |
| Current Portion | <u>\$31,490</u> | <u>\$4,078</u> | <u>\$35,568</u> |
| Non-current Portion | <u>\$2,758,375</u> | <u>\$34,149</u> | <u>\$2,792,524</u> |

(j) *Property Tax Calendar*

All property taxes are levied and collected by the County of Santa Clara. Secured taxes are levied on July 1, are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10. Unsecured taxes are levied on July 1 and become delinquent on August 31. The lien date for secured and unsecured property taxes is January 1.

The City, in fiscal year 1993-94, adopted an alternative method of property tax distribution (the "Teeter Plan"). Under this method, the City receives 100% of its secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes. The City receives remittances as a series of advances made by the County during the year.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *Interfund Transactions*

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

(l) *Statement of Cash Flows*

For purposes of reporting cash flows for the City's proprietary funds, pooled cash and investments are considered cash equivalents as the proprietary funds can access pooled cash and investments in a manner similar to a demand deposit account.

(m) *Prepaid Items*

Prepaid items are reported under the consumption method, which recognizes the expenditures/expense in the period associated with the service rendered or goods consumed.

(n) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

(o) *New Funds and Closed Fund*

The Low and Moderate Income Housing Asset Special Revenue Fund was established to account for the activities related to the assets assumed by the City as Housing Successor to the housing activities of the former Redevelopment Agency.

The Successor Agency to the Redevelopment Agency Private Purpose Trust Fund was established to account for the activities of the Successor Agency to the former Redevelopment Agency.

The Redevelopment Agency Fund was closed as of January 31, 2012 as the result of the dissolution of the Redevelopment Agency discussed in Note 14.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

The City’s pooled idle funds are invested pursuant to investment policy guidelines adopted by the City Council. The objectives of the policy are to invest funds to the fullest extent possible and to invest in accordance with the provisions of the California Government Code with the priority of safety, liquidity and yield. The policy addresses the safekeeping of securities, types of investment instruments, diversification, maturities, reporting requirements, and internal control. The City maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the Statement of Net Assets and the balance sheet as “cash and investments.”

(a) Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City’s cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law, this collateral is held in a separate investment pool by another institution in the City’s name and places the City ahead of general creditors of the institution.

The City and its fiscal agents invest 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. Security instruments owned by the City are held in safekeeping by a third party custodian acting as agent for the City under the terms of a custody agreement.

The City’s investments are carried at fair value. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in investment income for that fiscal year.

(b) Classification

The City's total cash and investments, at fair value, are presented on the accompanying financial statements in the following allocation:

| | Primary Government | Private - Purpose Trust Fund | Agency Funds | Total |
|--|-----------------------|------------------------------------|-----------------|---------------------|
| Cash and Investments | \$55,116,839 | \$1,018,175 | \$81,403 | \$56,216,417 |
| Restricted Cash and Investments: | | | | |
| Held by Fiscal Agent for Bond Repayments | 1,620,874 | | | 1,620,874 |
| Total Cash and Investments | <u>\$56,737,713</u> | <u>\$1,018,175</u> | <u>\$81,403</u> | <u>\$57,837,291</u> |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Authorized Investments by the City

The City's Investment Policy and the California Government Code allow the City to invest its pooled idle funds in the following, under limits and provisions that address interest rate risk, credit risk, and concentration of credit risk. This does not include the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City.

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|------------------|------------------------|---------------------------------|--|
| U.S. Treasury Obligations | 5 years | N/A | None | None |
| U.S. Agency Securities * | 5 years | N/A | None | None |
| California Local Agency Investment Fund (LAIF) | N/A | N/A | Up to \$50 million | None |
| Non-negotiable Certificates of Deposits (time deposits) | 5 years | N/A | 30% *** | 10% of portfolio; 5% of issuer's net worth. ** |
| State of California registered state warrants, treasury notes, or bonds | 5 years | N/A | None | None |
| California local agency bonds, notes, warrants, or other obligations | 5 years | N/A | None | None |
| Bond issued by the local agency | 5 years | N/A | None | None |
| Bankers' Acceptances | 180 days | N/A | 40% | None |
| Commercial Paper | 270 days | A-1+/P-1 | 25% | 10% of portfolio; 5% of issuer's net worth; 10% of outstanding paper of issuer. ** |
| Negotiable Certificates of Deposit | 5 years | N/A | 30% | 10% of portfolio; 5% of issuer's net worth. ** |
| Repurchase Agreements | 1 year | N/A | None | 10% of portfolio; 5% of issuer's net worth. ** |
| Medium Term Corporate Notes | 5 years | A or better | 30% | 10% of portfolio; 5% of issuer's net worth. ** |
| Money market mutual funds investing in U.S. Treasury, Government Agency securities or repurchase agreements collateralized by U.S. Treasury or Government Agency securities | 5 years | Aaa/AAA | 20% | None |

* Securities issued by agencies of the federal government such as the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association (FHLMC).

** Represents restriction in which the City's investment policy is more restrictive than the California Government Code.

*** 30% maximum % of portfolio if using a private sector entity to assist in the placement of the time deposits. No maximum for others.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

(d) Authorized Investments by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged 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 ordinances, bond indentures or State statutes. The City's Investment Policy allows investments of bond proceeds to be governed by provisions of the related bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents under the terms of the bond indentures of the related debt issue:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio |
|---|------------------|-------------------------|---------------------------------|
| Cash or obligations of the U.S. including U.S. Treasury obligations | N/A | N/A | None |
| Federal agencies obligations which represent full faith and credit of the U.S. | N/A | N/A | None |
| Direct federal agencies obligations which are not fully guaranteed by the full faith and credit of the U.S. | N/A | N/A | None |
| U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks | 360 days | P-1, A-1+, A-1 | None |
| Commercial Paper | 270 days | P-1, A-1 | None |
| Money market funds | N/A | Aaam or AAAM-G | None |
| Pre-refunded municipal obligations that are not callable prior to maturity or as to which irrevocable instructions have been given to call on the date specified in the notice | N/A | Highest rating category | None |
| Municipal obligations or General obligations of states | N/A | Aaa, AAA, A2, A | None |
| California Local Agency Investment Fund (LAIF) | N/A | N/A | Up to \$50 million |
| Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter of the California Government Code, as it may be amended. | N/A | N/A | None |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

(e) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value 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 interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity or earliest call date:

| <u>Investment Type</u> | <u>12 Months or less</u> | <u>13 to 24 Months</u> | <u>Total</u> |
|------------------------------|------------------------------|----------------------------|----------------------------|
| U.S. Treasury Securities | \$20,044,920 | \$27,978,180 | \$48,023,100 |
| Local Agency Investment Fund | 598,652 | | 598,652 |
| Money Market Mutual Funds | 7,563,809 | | 7,563,809 |
| Total Investments | <u>\$28,207,381</u> | <u>\$27,978,180</u> | 56,185,561 |
| Cash in banks and on hand | | | <u>1,651,730</u> |
| Total Cash and Investments | | | <u><u>\$57,837,291</u></u> |

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. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are U.S. Treasuries, Federal Agency obligations, time deposits, negotiable certificates of deposits, commercial paper, corporate bonds, and security loans. These investments had weighted average maturity of 268 days.

Money market mutual funds are available for withdrawal on demand. At June 30, 2012, money market mutual funds, used for pooled investment and held by fiscal agent purposes, had a weighted average maturity of approximately 45 days.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (Continued)

(f) 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 of June 30, 2012 for each investment type, including those with fiscal agents, as provided by Moody's ratings:

| Investment Type | Ratings | Total |
|---------------------------------------|-----------|----------------------------|
| Money Market Mutual Funds | AAA | \$7,563,809 |
| Exempt from Credit Rating Disclosure: | | |
| U.S. Treasury Securities | Exempt | 48,023,100 |
| Not Rated: | | |
| Local Agency Investment Fund | Not Rated | <u>598,652</u> |
| Total Investments | | <u><u>\$56,185,561</u></u> |

(g) Concentration of Credit Risk

The City's investment policy contains certain limitations on the amount that can be invested in any one issuer. In certain categories, these limitations are more restrictive than those required by California Government Code Sections 53600 et seq. Excluding those issued or explicitly guaranteed by the U.S. government and investments in the local agency investment fund and mutual funds, the City did not have investments that represent 5% or more of total City-wide investments.

NOTE 3 – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State of California is required to repay this borrowing plus interest by June 30, 2013. The amount of this borrowing pertaining to the City was \$1,419,497.

This borrowing by the State of California was recognized as a receivable in the accompanying basic financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 4 – LOANS RECEIVABLE

(a) *Related Party Loans*

In conjunction with the City's executive housing assistance program, a loan totaling \$584,360 has been provided to an executive manager. The 40-year loan bears an interest rate equal to the 11th District Cost of Funds at the time of the loan, and requires bi-weekly principal and interest payments. In addition, there is a two percent deferral on the interest rate for the first five years of the loan, at which time the interest rate may be adjusted to the current 11th District Cost of Funds for the remainder of the loan. At June 30, 2012, the balance remaining on the loan was \$452,669 .

(b) *Housing Program Loans*

On June 30, 1995, the City loaned \$821,000 to Community Housing Developers, a California nonprofit public benefit corporation. The note bears interest at three percent per annum, compounded annually, payable to the extent of surplus cash, and all unpaid principal and interest due June 30, 2035. At June 30, 2012, the balance remaining on the loan was \$821,000.

On June 6, 1996, the City loaned \$320,000 to Cupertino Community Services, a California nonprofit public benefit corporation. The note bears interest at three percent per annum and due on July 14, 2026. At June 30, 2012, the balance on the loan was \$242,971.

In addition to these loans, the City has \$188,648 in housing and other loans receivable at June 30, 2012. These loans bear interest at 3 to 6 percent and are due by June 30, 2025.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

| Fund Making Transfers | Fund Receiving Transfers | Amount Transferred | |
|--|---|--------------------|--------------------|
| General Fund | Public Facilities Corporation Debt Service Fund | \$3,534,000 | (A) |
| | Non-major governmental funds | 1,451,800 | (B), (C), (E), (G) |
| | Internal Service Funds | 1,445,000 | (D) |
| Non-major governmental funds | General Fund | 4,820 | (F) |
| | Non-major governmental funds | 1,256,806 | (B), (C), (E), (G) |
| Recreation Programs Enterprise Fund | Non-major governmental funds | 207,000 | (H) |
| Internal Service Funds | General Fund | <u>30,000</u> | (I) |
| | | <u>\$7,929,426</u> | |
| Total Interfund Transfers | | | |

The reasons for these transfers are set forth below:

- (A) For annual lease payment for 2002 Certificate of Participation Debt.
- (B) For capital project infrastructure reserve.
- (C) To fund street maintenance & environmental management.
- (D) To fund retiree medical, IT, equipment replacement, and compensated absences.
- (E) To return project savings to Capital Improvement Reserve
- (F) To return project funding to General Fund.
- (G) To return street pavement project savings to Capital Improvement Reserve.
- (H) To fund Stevens Creek Corridor Park phase II project.
- (I) To return prior year unused mail archive project money to General Fund.

Internal Balances – The City-wide financial statements had no net interfund receivables and payable remaining after the elimination of all such balances within governmental and business-type activities.

Advance to and advance from other funds

During fiscal year ended June 30, 2010, the Equipment Internal Service Fund loaned the General Fund \$504,497 for payment of the Prop 1A borrowing by the State of California. The General Fund is expected to repay the funds upon receipt of the repayment from the State of California during fiscal year ended June 30, 2013.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 6 - CAPITAL ASSETS

A summary of changes in governmental activities capital assets is as follows:

| | <u>Balance at June 30, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at June 30, 2012</u> |
|--|-------------------------------------|----------------------|--------------------|-------------------------------------|
| <i>Governmental activities</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$60,470,969 | | | \$60,470,969 |
| Easements | 19,105,143 | \$386,816 | | 19,491,959 |
| | <u>79,576,112</u> | <u>386,816</u> | | <u>79,962,928</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 40,748,297 | 22,986 | | 40,771,283 |
| Improvements other than buildings | 40,467,664 | 862,692 | | 41,330,356 |
| Machinery and Equipment - governmental funds | 1,967,948 | 21,671 | | 1,989,619 |
| Road, curbs, gutters, sidewalks, medians and bridges | 124,446,764 | 1,940,849 | | 126,387,613 |
| Streetlights | 8,294,089 | 249,805 | | 8,543,894 |
| Storm drain structure and mains | 31,916,460 | 87,062 | | 32,003,522 |
| Traffic signals | 6,066,875 | 70,987 | | 6,137,862 |
| Total capital assets being depreciated | <u>253,908,097</u> | <u>3,256,052</u> | | <u>257,164,149</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (16,787,485) | (1,518,340) | | (18,305,825) |
| Improvements other than buildings | (23,425,440) | (1,797,478) | | (25,222,918) |
| Machinery and Equipment - governmental funds | (1,705,189) | (81,629) | | (1,786,818) |
| Road, curbs, gutters, sidewalks, medians and bridges | (89,935,689) | (3,078,963) | | (93,014,652) |
| Streetlights | (6,516,655) | (89,950) | | (6,606,605) |
| Storm drain structure and mains | (26,612,821) | (800,098) | | (27,412,919) |
| Traffic signals | (4,699,412) | (110,596) | | (4,810,008) |
| Total accumulated depreciation | <u>(169,682,691)</u> | <u>(7,477,054)</u> | | <u>(177,159,745)</u> |
| Net governmental fund program | | | | |
| Capital assets being depreciated | <u>84,225,406</u> | <u>(4,221,002)</u> | | <u>80,004,404</u> |
| Internal service fund capital assets | | | | |
| Machinery and equipment | 5,900,456 | 943,447 | (\$539,005) | 6,304,898 |
| Less Accumulated depreciation | <u>(4,967,769)</u> | <u>(455,592)</u> | <u>531,388</u> | <u>(4,891,973)</u> |
| Net internal service fund capital assets | | | | |
| Being depreciated | <u>932,687</u> | <u>487,855</u> | <u>(7,617)</u> | <u>1,412,925</u> |
| Governmental activity capital assets, net | | | | |
| | <u>\$164,734,205</u> | <u>(\$3,346,331)</u> | <u>(\$7,617)</u> | <u>\$161,380,257</u> |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 6 - CAPITAL ASSETS (Continued)

A summary of changes in business-type activities capital assets is as follows:

| | <u>Balance at June 30, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at June 30, 2012</u> |
|--|-------------------------------------|------------------|--------------------|-------------------------------------|
| <i>Business-type activities:</i> | | | | |
| Capital assets being depreciated: | | | | |
| Buildings | \$293,372 | \$43,746 | | \$337,118 |
| Improvements other than buildings | 492,361 | 130,972 | | 623,333 |
| Machinery and Equipment | 272,088 | | | 272,088 |
| Total capital assets being depreciated | <u>1,057,821</u> | <u>174,718</u> | | <u>1,232,539</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (36,566) | (27,753) | | (64,319) |
| Improvements other than buildings | (57,435) | (72,113) | | (129,548) |
| Machinery and Equipment | (186,299) | (27,686) | | (213,985) |
| Total accumulated depreciation | <u>(280,300)</u> | <u>(127,552)</u> | | <u>(407,852)</u> |
| Total capital assets, being depreciated, net | <u>777,521</u> | <u>47,166</u> | | <u>824,687</u> |
| Business-type activity capital assets, net | <u>\$777,521</u> | <u>\$47,166</u> | | <u>\$824,687</u> |

Depreciation expense was charged to functions and programs based on their usage of the related assets.

Depreciation expense was charged to governmental activities as follows:

| | |
|--------------------------------|--------------------|
| Administration | \$238,489 |
| Public and environment affairs | 16,670 |
| Administrative Services | 26,216 |
| Parks and Recreation | 87,593 |
| Public Works | 7,108,086 |
| Internal Service funds | <u>455,592</u> |
| Total | <u>\$7,932,646</u> |

Depreciation expense was charged to the business-type activities as follows:

| | |
|-------------------------|------------------|
| Resources Recovery | \$3,351 |
| Blackberry Farms | 4,153 |
| Cupertino Sports Center | 28,310 |
| Recreation Program | <u>91,738</u> |
| Total | <u>\$127,552</u> |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 7 - LONG-TERM DEBT

(a) *Cupertino Public Facilities Corporation Certificates of Participation*

| | Original Issue Amount | Balance June 30, 2011 | Additions | Retirements | Balance June 30, 2012 | Current Portion |
|--|-----------------------------|-----------------------------|--------------|--------------|-----------------------------|--------------------|
| Governmental Activity Debt: | | | | | | |
| 2002 Refinancing and Capital Improvement Project, | | | | | | |
| 2.00-5.00%, due 07/01/2030 | \$56,640,000 | \$44,010,000 | | \$44,010,000 | | |
| 2012 Refinancing Certificates of Participation | | | | | | |
| 0.350-3.125%, due 07/01/2030 | 43,940,000 | | \$43,940,000 | | \$43,940,000 | \$1,920,000 |
| Total long-term debt | | 44,010,000 | 43,940,000 | 44,010,000 | 43,940,000 | \$1,920,000 |
| Less current portions | | (1,545,000) | | | (1,920,000) | |
| Non-current portions | | \$42,465,000 | \$43,940,000 | \$44,010,000 | \$42,020,000 | |

The Cupertino Public Facilities Corporation issued Certificates of Participation to provide financing for the construction of the Community Center, improvements of the City Hall and the Library in July 1986; purchase of Wilson Park in 1989; finance the Memorial Park Expansion in 1990; and purchase the Blackberry Farm and Fremont Older site in 1991. The Cupertino Public Facilities Corporation, as lessor, leased real property to the City (under the Lease Agreement with the lessee) and assigned the base rental payments to the trustee for the benefit of the owners of the certificates of participation. The rental payments are scheduled to be sufficient in both time and amount, when the principal and interest of the certificates are due.

On October 1, 2002, \$56,640,000 principal amount of 2002 Refinancing and Capital Improvement Project Certificates of Participation (2002 COPS), were issued to finance the costs of acquiring and constructing a new public library and to refund the 1992A COPS, the 1992B COPS and the 1993A COPS ("Prior COPS"). Payment of the principal and interest were insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation (Ambac). The reserve fund required for the 2002 COPS was funded with a reserve fund surety bond issued by Ambac. Interest payments on the 2002 COPS were payable semi-annually on January 1 and July 1.

The 2002 COPS were payable by a pledge of revenues from the lease payments payable by the City pursuant to the Lease Agreement between the Cupertino Public Facilities Corporation and the City for the use and possession of the Site and Facility as described in the Lease Agreement. For the year-ended June 30, 2012, interest paid totaled \$992,572.

On May 9, 2012, \$43,940,000 principal amount of 2012 Refinancing Certificates of Participation (2012 COPS) were issued to currently refund the 2002 COPS, to fund a reserve fund for the 2012 COPS, and pay costs incurred in connection with issuance. This current refunding was undertaken to reduce debt service payments over the next 18 years by \$6,518,000, and resulted in an economic gain (difference between the present value of the debt service requirements on the old and new bonds discounted at the effective interest rate on the new debt and adjusted for any additional cash) of \$6,637,000.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 7 - LONG-TERM DEBT (Continued)

The 2012 COPs are payable by a pledge of revenues from the lease payments payable by the City pursuant to the Lease Agreement between the Cupertino Public Facilities Corporation and the City for the use and possession of the Site and Facility as described in the Lease Agreement. The City also covenanted in the Lease Agreement to include all lease payments in its annual budget. Total debt service payments remaining on the 2012 COPs is \$57,073,759 payable through July 1, 2030. For the year-ended June 30, 2012, the bonds had no principal or interest due.

(b) Cupertino Public Facilities Corporation Certificates of Participation

Annual debt service requirements for the 2012 COPs are shown below:

| For the Year Ending June 30 | Governmental Activities | |
|--------------------------------|-------------------------|--------------|
| | Principal | Interest |
| 2013 | \$1,920,000 | \$1,255,422 |
| 2014 | 2,040,000 | 1,128,838 |
| 2015 | 2,055,000 | 1,118,638 |
| 2016 | 2,090,000 | 1,077,538 |
| 2017 | 2,135,000 | 1,035,738 |
| 2018 - 2022 | 11,470,000 | 4,382,938 |
| 2023 - 2027 | 13,275,000 | 2,580,740 |
| 2028 - 2031 | 8,955,000 | 553,907 |
| Total | \$43,940,000 | \$13,133,759 |

(c) Conduit Debt

On October 1, 2001, the City authorized the issuance of the Multi-Family Housing Revenue Bonds in an amount up to \$1.6 million to assist a developer in financing the cost of site acquisition and construction of a 24 unit multi-family rental housing project. The bonds are payable solely out of loan repayments received from the developer. The principal balance outstanding of the bonds and any accrued and unpaid interest is due and payable on October 1, 2031. The City has no legal or moral liability with respect to the payment of this debt. The amount of outstanding conduit debt principal at June 30, 2012 was \$725,796.

NOTE 8 - NET ASSETS AND FUND BALANCES

Net Assets are measured on the full accrual basis while Fund Balance is measured on the modified accrual basis.

Net Assets – The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as follows:

Invested in Capital Assets, net of related debt – This category groups all capital assets including, infrastructure, into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

Restricted – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the government-wide statement of net assets reported restricted assets of \$7,572,865 in governmental activities.

Unrestricted – This category represents net assets of the City that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

Fund Balances – As prescribed by GASB Statement No. 54, governmental funds report fund balance 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 followings:

Nonspendable Fund Balance – includes 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, land held for redevelopment and long-term notes receivable.

Restricted Fund Balance – includes 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 Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action 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 (for example: resolution and ordinance). The City has no amount in this category.

Assigned Fund Balance – comprises 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 official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – 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.

In circumstances when an expenditure may be made for which amounts are available in multiple fund balance classifications, the fund balance in General Fund will generally be used in the order of restricted, unassigned, and then assigned reserves. In other governmental funds, the order will generally be restricted and then assigned.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

The City Council has established reserve policy levels for various capital and contingency purposes. These balances are reported as part of the governmental funds' assigned fund balance as follows:

| Fund | Amount | Purpose |
|-------------------------------------|----------------------------|---|
| General Fund: | | |
| Economic uncertainty I | \$12,500,000 | For economic downturns and major unforeseen outlays. |
| Economic uncertainty II | 1,400,000 | For state borrowing of local funds under Proposition 1A and other shifts of funds to address state budget deficits. |
| Economic fluctuation | 2,000,000 | For unexpected fluctuations in the economy. |
| PERS liability | 500,000 | For potential PERS liabilities. |
| One-time revenue | 1,329,297 | One-time revenues for future projects |
| Capital Project Funds: | | |
| Capital Improvement reserve | 945,570 | Reserves set aside for future capital projects. |
| Infrastructure Reserve | 1,100,000 | Funds set aside for citywide infrastructure improvements. |
| Budgeted projects | 1,524,579 | Resources for project budgets. |
| Designated project | 75,924 | Designated, but not budgeted for specific project. |
| Total assigned fund balances | <u><u>\$21,375,370</u></u> | |

Fund balances for all major and nonmajor governmental funds as of June 30, 2012, were distributed as follows:

| | General | Public Facilities Corporation | Other Governmental Funds | Total |
|---------------------------|----------------------------|-------------------------------------|--------------------------------|----------------------------|
| Nonspendable: | | | | |
| Loans receivable | \$937,011 | | | \$937,011 |
| Prepaid items | 66,428 | | | 66,428 |
| Subtotal | <u>1,003,439</u> | | | <u>1,003,439</u> |
| Restricted for: | | | | |
| Public access television | 695,564 | | | 695,564 |
| Debt service | | \$1,680,597 | | 1,680,597 |
| Storm drain system | | | \$864,531 | 864,531 |
| Parks and open space | | | 618,867 | 618,867 |
| Environmental management | | | 329,629 | 329,629 |
| Streets and road projects | | | 1,326,899 | 1,326,899 |
| Housing programs | | | 2,056,778 | 2,056,778 |
| Subtotal | <u>695,564</u> | <u>1,680,597</u> | <u>5,196,704</u> | <u>7,572,865</u> |
| Assigned to: | | | | |
| General government | 17,729,297 | | | 17,729,297 |
| Capital projects | | | 3,646,073 | 3,646,073 |
| Subtotal | <u>17,729,297</u> | | <u>3,646,073</u> | <u>21,375,370</u> |
| Unassigned | | | | |
| | <u>6,669,378</u> | | | <u>6,669,378</u> |
| Total | <u><u>\$26,097,678</u></u> | <u><u>\$1,680,597</u></u> | <u><u>\$8,842,777</u></u> | <u><u>\$36,621,052</u></u> |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) *Federal and State Grant*

The City participates in a number of federal and state grant programs subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2012, have yet to be conducted. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statements.

(b) *Encumbrances*

The City uses encumbrances to control expenditure commitments for the year. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities, but as restricted, or assigned fund balance. As of June 30, 2012, the City had the following encumbrances outstanding:

| | |
|--------------------------|---------------------------|
| Governmental Funds: | |
| General Fund | \$172,659 |
| Other Governmental Funds | <u>1,088,951</u> |
| Total encumbrances | <u><u>\$1,261,610</u></u> |

(c) *Lease Agreement with County of Santa Clara*

The City has an agreement, expiring in 2019, to lease a building to the County of Santa Clara for the purpose of providing library service to the City’s residents. The lease requires a minimum annual payment of \$120,000 adjusted for Cupertino’s portion of book circulation and increase of assessed valuation. This is an operating lease with a renewable option. At June 30, 2012, the cost and carrying value of the building which opened in October 2004, is \$21,935,325 and \$15,788,626 respectively, with \$6,146,699 in accumulated depreciation.

(d) *Consulting Agreement for Sales Taxes*

The City entered into agreements with two companies to provide services consisting of the assessment and creation of new sales and use tax revenue sources for the City. The City agreed to pay the companies based on a sliding scale payment schedule dependent on the level of new sales tax revenue realized by the City as defined in the consulting agreements. The agreements with the companies expire February 19, 2013 and June 30, 2016.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 - LIABILITIES UNDER SELF-INSURANCE AND RISK MANAGEMENT

(a) *General and Property Liability*

The City is self-insured for the first \$250,000 of general and property liability for each occurrence, and the excess (up to \$10,000,000 for each occurrence and annual aggregate) is covered through the City's participation in the Association of Bay Area Governments Pooled Liability Assurance Network (ABAG PLAN). The risk pool consists of 31 agencies within the San Francisco Bay Area. The stated purpose of the ABAG PLAN is to provide certain levels of liability insurance coverage, claims management, risk management services, and legal defense to its participating members. ABAG PLAN is governed by a Board of Directors, which comprises officials appointed by each participating member. Premiums paid to ABAG are subject to possible refund based on the results of actuarial studies and approval by the Board of Directors. Complete financial statements for ABAG PLAN may be obtained from their offices at the following address: ABAG PLAN, Finance Department, P.O. Box 2050, Oakland, CA 94604. Premiums are revised each year based on the City's claims experience and risk exposure. For the year ended June 30, 2012, the City paid ABAG PLAN premiums of \$172,208.

(b) *Workers' Compensation Liability*

The City belongs to the CSAC Excess Insurance Authority (EIA), a joint power authority which provides excess workers' compensation liability claims coverage above the City's self-insured retention of \$500,000 per occurrence. Losses above the self-insured retention are pooled with excess reinsurance purchased to a \$50,000,000 statutory limit. EIA was established in 1979 for the purpose of creating a risk management pool for all California public entities. EIA is governed by a Board of Directors consisting of representatives of its member public entities. Complete financial statements for EIA may be obtained from their offices at the following address: CSAC Excess Insurance Authority, Finance Department, 75 Iron Point Circle, Suite 200, Folsom, CA 95630. For the year ended June 30, 2012, the City paid premiums of \$59,504 to EIA.

It is the City's practice to obtain biennial actuarial studies for the self-insured workers' compensation liability. The claims liabilities included in the workers' compensation internal service fund is based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. Inflation of 2.5%, annual rate of return of 3%, claim severity increase at 2.5% were assumed. In the current year, management used actuarial estimates based on an 80% confidence level.

Settlements have not exceeded insurance coverage in the past three years.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 10 - LIABILITIES UNDER SELF-INSURANCE AND RISK MANAGEMENT

Changes in the balances of workers' compensation claims liabilities during the years ended June 30 are as follows:

| | 2012 | 2011 |
|---|-------------|-------------|
| Claims liability, beginning of year | \$1,651,953 | \$1,633,943 |
| Incurred claims and changes in estimate | 57,022 | 244,857 |
| Claim payments and credits | (212,997) | (226,847) |
| Total claims liability, end of year | 1,495,978 | 1,651,953 |
| Less current portion | (333,694) | (388,594) |
| Non-current portion | \$1,162,284 | \$1,263,359 |

NOTE 11 - DEFINED BENEFIT PENSION PLAN

(a) Plan Description

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CalPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the Miscellaneous Employee Plan (Plan). Benefit provisions under the Plan are established by State statute and City resolution. Benefits are based on years of credited service and compensation. Audited annual financial statements are available from CalPERS at www.calpers.ca.gov.

(b) Funding Policy

The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City is required to contribute at an actuarially determined rate. Based on the June 30, 2010 actuarial report, the Plan's provisions and benefits in effect at June 30, 2012, are summarized as follows:

| | |
|--|----------------------|
| | <u>Miscellaneous</u> |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Eligible retirement age | 50 |
| Benefits, as a % of annual salary multiplied by years of service and annual salary | 2% - 2.7% |
| Required employee contribution rates | 8% |
| Required employer contribution rates | 20.690% |

The City covered 75% of the employees' required payroll contributions for fiscal year 2012. The City uses the actuarially determined percentages of payroll to calculate and pay 100% of the required contributions to CalPERS. This results in no net pension obligations or unpaid contributions.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

(c) Annual Pension Cost

The required contribution was determined as part of June 30, 2010 actuarial valuations using the entry age normal method. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains or losses each year.

Recent Annual Pension Costs, which equal the Annual Required Contribution to CALPERS, were as follows:

| Fiscal Year | Annual Pension Cost (APC) | Contribution |
|-------------|---------------------------|--------------|
| 6/30/2010 | \$1,841,350 | 100% |
| 6/30/2011 | 2,088,898 | 100% |
| 6/30/2012 | 2,657,476 | 100% |

(d) Funded Status and Funding Progress

The significant actuarial assumptions used to prepare the City's June 30, 2010 actuarial valuation include the following:

| | |
|----------------------------|--|
| Valuation date: | June 30, 2010 |
| ARC: | Determined for fiscal year 2012/2013 |
| Actuarial Cost Method: | Entry Age Normal Cost Method |
| Amortization Method: | Level percent of payroll |
| Average Remaining Period | 21 Years as of Valuation Date |
| Asset Valuation Method: | 15 Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return: | 7.75% (net of administrative expenses) |
| Projected Salary Increase: | 3.55% to 14.45% depending on Age, Service and type of employment |
| Inflation: | 3.00% |
| Payroll Growth: | 3.25% |
| Individual Salary Growth: | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. |

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

CalPERS' latest available actuarial data and funding progress are set forth below at their actuarial valuation date as of June 30, 2010.

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$79,939,987 |
| Actuarial value of plan assets | <u>(61,358,259)</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$18,581,728</u> |
| | |
| Funded ratio (actuarial value of plan assets/AAL) | 76.8% |
| Covered payroll (active plan members) | \$12,428,055 |
| UAAL as a percentage of covered payroll | 149.5% |

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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 liabilities for benefits. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, 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.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

(a) Plan Description

Permanent employees who retire under the City's CalPERS retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums paid by the City. Retirees receive the amount necessary to pay the cost of his/her enrollment, including the enrollment of his/her family members, in a health benefit plan provided by CalPERS up to the maximum received by active employees in their respective bargaining unit.

The City contracts with CalPERS for this insured-benefit plan established under the state Public Employees' Medical and Hospital Care Act (PEMHCA). The plan offers employees and retirees three CalPERS' self-funded options, setup as insurance risk pools, or offers various third-party insured health plans. The plan's medical benefits and premium rates are established by CalPERS and the insurance providers. The City contribution is established by City resolution. Retirees and active employees pay the difference between the premium rate and the City's contribution. Premiums and City contributions are based on the plan and coverage selected by actives and retirees, with the City's potential contribution ranging from zero to \$1,326 per month per employee or retiree. The responsibility for benefit payments has transferred to the insurers and the City does not guarantee the benefits in the event of default by the insurers. A comprehensive annual financial report of CalPERS, inclusive of their benefit plans, is available at www.calpers.ca.gov.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(a) Plan Description (Continued)

The City participates in the Public Agency Retirement System (PARS) Public Agencies Post Retirement Health Care Plan Trust Program (PARS Trust), an agent-multiple employer irrevocable trust established to fund other postemployment benefits. The PARS Trust is approved by the Internal Revenue Code Section 115 and invests funds in equity, bond, and money market mutual funds. Copies of PARS Trust annual financial report may be obtained from PARS at 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660. A separate report for the City's portion of the PARS Trust is available at the City's Finance Department.

An employee is eligible for lifetime medical benefits under the OPEB Plan, along with his/her spouse or declared domestic partner at the time of retirement, if all criteria listed below are met:

- The employee was hired or the City Council member was elected prior to August 1, 2004, and the employee has five or more full-time years of service and the City Council member has five or more years of elected service with the City of Cupertino; or
- The employee was hired or the City Council member was elected on or after August 1, 2004, and the employee has ten or more full-time and/or elected years of CalPERS service, five years of which must be from the City of Cupertino; and
- The employee is eligible for retirement as defined under the CalPERS retirement system; and
- The employee retires from the City of Cupertino.

In addition, the eligible employee's dependent children at the time of retirement who are under 23 years old are eligible for medical benefits. In addition to extending the eligibility of dependents from age 23 to age 26 in accordance with the recent healthcare reform act, effective July 1, 2010, employees that retire or resign from service with the City of Cupertino and who are not eligible for retiree medical benefits can continue on the City's medical and dental plans provided that they pay the premiums in full.

(b) Funding Policy

OPEB Plan contributions are set by the adopted budget. The cost of the benefits provided by the OPEB Plan is currently being paid by the City on a fully pre-funded basis. The City has expressed intent to fully fund the annual required contribution (ARC) each year. Based on the actuarial valuation date of January 1, 2011, the annual required contribution rate is 14.20% of annual covered payroll. For the year ended June 30, 2012, the City contributed \$900,000 to the PARS Trust and paid \$722,549 in healthcare premium payments to pre-fund OPEB Plan.

(c) Annual OPEB Cost and Funded Status

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of certain events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(c) Annual OPEB Cost and Funded Status (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The other significant actuarial assumptions used to prepare the City's January 1, 2011 actuarial valuation include the following:

| | | | |
|-----------------------------|--|--------------|---------------------|
| Valuation date: | January 1, 2011 | | |
| Actuarial Cost Method: | Entry Age Normal Cost Method | | |
| Amortization Method: | Level percent of payroll (assuming 3.25% per year growth in total payroll) | | |
| Amortization Period: | Closed initial 20 years period. At January 1, 2011, remaining amortization period is 18 years. | | |
| Asset Valuation Method: | Market value | | |
| Actuarial Assumptions: | | | |
| Investment Rate of Return: | 6.00% (net of investment expenses) | | |
| Projected Salary Increases: | 3.25% | | |
| Inflation: | 3.00% | | |
| Increases in Pay: | Assumed annual rates of future pay increases are based on the current CalPERS age and service based assumptions. | | |
| Medical Inflation: | <u>Year</u> | <u>Gross</u> | <u>City Maximum</u> |
| | 2011 | 10.0% | 3.5% |
| | 2012 | 8.0% | 3.5% |
| | 2013 | 7.0% | 3.5% |
| | 2014 | 6.0% | 3.5% |
| | 2015 | 5.0% | 3.5% |
| | 2016+ | 5.0% | 3.5% |

In addition, PEMHCA is a community-rated plan, where the same premiums apply for all plan participants regardless of the presence or number of active employees. There is no implicit rate subsidy in the premiums for pre-Medicare retirees.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

(c) Annual OPEB Cost and Funded Status (Continued)

The City's annual OPEB cost and actual contributions to the OPEB Plan for the past three years are as follows:

| <u>Fiscal Year</u> | <u>OPEB Annual Cost (AOC)</u> | <u>Actual Contribution</u> | <u>Percentage of AOC Contributed</u> | <u>Net OPEB Obligation (Asset)</u> |
|--------------------|-----------------------------------|--------------------------------|--|--|
| 6/30/2010 | \$2,043,000 | \$7,616,760 | 373% | (\$3,746,683) |
| 6/30/2011 | 1,870,000 | 2,688,723 | 144% | (4,565,406) |
| 6/30/2012 | 1,900,000 | 1,622,549 | 85% | (4,287,955) |

The City's Net OPEB asset is recorded in the Retiree Medical Internal Service Fund and is calculated as of June 30, 2012 as follows:

| | |
|--|------------------------------------|
| Annual required contribution | \$1,800,000 |
| Interest on prior year net OPEB asset | (273,924) |
| Adjustment to annual required contribution | <u>373,924</u> |
| Annual OPEB cost | 1,900,000 |
| Insurance premiums paid on behalf of retirees | (722,549) |
| Contributions to trust | <u>(900,000)</u> |
| Decrease (increase) in net OPEB asset | 277,451 |
| Net OPEB obligation (asset) June 30, 2011 | <u>(4,565,406)</u> |
| Net OPEB obligation (asset) June 30, 2012 | <u><u>(\$4,287,955)</u></u> |

The latest available actuarial data and funding progress are set forth below at their actuarial valuation date of January 1, 2011.

| | |
|---|-----------------------------------|
| Actuarial accrued liability (AAL) | \$20,869,058 |
| Actuarial value of planned assets | <u>(7,438,341)</u> |
| Unfunded actuarial accrued liability (UAAL) | <u><u>\$13,430,717</u></u> |
| Funded Ratio (actuarial value of plan assets/AAL) | 35.6% |
| Covered payroll (active plan members) | \$12,724,000 |
| UAAL as a percentage of covered payroll | 105.6% |

NOTE 13 – CONCENTRATION RISK

The City has an economic dependency on revenues generated directly or indirectly from one company. For the year ended June 30, 2012, more than 10% of the City General Fund's total revenues are derived from the company. The City's operations would be adversely impacted if there are any significant declines in taxes received from the company.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

Effective January 31, 2012, all Redevelopment Agencies are to be dissolved. Certain assets of the Redevelopment Agency Low and Moderate Income Housing Fund are to be distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities are to be distributed to a Successor Agency.

The redevelopment agency dissolution acts, ABx1 26 and AB 1484, require reviews examining the activities of the former Redevelopment Agency and current Successor Agency (Agencies) to ultimately determine the amount available for distribution to other taxing entities. Specifically, the County Auditor-Controller (CAC) must conduct an agreed-upon procedure review as of January 31, 2012 and the Successor Agency must conduct a due diligence review as of June 30, 2012 by engaging either the CAC or a licensed accountant approved by the County Auditor-Controller. The Successor Agency opted to have the CAC conduct the due diligence review. The CAC has completed the agreed-upon procedure and the due diligence reviews of all funds of the Agencies and concluded that there was no amount available for distribution to other taxing entities. On August 30, 2012, the Oversight Board of the Cupertino Successor to the Redevelopment Agency reviewed and heard public comment on both reviews. On September 6, 2012, the Board approved the reviews and authorized the transmission of the amount available for distribution to the State Department of Finance and to the County Auditor-Controller.

In addition, ABx1 26 and AB 1484 direct the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the Successor Agency. The Successor Agency reported such asset transfers to the State Controller and the CAC. The State Controller has not scheduled its asset transfer review. In its agreed-upon procedure review disclosed above, the CAC concluded that no assets were to be returned to the Successor Agency under the legislation.

The City's elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Low and Moderate Income Housing Asset Special Revenue Fund.

The dissolution acts provide a mechanism for paying remaining obligations of the Agencies and for affecting the eventual dissolution of the Successor Agency. On May 22, 2012, the Oversight Board approved the final obligations of the Agencies. AB 1484 directs that the Successor Agency will dissolve within one year after final payment.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

NOTE 14 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency’s remaining assets were distributed to and liabilities assumed by the Successor Agency. ABx1 26 required the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 27, 2012. A summary of assets distributed and liabilities assumed by the Successor Agency, reported as an Extraordinary Item, is presented below:

| | Assets and Liabilities (Prior to transfer) | Transfer to Successor Agency to Redevelopment Agency Private-purpose Trust Fund | Transfer to Low and Moderate Income Housing Assets | Ending Balance January 31, 2012 |
|----------------------|---|---|--|---------------------------------------|
| ASSETS | | | | |
| Cash and investments | \$1,255,297 | (\$1,130,797) | (\$124,500) | \$0 |
| Total assets | 1,255,297 | (1,130,797) | (124,500) | 0 |
| NET ASSETS | \$1,255,297 | (\$1,130,797) | (\$124,500) | \$0 |

NOTE 15 – SUBSEQUENT EVENTS

The California State Board of Equalization notified the City on October 10, 2012 that the Board proposes a \$10,550,721 reallocation of the City’s past sales taxes to the county-wide pool. Under the Board’s procedures, the City will petition and appeal the reallocation. Up to half of the potential loss may be recovered by a refund of what the City paid under a sales tax consulting agreement and by what the City would receive back through the county-wide pool.

CITY OF CUPERTINO
 Required Supplementary Information (Unaudited)
 For the Year Ended June 30, 2012

Schedule of Funding Progress – CalPERS Defined Benefit Retirement Miscellaneous Plan:

| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|----------------|-----------------------------|-----------------|---------------------------------|--------------|------------------------|---|
| 6/30/2008 | \$65,337,134 | \$54,571,233 | 10,765,901 | 83.5% | \$11,009,984 | 97.8% |
| 6/30/2009 | 74,955,504 | 57,934,851 | 17,020,653 | 77.3% | 11,668,964 | 145.9% |
| 6/30/2010 | 79,939,987 | 61,358,259 | 18,581,728 | 76.8% | 12,428,055 | 149.5% |

Schedule of Funding Progress – Defined Benefit Other Post Employment Benefits Plan:

| Actuarial Valuation Date | Actuarial Accrued Liability Entry Age | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Unfunded Actuarial Liability as Percentage of Covered Payroll |
|--------------------------|---------------------------------------|---------------------------|--------------------------------------|--------------|-----------------|---|
| 1/1/2007 | \$21,981,544 | | \$21,981,544 | 0.00% | \$11,118,000 | 197.71% |
| 1/1/2009 | 18,069,366 | | 18,069,366 | 0.00% | 11,892,000 | 151.95% |
| 1/1/2011 | 20,869,058 | \$7,438,341 | 13,430,717 | 35.64% | 12,724,000 | 105.55% |

| |
|--|
| <p style="text-align: center;">MAJOR GOVERNMENTAL FUNDS OTHER THAN THE GENERAL FUND AND SPECIAL REVENUE FUNDS</p> |
|--|

This section is provided for the presentation of budget-to-actual statements for the Public Facilities Corporation Debt Service Fund. Although the fund is considered to be a major government fund, budget-to-actual information in the basic financial statements is limited to the General Fund and major Special Revenue Funds. All other major governmental fund schedules with such information are therefore included as Supplemental Information.

PUBLIC FACILITIES CORPORATION DEBT SERVICE FUND

This fund accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of the Civic Center, Library, Wilson Park, Memorial Park, and other City facilities.

CITY OF CUPERTINO
PUBLIC FACILITIES CORPORATION DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budget</u> | <u>Actual</u> | Variance Positive (Negative) |
|--|---------------------|---------------------|------------------------------------|
| EXPENDITURES | | | |
| Debt service: | | | |
| Payment to refunded COP escrow agent | \$44,015,156 | \$44,897,800 | (\$882,644) |
| Interest and fiscal charges | <u>2,822,874</u> | <u>1,837,655</u> | <u>985,219</u> |
| Total Expenditures | <u>46,838,030</u> | <u>46,735,455</u> | <u>102,575</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(46,838,030)</u> | <u>(46,735,455)</u> | <u>102,575</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of long-term debt | 44,160,000 | 43,940,000 | (220,000) |
| Premium on long-term debt issued | 785,450 | 883,839 | 98,389 |
| Transfers in | <u>3,534,000</u> | <u>3,534,000</u> | |
| Total Other Financing Sources (Uses) | <u>48,479,450</u> | <u>48,357,839</u> | <u>(121,611)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$1,641,420</u> | 1,622,384 | <u>(\$19,036)</u> |
| BEGINNING FUND BALANCE | | <u>58,213</u> | |
| ENDING FUND BALANCE | | <u>\$1,680,597</u> | |

NONMAJOR GOVERNMENTAL FUNDS

All funds not considered as major funds on the Fund Financial Statements are consolidated in one column entitled "Other Governmental Funds." These non-major funds are identified and included in this supplementary section and includes the City's Special Revenue Funds and Capital Project Funds.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Storm Drain Improvement - Accounts for the construction and maintenance of storm drain facilities including drainage and sanitary sewer facilities. Revenues were collected from developers as a result of connections to the storm drainage sewer system.

Park Dedication - Accounts for the activity granted by the business and professions code of the State of California in accordance with the open space and conservation element of the City's General Plan. Revenues of this fund are restricted for the acquisition, improvement, expansion and implementation of the City's parks and recreation facilities.

Environmental Management / Clean Creeks - Accounts for all activities related to operating the non-point source pollution program. A parcel tax provides revenues.

Transportation - Accounts for the City's gas tax, sales tax and grant revenues and expenditures related to the maintenance and construction of City streets. All revenue in this fund is restricted exclusively for street and road purposes including related engineering and administrative expenditures.

Housing Development - Accounts for the Federal Housing and Community Development Grant Program activities administered through the County. Monies collected from developers that mitigate the impact of housing needs are also included. Monies in this fund are governed by the program's rules.

Redevelopment Agency – Accounts for the Vallco redevelopment project area and low and moderate income housing funds.

Low and Moderate Income Housing Assets – Accounts for the activities related to the housing assets assumed by the City as Housing Successor to the former Redevelopment Agency. The activities are governed by California redevelopment law and must be used to provide housing for people with low and moderate incomes.

Capital Projects Funds account for the financial resources committed to the construction or improvement of major facilities.

Capital Improvement Projects Fund – Accounts for activities related to the acquisition or construction of major capital facilities.

Stevens Creek Corridor Park Capital Projects Fund – Accounts for the design and construction of the Stevens Creek Corridor Park projects.

Don Burnett Bicycle-Pedestrian Bridge – Accounts for the design and construction of a bicycle footbridge extension of Mary Avenue over Interstate 280. It includes gateways, paths, residential buffering elements, and landscaping.

CITY OF CUPERTINO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

SPECIAL REVENUE FUNDS

| | <u>Storm Drain Improvement</u> | <u>Park Dedication</u> | <u>Environmental Management/ Clean Creeks</u> | <u>Transportation</u> | <u>Housing Development</u> |
|-------------------------------------|--|----------------------------|---|-----------------------|--------------------------------|
| Assets | | | | | |
| Cash and investments | \$863,836 | \$617,171 | \$335,467 | \$1,293,848 | \$1,180,397 |
| Accounts receivable | | 1,200 | | 79,511 | 67,546 |
| Interest receivable | 695 | 496 | 248 | 1,076 | 946 |
| Loans receivable | | | | | 768,277 |
| Property held for resale | | | | | 262,782 |
| | <u>\$864,531</u> | <u>\$618,867</u> | <u>\$335,715</u> | <u>\$1,374,435</u> | <u>\$2,279,948</u> |
| Liabilities | | | | | |
| Accounts payable and accruals | | | \$288 | \$28,663 | \$92,395 |
| Accrued payroll and benefits | | | 5,798 | 18,873 | 1,173 |
| Deferred revenue | | | | | 129,602 |
| | | | <u>6,086</u> | <u>47,536</u> | <u>223,170</u> |
| Fund balances | | | | | |
| Restricted | \$864,531 | \$618,867 | 329,629 | 1,326,899 | 2,056,778 |
| Assigned | | | | | |
| | <u>864,531</u> | <u>618,867</u> | <u>329,629</u> | <u>1,326,899</u> | <u>2,056,778</u> |
| Total fund balances | <u>864,531</u> | <u>618,867</u> | <u>329,629</u> | <u>1,326,899</u> | <u>2,056,778</u> |
| Total liabilities and fund balances | <u>\$864,531</u> | <u>\$618,867</u> | <u>\$335,715</u> | <u>\$1,374,435</u> | <u>\$2,279,948</u> |

| SPECIAL REVENUE FUNDS | | CAPITAL PROJECT FUNDS | | | |
|-----------------------|--|------------------------------|-----------------------------|---------------------------------------|---|
| Redevelopment Agency | Low and Moderate Income Housing Assets | Capital Improvement Projects | Stevens Creek Corridor Park | Don Burnett Bicycle Pedestrian Bridge | Total Nonmajor Governmental Funds |
| | | \$2,794,356 1,059 | \$921,216 19,876 | \$27,415 | 8,033,706 169,192 3,461 768,277 262,782 |
| | | <u>\$2,795,415</u> | <u>\$941,092</u> | <u>\$27,415</u> | <u>\$9,237,418</u> |
| | | \$20,000 | \$97,849 | | \$239,195 25,844 129,602 |
| | | <u>20,000</u> | <u>97,849</u> | | <u>394,641</u> |
| | | <u>2,775,415</u> | <u>843,243</u> | <u>\$27,415</u> | 5,196,704 3,646,073 |
| | | <u>2,775,415</u> | <u>843,243</u> | <u>27,415</u> | <u>8,842,777</u> |
| | | <u>\$2,795,415</u> | <u>\$941,092</u> | <u>\$27,415</u> | <u>\$9,237,418</u> |

CITY OF CUPERTINO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

SPECIAL REVENUE FUNDS

| | Storm Drain Improvement | Park Dedication | Environmental Management/ Clean Creeks | Transportation | Housing Development |
|--|-------------------------------|-------------------------|--|---------------------------|---------------------------|
| REVENUES | | | | | |
| Taxes | \$81,180 | \$40,500 | | | \$177,268 |
| Use of money and property | 966 | 721 | \$341 | \$710 | 8,346 |
| Intergovernmental | | | | 1,701,964 | 227,013 |
| Charges for services | | 15,757 | 367,045 | 10,000 | |
| Total Revenues | <u>82,146</u> | <u>56,978</u> | <u>367,386</u> | <u>1,712,674</u> | <u>412,627</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Community development | | | | | 1,072,980 |
| Public works | 36,143 | | 363,947 | 791,131 | |
| Capital outlay | 50,919 | | | 1,784,365 | |
| Total Expenditures | <u>87,062</u> | | <u>363,947</u> | <u>2,575,496</u> | <u>1,072,980</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(4,916)</u> | <u>56,978</u> | <u>3,439</u> | <u>(862,822)</u> | <u>(660,353)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | | 67,800 | 950,000 | |
| Transfers (out) | | | | (43,806) | |
| Total Other Financing Sources (Uses) | | | <u>67,800</u> | <u>906,194</u> | |
| NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM | <u>(4,916)</u> | <u>56,978</u> | <u>71,239</u> | <u>43,372</u> | <u>(660,353)</u> |
| EXTRAORDINARY ITEM | | | | | |
| Assets transferred to Successor Agency/ Housing Successor | | | | | |
| NET CHANGE IN FUND BALANCES | (4,916) | 56,978 | 71,239 | 43,372 | (660,353) |
| BEGINNING FUND BALANCES | <u>869,447</u> | <u>561,889</u> | <u>258,390</u> | <u>1,283,527</u> | <u>2,717,131</u> |
| ENDING FUND BALANCES | <u><u>\$864,531</u></u> | <u><u>\$618,867</u></u> | <u><u>\$329,629</u></u> | <u><u>\$1,326,899</u></u> | <u><u>\$2,056,778</u></u> |

| SPECIAL REVENUE FUNDS | | CAPITAL PROJECT FUNDS | | | | |
|-----------------------|--|------------------------------|-----------------------------|---------------------------------------|-----------------------------------|--|
| Redevelopment Agency | Low and Moderate Income Housing Assets | Capital Improvement Projects | Stevens Creek Corridor Park | Don Burnett Bicycle Pedestrian Bridge | Total Nonmajor Governmental Funds | |
| \$202,793 | | | | | \$501,741 | |
| 2,660 | | | | | 13,744 | |
| | | \$321,766 | \$15,000 | | 2,265,743 | |
| | | 744 | | | 393,546 | |
| 205,453 | | 322,510 | 15,000 | | 3,174,774 | |
| 130,665 | \$124,500 | | | | 1,328,145 | |
| | | 773,767 | 862,691 | \$38,787 | 1,191,221 | |
| | | | | | 3,510,529 | |
| 130,665 | 124,500 | 773,767 | 862,691 | 38,787 | 6,029,895 | |
| 74,788 | (124,500) | (451,257) | (847,691) | (38,787) | (2,855,121) | |
| | | 787,806 | 1,110,000 | | 2,915,606 | |
| | | (1,107,820) | (110,000) | | (1,261,626) | |
| | | (320,014) | 1,000,000 | | 1,653,980 | |
| 74,788 | (124,500) | (771,271) | 152,309 | (38,787) | (1,201,141) | |
| (1,255,297) | 124,500 | | | | (1,130,797) | |
| (1,180,509) | | (771,271) | 152,309 | (38,787) | (2,331,938) | |
| 1,180,509 | | 3,546,686 | 690,934 | 66,202 | 11,174,715 | |
| | | \$2,775,415 | \$843,243 | \$27,415 | \$8,842,777 | |

CITY OF CUPERTINO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

| SPECIAL REVENUE FUNDS | | | | | | |
|--|-------------------------|------------------|------------------------------------|------------------|------------------|------------------------------------|
| | STORM DRAIN IMPROVEMENT | | | PARK DEDICATION | | |
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Taxes | \$50,000 | \$81,180 | \$31,180 | \$150,000 | \$40,500 | (\$109,500) |
| Use of money and property | 20,000 | 966 | (19,034) | 10,000 | 721 | (\$9,279) |
| Intergovernmental | | | | | | |
| Charges for services | | | | | 15,757 | |
| Total Revenues | <u>70,000</u> | <u>82,146</u> | <u>12,146</u> | <u>160,000</u> | <u>56,978</u> | <u>(118,779)</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Community development | | | | | | |
| Public works | 86,587 | 36,143 | 50,444 | | | |
| Capital outlay | 889,146 | 50,919 | 838,227 | | | |
| Total Expenditures | <u>975,733</u> | <u>87,062</u> | <u>888,671</u> | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(905,733)</u> | <u>(4,916)</u> | <u>900,817</u> | <u>160,000</u> | <u>56,978</u> | <u>(103,022)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | | | | |
| Transfers (out) | | | | | | |
| Total Other Financing Sources (Uses) | | | | | | |
| NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM | <u>(\$905,733)</u> | <u>(4,916)</u> | <u>\$900,817</u> | <u>\$160,000</u> | <u>56,978</u> | <u>(\$103,022)</u> |
| EXTRAORDINARY ITEM | | | | | | |
| Assets transferred to Successor Agency | | | | | | |
| NET CHANGE IN FUND BALANCES | | | | | | |
| BEGINNING FUND BALANCES | | <u>869,447</u> | | | <u>561,889</u> | |
| ENDING FUND BALANCES | | <u>\$864,531</u> | | | <u>\$618,867</u> | |

SPECIAL REVENUE FUNDS

| ENVIRONMENTAL MANAGEMENT/ CLEAN CREEKS | | | TRANSPORTATION | | | HOUSING DEVELOPMENT | | |
|---|------------------|------------------------------------|----------------|--------------------|------------------------------------|---------------------|--------------------|------------------------------------|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| \$1,000 | \$341 | (\$659) | \$10,000 | \$710 | (\$9,290) | \$50,000 | \$177,268 | \$127,268 |
| | | | 1,524,000 | 1,701,964 | 177,964 | 85,000 | 8,346 | (76,654) |
| 433,800 | 367,045 | (66,755) | | 10,000 | 10,000 | 391,000 | 227,013 | (163,987) |
| 434,800 | 367,386 | (67,414) | 1,534,000 | 1,712,674 | 178,674 | 526,000 | 412,627 | (113,373) |
| | | | | | | 1,150,479 | 1,072,980 | 77,499 |
| 556,802 | 363,947 | 192,855 | 885,362 | 791,131 | 94,231 | | | |
| | | | 2,175,517 | 1,784,365 | 391,152 | | | |
| 556,802 | 363,947 | 192,855 | 3,060,879 | 2,575,496 | 485,383 | 1,150,479 | 1,072,980 | 77,499 |
| (122,002) | 3,439 | 125,441 | (1,526,879) | (862,822) | 664,057 | (624,479) | (660,353) | (35,874) |
| | 67,800 | 67,800 | 950,000 | 950,000 | | | | |
| | | | (43,806) | (43,806) | | | | |
| | 67,800 | 67,800 | 906,194 | 906,194 | | | | |
| (\$122,002) | 71,239 | \$193,241 | (\$620,685) | 43,372 | \$664,057 | (\$624,479) | (660,353) | (\$35,874) |
| | 258,390 | | | 1,283,527 | | | 2,717,131 | |
| | <u>\$329,629</u> | | | <u>\$1,326,899</u> | | | <u>\$2,056,778</u> | |

(Continued)

CITY OF CUPERTINO
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2012

| | SPECIAL REVENUE FUND | | | | | |
|--|----------------------|--------------------------|------------------------------------|---|--------------------------|------------------------------------|
| | REDEVELOPMENT AGENCY | | | LOW AND MODERATE INCOME HOUSING ASSETS | | |
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Taxes | \$250,000 | \$202,793 | (\$47,207) | | | |
| Use of money and property | | 2,660 | 2,660 | | | |
| Intergovernmental | | | | | | |
| Charges for services | | | | | | |
| Total Revenues | <u>250,000</u> | <u>205,453</u> | <u>(44,547)</u> | | | |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Community development | 1,137,000 | 130,665 | 1,006,335 | \$250,000 | \$124,500 | \$125,500 |
| Public works | | | | | | |
| Capital outlay | | | | | | |
| Total Expenditures | <u>1,137,000</u> | <u>130,665</u> | <u>1,006,335</u> | <u>250,000</u> | <u>124,500</u> | <u>125,500</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(887,000)</u> | <u>74,788</u> | <u>961,788</u> | <u>(250,000)</u> | <u>(124,500)</u> | <u>125,500</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | | | | |
| Transfers (out) | | | | | | |
| Total Other Financing Sources (Uses) | | | | | | |
| NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM | <u>(\$887,000)</u> | <u>74,788</u> | <u>\$961,788</u> | <u>(\$250,000)</u> | <u>(124,500)</u> | <u>\$125,500</u> |
| EXTRAORDINARY ITEM | | | | | | |
| Assets transferred to Successor Agency | | <u>(1,255,297)</u> | | | <u>124,500</u> | |
| NET CHANGE IN FUND BALANCES | | (1,180,509) | | | | |
| BEGINNING FUND BALANCES | | <u>1,180,509</u> | | | | |
| ENDING FUND BALANCES | | <u><u> </u></u> | | | <u><u> </u></u> | |

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services provided by one department or program to other departments of the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund are eliminated by netting them against the operations of the City departments that generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets. However, internal service funds are still presented separately in the Fund financial statements.

Information Technology - Accounts for the activities related to the maintenance and replacement of the City's technology infrastructure.

Workers' Compensation - Accounts for the activities in support of the self-insured workers' compensation program.

Equipment Revolving - Accounts for the activities related to the maintenance and replacement of the City's vehicle fleet and other equipment.

Compensated Absences and Long-Term Disability - Accounts for accrued leave payouts and the City's long term disability insurance program.

Retiree Medical – Contains funds set-aside for other post employment retirement benefits.

CITY OF CUPERTINO
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Information Technology</u> | <u>Workers' Compensation</u> | <u>Equipment Revolving</u> | <u>Compensated Absences and Long-Term Disability</u> | <u>Retiree Medical</u> | <u>Total</u> |
|--|-----------------------------------|----------------------------------|--------------------------------|--|----------------------------|----------------------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and investments | \$3,149,120 | \$2,029,602 | \$1,531,943 | \$144,069 | \$219,242 | \$7,073,976 |
| Interest receivable | 2,532 | 1,621 | 1,232 | 4 | 176 | 5,565 |
| Prepaid items | 30,465 | | | | | 30,465 |
| Total current assets | <u>3,182,117</u> | <u>2,031,223</u> | <u>1,533,175</u> | <u>144,073</u> | <u>219,418</u> | <u>7,110,006</u> |
| Noncurrent Assets: | | | | | | |
| Advances to other funds | | | 504,497 | | | 504,497 |
| Net OPEB assets | | | | | 4,287,955 | 4,287,955 |
| Capital assets: | | | | | | |
| Capital assets, Depreciable net of accumulated depreciation | 471,409 | | 941,516 | | | 1,412,925 |
| Total noncurrent assets | <u>471,409</u> | | <u>1,446,013</u> | | <u>4,287,955</u> | <u>6,205,377</u> |
| Total Assets | <u><u>\$3,653,526</u></u> | <u><u>\$2,031,223</u></u> | <u><u>\$2,979,188</u></u> | <u><u>\$144,073</u></u> | <u><u>\$4,507,373</u></u> | <u><u>\$13,315,383</u></u> |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable and accruals | \$23,223 | | \$43,517 | | | 66,740 |
| Accrued payroll and benefits | 18,885 | \$877 | 10,038 | | | 29,800 |
| Compensated absences | | | | \$31,490 | | 31,490 |
| Claims payable | | 333,694 | | | | 333,694 |
| Total current liabilities | <u>42,108</u> | <u>334,571</u> | <u>53,555</u> | <u>31,490</u> | | <u>461,724</u> |
| Non-current Liabilities: | | | | | | |
| Compensated absences | 37,742 | | 7,077 | | | 44,819 |
| Claims payable | | 1,162,284 | | | | 1,162,284 |
| Total non-current liabilities | <u>37,742</u> | <u>1,162,284</u> | <u>7,077</u> | | | <u>1,207,103</u> |
| Total Liabilities | <u>79,850</u> | <u>1,496,855</u> | <u>60,632</u> | <u>31,490</u> | | <u>1,668,827</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets | 471,409 | | 941,516 | | | 1,412,925 |
| Unrestricted | 3,102,267 | 534,368 | 1,977,040 | 112,583 | \$4,507,373 | 10,233,631 |
| Total Net Assets | <u><u>\$3,573,676</u></u> | <u><u>\$534,368</u></u> | <u><u>\$2,918,556</u></u> | <u><u>\$112,583</u></u> | <u><u>\$4,507,373</u></u> | <u><u>\$11,646,556</u></u> |

CITY OF CUPERTINO
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

| | Information Technology | Workers' Compensation | Equipment Revolving | Compensated Absences and Long-Term Disability | Retiree Medical | Total |
|---|---------------------------|--------------------------|------------------------|--|--------------------|---------------------|
| OPERATING REVENUES | | | | | | |
| Charges for services | \$1,681,500 | \$406,450 | \$1,032,610 | \$63,782 | | \$3,184,342 |
| Other | | | 7,550 | | | 7,550 |
| Total Operating Revenues | 1,681,500 | 406,450 | 1,040,160 | 63,782 | | 3,191,892 |
| OPERATING EXPENSES | | | | | | |
| Salaries and related expenses | 520,960 | 24,607 | 333,030 | | \$1,900,000 | 2,778,597 |
| Materials and supplies | 101,927 | | 274,047 | | | 375,974 |
| Contractual services | 359,062 | | 138,254 | | | 497,316 |
| Insurance claims and premium | | 150,411 | | 315,437 | | 465,848 |
| Depreciation | 222,799 | | 232,793 | | | 455,592 |
| Total Operating Expenses | 1,204,748 | 175,018 | 978,124 | 315,437 | 1,900,000 | 4,573,327 |
| Operating Income (Loss) | 476,752 | 231,432 | 62,036 | (251,655) | (1,900,000) | (1,381,435) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Interest income | 4,000 | 2,119 | 1,855 | 65 | 170 | 8,209 |
| Total Nonoperating Revenues (Expenses) | 4,000 | 2,119 | 1,855 | 65 | 170 | 8,209 |
| Income (Loss) Before Transfers | 480,752 | 233,551 | 63,891 | (251,590) | (1,899,830) | (1,373,226) |
| Transfers in | 200,000 | | 45,000 | 200,000 | 1,000,000 | 1,445,000 |
| Transfers (out) | (30,000) | | | | | (30,000) |
| Change in Net Assets | 650,752 | 233,551 | 108,891 | (51,590) | (899,830) | 41,774 |
| BEGINNING NET ASSETS | 2,922,924 | 300,817 | 2,809,665 | 164,173 | 5,407,203 | 11,604,782 |
| ENDING NET ASSETS | \$3,573,676 | \$534,368 | \$2,918,556 | \$112,583 | \$4,507,373 | \$11,646,556 |

CITY OF CUPERTINO
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

| | Information Technology | Workers' Compensation | Equipment | Compensated Absences and Long-Term Disability | Retiree Medical | Total |
|---|---------------------------|--------------------------|--------------------|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Cash received from customers | \$1,681,500 | \$406,450 | \$1,040,160 | \$63,782 | | \$3,191,892 |
| Cash payments to suppliers for goods and services | (468,176) | (146,975) | (374,289) | | (\$1,622,549) | (2,611,989) |
| Cash payments to employees | (519,187) | (24,499) | (337,651) | (3,437) | | (884,774) |
| Cash payment for judgment and claims | | (150,411) | | (315,437) | | (465,848) |
| Cash Flows from (used for) Operating Activities | 694,137 | 84,565 | 328,220 | (255,092) | (1,622,549) | (770,719) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfers in | 200,000 | | 45,000 | 200,000 | 1,000,000 | 1,445,000 |
| Transfers out | (30,000) | | | | | (30,000) |
| Cash Flows (used for) Noncapital Financing Activities | 170,000 | | 45,000 | 200,000 | 1,000,000 | 1,415,000 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Purchase of capital assets | (396,851) | | (538,979) | | | (935,830) |
| Cash Flows from Capital and Related Financing Activities | (396,851) | | (538,979) | | | (935,830) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Interest received | 6,212 | 3,916 | 3,627 | 413 | 1,483 | 15,651 |
| Cash Flows from Investing Activities | 6,212 | 3,916 | 3,627 | 413 | 1,483 | 15,651 |
| Net Cash Flows | 473,498 | 88,481 | (162,132) | (54,679) | (621,066) | (275,898) |
| Cash and investments at beginning of year | 2,675,622 | 1,941,121 | 1,694,075 | 198,748 | 840,308 | 7,349,874 |
| Cash and investments at end of year | \$3,149,120 | \$2,029,602 | \$1,531,943 | \$144,069 | \$219,242 | \$7,073,976 |
| Reconciliation of operating income (loss) to net cash flows from operating activities: | | | | | | |
| Operating income (loss) | \$476,752 | \$231,432 | \$62,036 | (\$251,655) | (\$1,900,000) | (\$1,381,435) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities: | | | | | | |
| Depreciation | 222,799 | | 232,793 | | | 455,592 |
| Change in assets and liabilities: | | | | | | |
| Accounts receivable | | 9,000 | | | | 9,000 |
| Prepaid expenses | (12,517) | | | | | (12,517) |
| Net OPEB asset | | | | | 277,451 | 277,451 |
| Accounts payable and accruals | 5,330 | | 38,012 | | | 43,342 |
| Accrued payroll and benefits | 1,997 | 108 | 309 | | | 2,414 |
| Compensated absences | (224) | | (4,930) | (3,437) | | (8,591) |
| Claims Payable | | (155,975) | | | | (155,975) |
| Cash Flows from Operating Activities | \$694,137 | \$84,565 | \$328,220 | (255,092) | (1,622,549) | (770,719) |

AGENCY FUNDS

All Agency Funds, representing all fiduciary funds of the City, are custodial in nature and do not involve measurement of results of operations. Such funds have no equity since any assets are due to individuals or other entities at some future time.

These funds are presented separately from the Governmental and Fund Financial Statements.

Special district assessments held by the City, acting as an agent for bond debt service payments, comprise City Agency funds. The City is not liable for the debt payments.

CITY OF CUPERTINO

Statement of Changes in Assets and Liabilities

All Agency Funds

For the year ended June 30, 2012

| | <u>Balance</u> <u>June 30, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2012</u> |
|-------------------------|--|-------------------|-------------------|--|
| <u>All Agency Funds</u> | | | | |
| Assets | | | | |
| Cash and investments | <u>\$81,403</u> | <u> </u> | <u> </u> | <u>\$81,403</u> |
| Liabilities | | | | |
| Deposits | <u>\$81,403</u> | <u> </u> | <u> </u> | <u>\$81,403</u> |

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not 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:

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant own-source revenue, property tax.

1. Assessed and Estimated Actual Value of Taxable Property
2. Property Tax Rates, All Overlapping Governments
3. Principal Property Taxpayers
4. Property Tax Levies and Collections

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:

1. Ratio of Outstanding Debt by Type
2. Computation of Direct and Overlapping Debt
3. Computation of Legal Bonded Debt Margin
4. Ratio of General Bonded Debt Outstanding

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:

1. Demographic and Economic Statistics
2. 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:

1. Full-Time Equivalent City Government Employees by Function
2. Operating Indicators by Function/Program
3. Capital Assets Statistics by Function/Program

Sources

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

CITY OF CUPERTINO
Net Assets by Component
Last Ten Fiscal Years
(Accrual basis of accounting)
(Unaudited)

| | Fiscal Year Ended June 30 | | | | | | | | | |
|---|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Governmental Activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 79,705,041 | \$ 85,425,753 | \$ 86,530,017 | \$ 83,064,879 | \$ 80,343,053 | \$ 85,173,998 | \$ 103,341,905 | \$ 120,405,290 | \$ 120,724,205 | \$ 117,440,257 |
| Restricted | 9,081,791 | 7,416,930 | 7,291,925 | 8,329,671 | 9,265,565 | 9,926,770 | 6,661,074 | 8,692,175 | 7,721,962 | 7,572,865 |
| Unrestricted | 24,472,451 | 18,541,954 | 21,202,795 | 26,916,679 | 39,243,717 | 43,242,639 | 33,290,050 | 31,087,861 | 33,185,903 | 38,117,361 |
| Total governmental activities net assets | 113,259,283 | 111,384,637 | 115,024,737 | 118,311,229 | 128,852,335 | 138,343,407 | 143,293,029 | 160,185,326 | 161,632,070 | 163,130,483 |
| Business-Type Activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | 688,331 | 645,290 | 578,962 | 497,681 | 467,416 | 84,126 | 136,127 | 788,213 | 777,521 | 824,687 |
| Unrestricted | 6,573,514 | 7,314,068 | 6,028,989 | 6,291,439 | 6,977,436 | 7,849,147 | 8,949,142 | 9,063,616 | 9,779,087 | 10,057,331 |
| Total business-type activities net assets | 7,261,845 | 7,959,358 | 6,607,951 | 6,789,120 | 7,444,852 | 7,933,273 | 9,085,269 | 9,851,829 | 10,556,608 | 10,882,018 |
| Primary Government | | | | | | | | | | |
| Invested in capital assets, net of related debt | 80,393,372 | 86,071,043 | 87,108,979 | 83,562,560 | 80,810,469 | 85,258,124 | 103,478,032 | 121,193,503 | 121,501,726 | 118,264,944 |
| Restricted | 9,081,791 | 7,416,930 | 7,291,925 | 8,329,671 | 9,265,565 | 9,926,770 | 6,661,074 | 8,692,175 | 7,721,962 | 7,572,865 |
| Unrestricted | 31,045,965 | 25,856,022 | 27,231,784 | 33,208,118 | 46,221,153 | 51,091,786 | 42,239,192 | 40,151,477 | 42,964,990 | 48,174,692 |
| Total primary government net assets | \$ 120,521,128 | \$ 119,343,995 | \$ 121,632,688 | \$ 125,100,349 | \$ 136,297,187 | \$ 146,276,680 | \$ 152,378,298 | \$ 170,037,155 | \$ 172,188,678 | \$ 174,012,501 |

CITY OF CUPERTINO
Changes in Net Assets
Last Ten Fiscal Years
(Accrual basis of accounting)
(Unaudited)

| | Fiscal Year Ended June 30 | | | | | | | | | |
|--|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Administration | \$ 1,635,846 | \$ 1,430,523 | \$ 1,280,339 | \$ 1,354,543 | \$ 1,675,443 | \$ 1,636,284 | \$ 1,769,500 | \$ 1,911,665 | \$ 1,860,451 | \$ 1,837,072 |
| Law enforcement | 6,041,831 | 6,090,038 | 6,179,326 | 6,577,199 | 7,148,187 | 7,679,467 | 8,804,195 | 8,385,476 | 8,434,885 | 8,776,633 |
| Public and environmental affairs | 763,254 | 710,754 | 824,317 | 914,024 | 1,186,929 | 1,216,164 | 1,624,210 | 1,653,034 | 1,625,876 | 1,743,151 |
| Administrative services | 3,556,129 | 3,923,377 | 3,750,174 | 4,208,389 | 3,874,003 | 3,923,217 | 4,001,738 | 4,080,134 | 3,993,654 | 4,309,503 |
| Recreation services | 2,156,972 | 2,234,509 | 2,173,936 | 2,359,966 | 2,517,725 | 3,845,873 | 4,206,343 | 4,444,536 | 4,528,968 | 4,577,243 |
| Community development | 3,234,456 | 2,678,109 | 3,269,475 | 4,541,965 | 4,090,959 | 4,059,740 | 6,177,879 | 4,351,975 | 5,961,774 | 4,922,237 |
| Public works | 17,534,128 | 15,546,461 | 14,585,232 | 16,384,026 | 16,230,274 | 16,569,310 | 18,104,649 | 19,320,151 | 20,224,662 | 20,387,508 |
| Interest on long-term debt | 3,796,472 | 2,317,837 | 2,289,526 | 2,262,913 | 2,239,657 | 2,183,403 | 2,118,714 | 2,076,264 | 2,032,464 | 1,837,655 |
| Total governmental activities expense | 38,719,088 | 34,931,608 | 34,352,325 | 38,603,025 | 38,963,177 | 41,113,458 | 46,807,228 | 46,223,235 | 48,662,734 | 48,391,002 |
| Business-type activities: | | | | | | | | | | |
| Resource recovery | 1,897,425 | 1,793,083 | 2,927,060 | 2,101,198 | 2,122,805 | 2,056,061 | 1,998,184 | 2,018,147 | 1,801,599 | 1,566,229 |
| Blackberry farm | 1,497,420 | 1,353,362 | 1,341,712 | 1,302,855 | 975,064 | 450,206 | 495,845 | 457,169 | 457,065 | 460,698 |
| Cupertino sports center | 1,130,077 | 1,352,509 | 1,452,957 | 1,448,048 | 1,623,839 | 1,547,402 | 1,594,325 | 1,478,143 | 1,716,741 | 1,897,611 |
| Recreation programs | 1,554,834 | 1,590,302 | 1,689,436 | 1,729,194 | 1,830,401 | 1,853,217 | 1,739,892 | 1,854,648 | 1,753,156 | 1,985,618 |
| Senior center | 570,412 | 493,244 | 438,440 | 588,818 | 771,570 | - | - | - | - | - |
| Total business-type activities expense | 6,650,168 | 6,582,500 | 7,849,605 | 7,170,113 | 7,323,679 | 5,906,886 | 5,828,246 | 5,808,107 | 5,728,561 | 5,910,156 |
| Total primary government expense | 45,369,256 | 41,514,108 | 42,201,930 | 45,773,138 | 46,286,856 | 47,020,344 | 52,635,474 | 52,031,342 | 54,391,295 | 54,301,158 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Administration | - | - | - | 23,201 | 3,618 | 10,711 | 2,240 | 21,873 | 15,801 | 6,454 |
| Law enforcement | 468,110 | 838,457 | 694,952 | 722,164 | 1,031,736 | 799,350 | 869,295 | 811,676 | 797,757 | 696,498 |
| Administrative services | 294,577 | 16,650 | - | - | - | - | - | - | - | - |
| Recreation services | 161,969 | 148,337 | 163,462 | 240,074 | 193,752 | 847,424 | 801,280 | 930,773 | 1,020,159 | 1,166,323 |
| Community development | 1,624,181 | 1,903,277 | 4,164,792 | 5,286,336 | 4,768,026 | 3,551,478 | 3,586,993 | 3,310,355 | 4,149,620 | 4,919,216 |
| Public works | 348,905 | 325,959 | 286,280 | 201,250 | 200,969 | 135,942 | 157,311 | 556,636 | 549,065 | 503,225 |
| Operating grants and contributions | 2,388,199 | 2,496,689 | 593,657 | 3,403,762 | 3,048,512 | 2,392,987 | 4,014,036 | 2,042,557 | 2,351,287 | 2,508,917 |
| Capital grants and contributions | 965,211 | 3,612,102 | 2,164,907 | 522,950 | 3,496,095 | 5,696,124 | 4,759,485 | 5,511,359 | 1,972,951 | 780,761 |
| Total governmental activities program revenue | 6,251,152 | 9,341,471 | 8,068,050 | 10,399,737 | 12,742,708 | 13,434,016 | 14,190,640 | 13,185,229 | 10,856,640 | 10,581,394 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Resource recovery | 2,397,439 | 2,398,819 | 2,395,282 | 2,203,127 | 2,254,416 | 2,254,790 | 2,100,704 | 2,104,299 | 1,931,076 | 1,727,783 |
| Blackberry farm | 1,479,312 | 1,301,092 | 1,218,958 | 1,155,986 | 1,101,564 | 640,771 | 596,944 | 568,770 | 447,797 | 411,056 |
| Cupertino sports center | 1,109,799 | 1,184,860 | 1,385,837 | 1,419,672 | 1,655,169 | 1,605,545 | 1,732,282 | 1,578,330 | 1,722,700 | 1,965,684 |
| Recreation programs | 1,872,004 | 1,910,599 | 2,167,705 | 2,331,409 | 2,396,720 | 2,493,214 | 2,364,037 | 2,249,191 | 2,260,296 | 2,325,705 |
| Senior center | 484,530 | 456,211 | 473,787 | 704,390 | 690,603 | - | - | - | - | - |
| Operating grants and contributions | 61,441 | 84,660 | 28,860 | 135,539 | 14,343 | 14,309 | 14,471 | 6,895 | - | - |
| Total business-type activities program revenue | 7,404,525 | 7,336,241 | 7,670,429 | 7,950,123 | 8,112,815 | 7,008,629 | 6,808,438 | 6,507,485 | 6,361,869 | 6,430,228 |
| Total primary government program revenue | 13,594,236 | 16,677,712 | 15,738,479 | 18,349,860 | 20,855,523 | 20,442,645 | 20,999,078 | 19,692,714 | 17,218,509 | 17,011,622 |

(Continued)

CITY OF CUPERTINO
Changes in Net Assets
Last Ten Fiscal Years
(Accrual basis of accounting)
(Unaudited)

| | Fiscal Year Ended June 30 | | | | | | | | | |
|---|---------------------------|---------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Net (Expense) Revenue: | | | | | | | | | | |
| Governmental activities | (32,467,936) | (25,590,137) | (26,284,275) | (28,203,288) | (26,220,469) | (27,679,442) | (32,616,588) | (33,038,006) | (37,806,094) | (37,809,608) |
| Business-type activities | 754,357 | 753,741 | (179,176) | 780,010 | 789,136 | 1,101,743 | 980,192 | 699,378 | 633,308 | 520,072 |
| Total primary government net expense | (31,713,579) | (24,836,396) | (26,463,451) | (27,423,278) | (25,431,333) | (26,577,699) | (31,636,396) | (32,338,628) | (37,172,786) | (37,289,536) |
| General Revenues and Transfers | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property taxes | 4,100,856 | 3,944,459 | 4,296,940 | 4,728,811 | 6,529,772 | 6,941,910 | 7,491,965 | 7,488,701 | 7,296,970 | 7,479,132 |
| Property tax in lieu of motor vehicle fee (1) | - | - | 2,930,000 | 3,569,300 | 3,652,509 | 3,894,502 | 4,299,902 | 4,420,912 | 4,404,795 | 4,487,412 |
| Incremental property tax | 25,831 | 76,570 | 15,974 | 185,676 | 187,276 | 220,267 | 1,211,128 | 1,322,925 | 1,251,777 | 202,793 |
| Sales taxes | 8,843,792 | 8,654,185 | 9,224,661 | 10,671,642 | 11,252,341 | 13,154,749 | 14,139,190 | 9,930,530 | 14,539,243 | 17,326,460 |
| Transient occupancy tax | 1,679,225 | 1,632,514 | 1,790,917 | 2,054,904 | 2,511,184 | 2,711,590 | 2,140,274 | 2,142,137 | 2,536,501 | 3,112,934 |
| Utility user tax | 2,566,265 | 2,632,264 | 2,705,888 | 2,809,587 | 3,011,755 | 3,175,724 | 3,205,073 | 3,271,452 | 3,227,942 | 3,264,896 |
| Franchise tax | 2,175,913 | 2,194,651 | 2,217,313 | 2,353,575 | 2,537,018 | 2,547,439 | 2,618,125 | 2,597,930 | 2,841,344 | 2,808,136 |
| Other taxes | 1,110,545 | 1,248,437 | 3,146,516 | 2,534,393 | 2,661,449 | 1,709,892 | 1,317,767 | 1,211,899 | 1,491,316 | 1,377,211 |
| Intergovernmental (2) | 3,215,866 | 2,460,137 | 978,059 | (300,039) | 364,261 | 266,789 | 171,621 | 166,440 | 259,289 | 29,064 |
| Investment earnings | 1,207,017 | 526,560 | 684,952 | 669,820 | 1,752,177 | 1,451,973 | 889,823 | 295,059 | 259,217 | 61,096 |
| Miscellaneous | 79,280 | 166,714 | 545,155 | 189,262 | 291,423 | 103,529 | 81,342 | 119,393 | 1,144,429 | 82,684 |
| Gain on sale of land | - | - | - | 1,222,849 | 1,510,410 | - | - | - | - | - |
| Extraordinary items (3) | - | - | - | - | - | - | - | - | - | (1,130,797) |
| Transfers | 225,000 | 175,000 | 1,388,000 | 800,000 | 500,000 | 992,150 | - | - | 15 | 207,000 |
| Total Government Activities | 25,229,590 | 23,715,491 | 29,924,375 | 31,489,780 | 36,761,575 | 37,170,514 | 37,566,210 | 32,967,378 | 39,252,838 | 39,308,021 |
| Business-type activities: | | | | | | | | | | |
| Investment earnings | 211,093 | 95,127 | 215,769 | 201,159 | 366,596 | 378,828 | 171,804 | 67,182 | 71,486 | 12,338 |
| Transfers | (225,000) | (175,000) | (1,388,000) | (800,000) | (500,000) | (992,150) | - | - | (15) | (207,000) |
| Total business-type activities | 106,496 | (56,228) | (1,172,231) | (598,841) | (133,404) | (613,322) | 171,804 | 67,182 | 71,471 | (194,662) |
| Total primary government | 25,336,086 | 23,659,263 | 28,752,144 | 30,890,939 | 36,628,171 | 36,557,192 | 37,738,014 | 33,034,560 | 39,324,309 | 39,113,359 |
| Change in Net Assets | | | | | | | | | | |
| Government activities | (7,238,346) | (1,874,646) | 3,640,100 | 3,286,492 | 10,541,106 | 9,491,072 | 4,949,622 | (70,628) | 1,446,744 | 1,498,413 |
| Business-type activities | 860,853 | 697,513 | (1,351,407) | 181,169 | 655,732 | 488,421 | 1,151,996 | 766,560 | 704,779 | 325,410 |
| Total primary government | \$(6,377,493) | \$(1,177,133) | \$ 2,288,693 | \$ 3,467,661 | \$ 11,196,838 | \$ 9,979,493 | \$ 6,101,618 | \$ 695,932 | \$ 2,151,523 | \$ 1,823,823 |

(1) Replaced the reduced motor vehicle license fee (an intergovernmental revenue) in 2005.

(2) The 2006 state take-away of sales taxes, property taxes, and vehicle license fees is reported in this category.

(3) Asset transfer to Successor to Redevelopment Agency fiduciary trust in 2012.

CITY OF CUPERTINO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Unaudited)

| | Fiscal Year Ended June 30 | | | | | | | | | |
|-------------------------------------|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 ⁽¹⁾ | 2012 |
| General Fund | | | | | | | | | | |
| Reserved | \$ 3,782,689 | \$ 3,897,270 | \$ 3,864,969 | \$ 2,931,046 | \$ 2,711,586 | \$ 2,668,914 | \$ 2,325,283 | \$ 2,308,290 | | |
| Unreserved | 13,099,033 | 12,632,286 | 18,313,846 | 23,866,568 | 23,634,874 | 16,997,569 | 19,871,574 | 13,622,828 | | |
| Total General Fund | 16,881,722 | 16,529,556 | 22,178,815 | 26,797,614 | 26,346,460 | 19,666,483 | 22,196,857 | 15,931,118 | | |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | 20,891,656 | 9,784,645 | 2,701,067 | 4,925,900 | 8,555,042 | 11,240,851 | 4,180,483 | 5,465,423 | | |
| Unreserved, reported in: | | | | | | | | | | |
| Special Revenue Funds | 3,976,517 | 3,736,446 | 3,618,814 | 6,249,004 | 6,844,632 | 7,270,331 | 3,692,187 | 5,113,020 | | |
| Capital Project Funds | 6,576,208 | 2,236,730 | 1,663,033 | (1,208,341) | (472,405) | 7,631,866 | 968,077 | 3,788,810 | | |
| Total All Other Governmental Funds | 31,444,381 | 15,757,821 | 7,982,914 | 9,966,563 | 14,927,269 | 26,143,048 | 8,840,747 | 14,367,253 | | |
| Total Governmental Funds | \$ 48,326,103 | \$ 32,287,377 | \$ 30,161,729 | \$ 36,764,177 | \$ 41,273,729 | \$ 45,809,531 | \$ 31,037,604 | \$ 30,298,371 | | |
| General Fund | | | | | | | | | | |
| Nondspendable | \$ 1,023,950 | \$ 1,003,438 | | | | | | | | |
| Restricted | 663,254 | 695,564 | | | | | | | | |
| Assigned | 14,739,394 | 17,729,297 | | | | | | | | |
| Unassigned | 3,380,279 | 6,669,379 | | | | | | | | |
| Total General Fund | 19,806,877 | 26,097,678 | | | | | | | | |
| All Other Governmental Funds | | | | | | | | | | |
| Nondspendable | 615,000 | - | | | | | | | | |
| Restricted | 6,314,106 | 6,877,301 | | | | | | | | |
| Assigned | 4,303,822 | 3,646,073 | | | | | | | | |
| Total All Other Governmental Funds | 11,232,928 | 10,523,374 | | | | | | | | |
| Total Governmental Funds | \$ 31,039,805 | \$ 36,621,052 | | | | | | | | |

⁽¹⁾ The City implemented GASB Statement No. 54 under which governmental fund balances are reported as nondspendable, restricted, assigned and unassigned compared to reserved and unreserved.

CITY OF CUPERTINO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Unaudited)

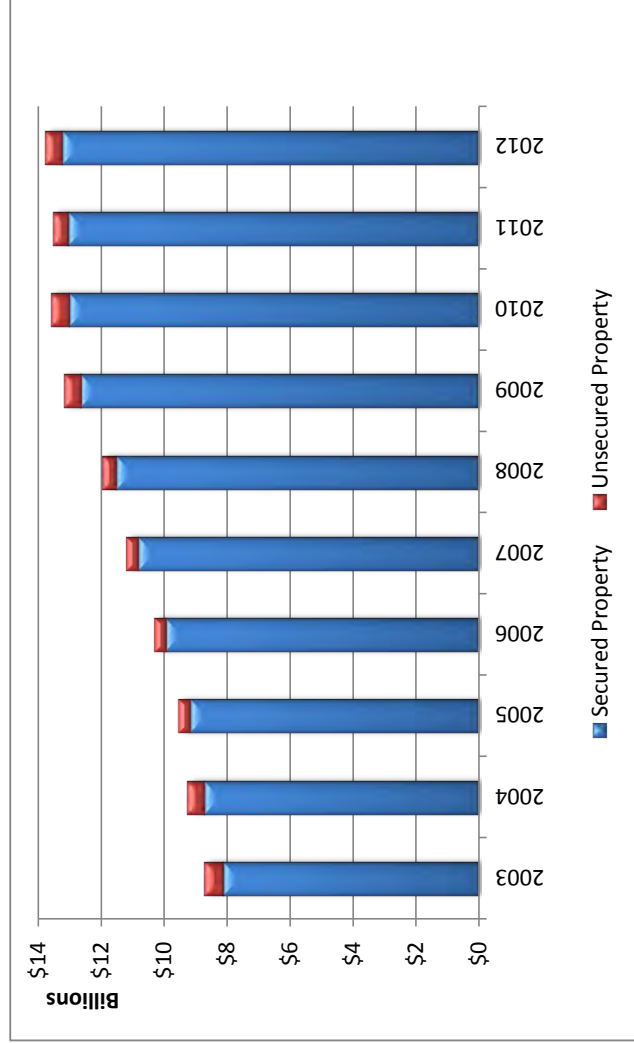
Fiscal Year Ended June 30

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------|-----------------|----------------|---------------|---------------|---------------|-----------------|---------------|---------------|---------------|
| Revenues | | | | | | | | | | |
| Taxes | \$ 20,200,250 | \$ 21,004,405 | \$ 23,614,623 | \$ 25,616,553 | \$ 28,903,993 | \$ 34,589,139 | \$ 36,395,950 | \$ 30,994,583 | \$ 37,582,299 | \$ 40,265,944 |
| Use of money and property | 1,910,503 | 940,963 | 1,119,399 | 1,607,837 | 2,169,977 | 2,490,444 | 1,300,508 | 774,219 | 792,035 | 661,602 |
| Intergovernmental | 6,318,523 | 7,236,955 | 5,567,266 | 5,896,167 | 8,200,519 | 8,285,280 | 6,896,394 | 7,539,835 | 3,543,641 | 2,678,888 |
| Licenses and permits | 1,410,572 | 1,540,760 | 2,896,000 | 3,614,953 | 3,325,844 | 2,656,017 | 2,740,463 | 2,583,131 | 2,901,944 | 2,900,936 |
| Charges for services | 855,844 | 930,050 | 1,568,935 | 2,143,729 | 2,062,067 | 1,728,099 | 1,707,533 | 1,701,157 | 2,311,216 | 3,273,946 |
| Fines and forfeitures | 550,377 | 723,748 | 559,791 | 629,586 | 926,310 | 722,087 | 761,320 | 736,239 | 695,666 | 661,899 |
| Other | 59,219 | 1,009,260 | 1,792,795 | 245,176 | 154,235 | 95,388 | 80,835 | 689,941 | 73,881 | 264,302 |
| Total revenues | 31,305,288 | 33,386,141 | 37,118,809 | 39,754,001 | 45,742,945 | 50,566,454 | 49,883,003 | 45,019,105 | 47,900,682 | 50,707,517 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Administration | 1,474,924 | 1,222,581 | 1,162,096 | 1,236,390 | 1,287,101 | 1,351,273 | 1,336,921 | 1,469,004 | 1,528,070 | 1,533,070 |
| Law enforcement | 6,015,036 | 5,950,849 | 6,144,695 | 6,499,911 | 6,975,517 | 7,456,661 | 8,133,168 | 8,384,310 | 8,434,885 | 8,445,917 |
| Public and environmental affairs | 703,431 | 686,798 | 758,314 | 853,484 | 1,121,437 | 1,169,247 | 1,486,443 | 1,487,265 | 1,497,263 | 1,659,856 |
| Administrative services | 3,475,991 | 3,758,806 | 3,671,303 | 4,103,497 | 3,715,994 | 3,797,156 | 3,634,043 | 3,733,414 | 3,695,076 | 4,103,982 |
| Recreation services | 2,104,167 | 2,141,431 | 2,121,366 | 2,302,995 | 2,403,296 | 3,745,244 | 3,789,260 | 4,003,764 | 4,117,477 | 4,319,983 |
| Community development | 3,177,406 | 2,563,242 | 3,156,908 | 4,467,655 | 3,969,837 | 3,931,055 | 5,841,428 | 4,125,739 | 5,693,541 | 4,762,229 |
| Public works | 10,440,335 | 9,322,086 | 9,637,314 | 10,386,055 | 10,477,727 | 11,137,935 | 11,914,584 | 11,961,218 | 12,234,726 | 12,528,194 |
| Capital outlay | 6,812,856 | 20,246,237 | 10,025,935 | 2,771,502 | 4,292,169 | 8,334,093 | 22,262,369 | 4,710,360 | 5,281,927 | 3,523,047 |
| Debt service: | | | | | | | | | | |
| Principal repayment | 6,925,948 | 1,220,000 | 1,245,000 | 1,270,000 | 1,295,000 | 1,355,000 | 1,415,000 | 1,460,000 | 1,500,000 | - |
| Interest and fiscal charges | 2,939,757 | 2,317,837 | 2,289,526 | 2,262,913 | 2,239,657 | 2,183,403 | 2,118,714 | 2,076,264 | 2,032,464 | 1,837,655 |
| Payment to refunded debt escrow agent | 39,208,286 | - | - | - | - | - | - | - | - | 44,897,800 |
| Total expenditures | 83,278,137 | 49,429,867 | 40,212,457 | 36,154,402 | 37,777,735 | 44,461,067 | 61,931,930 | 43,411,338 | 46,015,429 | 87,611,733 |
| Excess (deficiency) of revenues over (under) expenditures | (51,972,849) | (16,043,726) | (3,093,648) | 3,599,599 | 7,965,210 | 6,105,387 | (12,048,927) | 1,607,767 | 1,885,253 | (36,904,216) |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Bond proceeds | 57,677,519 | - | - | - | - | - | - | - | - | 44,823,839 |
| Proceeds from sale of capital assets | - | - | - | 2,422,849 | 1,663,842 | - | - | - | 1,055,449 | 421 |
| Transfers in | 25,775,538 | 4,765,307 | 7,904,763 | 8,364,084 | 9,658,000 | 19,136,165 | 5,035,925 | 7,788,417 | 5,684,483 | 6,484,426 |
| Transfers out | (25,840,538) | (4,760,307) | (6,936,763) | (7,784,084) | (14,777,500) | (20,705,750) | (7,758,925) | (10,135,417) | (7,883,751) | (7,692,426) |
| Total other financing sources | 57,612,519 | 5,000 | 968,000 | 3,002,849 | (3,455,658) | (1,569,585) | (2,723,000) | (2,347,000) | (1,143,819) | 43,616,260 |
| Extraordinary Item | | | | | | | | | | |
| Assets transferred to Successor Agencies | - | - | - | - | - | - | - | - | - | (1,130,797) |
| Change in fund balances | \$ 5,639,670 | \$ (16,038,726) | \$ (2,125,648) | \$ 6,602,448 | \$ 4,509,552 | \$ 4,535,802 | \$ (14,771,927) | \$ (739,233) | \$ 741,434 | \$ 5,581,247 |
| Debt service as a percentage of noncapital expenditures (1) | 64.2% | 12.1% | 11.7% | 10.6% | 10.6% | 9.8% | 8.9% | 9.1% | 8.7% | 55.6% |

(1) Noncapital expenditures is total expenditures less capital assets added each year to statement of net assets.

CITY OF CUPERTINO
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

| Fiscal Year | Total Secured (a) | Unsecured (a) | SBE NonUnitary | Secured Exemptions | Total Assessed & Est. Full Market Valuation (a) | Direct Tax Rate |
|-------------|-------------------|---------------|----------------|--------------------|---|-----------------|
| 2003 | 8,119,969,820 | 565,212,987 | 332,959 | 75,795,294 | 8,685,515,766 | 1.69% |
| 2004 | 8,689,558,802 | 530,097,614 | 223,580 | 80,704,482 | 9,219,879,996 | 1.73% |
| 2005 | 9,159,184,070 | 367,378,773 | 278,536 | 80,678,889 | 9,526,841,379 | 1.66% |
| 2006 | 9,942,314,157 | 350,391,447 | 259,809 | 88,612,732 | 10,292,965,413 | 4.37% |
| 2007 | 10,794,991,704 | 381,307,801 | 213,610 | 94,957,979 | 11,176,513,115 | 5.74% |
| 2008 | 11,512,949,952 | 417,564,226 | - | 96,690,910 | 11,930,514,178 | 5.87% |
| 2009 | 12,637,622,059 | 533,413,208 | 1,390,000 | 99,950,894 | 13,172,425,287 | 6.26% |
| 2010 | 12,979,346,158 | 564,277,611 | 1,390,000 | 99,947,559 | 13,545,013,769 | 6.51% |
| 2011 | 13,017,910,372 | 476,332,025 | 1,390,000 | 96,704,811 | 13,495,632,397 | 6.51% |
| 2012 | 13,219,574,367 | 527,310,319 | 1,390,000 | 96,081,912 | 13,748,274,686 | 6.24% |



(a) Net of exemptions

Source: HdL, Coren & Cone

CITY OF CUPERTINO
Property Tax Rates
All Overlapping Governments
Last Ten Fiscal Years
(Per \$100 Assessed Valuation)
(Unaudited)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Basic Levy | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| County Bond 2008 Hospital Facility | - | - | - | - | - | - | - | 0.0122 | 0.0095 | 0.0047 |
| County Library Retirement Levy | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 | 0.0024 |
| County Retirement Levy | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 | 0.0388 |
| Cupertino Elementary | 0.0329 | 0.0357 | 0.0360 | 0.0350 | 0.0289 | 0.0337 | 0.0306 | 0.0312 | 0.0308 | 0.0290 |
| El Camino Hospital 2003 | - | - | - | - | 0.0129 | 0.0129 | 0.0129 | 0.0129 | 0.0129 | 0.0129 |
| Foothill/DeAnza College 1999 | 0.0108 | 0.0110 | 0.0129 | 0.0119 | 0.0346 | 0.0113 | 0.0123 | 0.0322 | 0.0326 | 0.0297 |
| Fremont High | 0.0246 | 0.0249 | 0.0268 | 0.0260 | 0.0243 | 0.0241 | 0.0339 | 0.0306 | 0.0365 | 0.0415 |
| Los Gatos/Saratoga High 1998 | 0.0530 | 0.0417 | 0.0409 | 0.0371 | 0.0351 | 0.0345 | 0.0330 | 0.0352 | 0.0377 | 0.0381 |
| Santa Clara Unified | 0.0252 | 0.0263 | 0.0344 | 0.0861 | 0.0797 | 0.0271 | 0.0743 | 0.0701 | 0.0519 | 0.0836 |
| Santa Clara Valley Water District | 0.0072 | 0.0087 | 0.0092 | 0.0078 | 0.0072 | 0.0071 | 0.0061 | 0.0074 | 0.0072 | 0.0064 |
| Saratoga Elementary | 0.0387 | 0.0385 | 0.0361 | 0.0356 | 0.0351 | 0.0363 | 0.0363 | 0.0388 | 0.0437 | 0.0444 |
| West Valley College 2004 | - | - | - | 0.0140 | 0.0126 | 0.0118 | 0.0032 | 0.0140 | 0.0139 | 0.0074 |
| West Valley College Bond 2004 (Bab) | - | - | - | - | - | - | - | - | - | 0.0063 |
| Total Direct & Overlapping Rates | 1.2336 | 1.2280 | 1.2375 | 1.2947 | 1.3116 | 1.2400 | 1.2838 | 1.3258 | 1.3179 | 1.3452 |
| City's Share of 1% Levy | 0.02236 | 0.02234 | 0.02234 | 0.04343 | 0.05725 | 0.05706 | 0.05661 | 0.05641 | 0.05644 | 0.05650 |
| Redevelopment Rate | 1.04840 | 1.04990 | 1.05040 | 1.04900 | 1.04840 | 1.04830 | 1.04730 | 1.04860 | 1.04840 | 1.04760 |
| Total Direct Rate | 0.01687 | 0.01726 | 0.01664 | 0.04374 | 0.05742 | 0.05870 | 0.06263 | 0.06510 | 0.06507 | 0.06238 |

Source: HdL, Coren & Cone

CITY OF CUPERTINO
Principal Property Taxpayers
Current Year and Nine Years Ago
(Unaudited)

| Taxpayer | 2012 | | 2003 | | Percentage of Total Assessed Valuation |
|-------------------------------------|-------------------------|--|-------------------------|--|--|
| | Assessed Valuation | Percentage of Total Assessed Valuation | Assessed Valuation | Percentage of Total Assessed Valuation | |
| Apple Inc. | \$ 916,229,008 | 6.66% | \$ 244,260,894 | 2.81% | 2.81% |
| Campus Holdings Inc. | 403,586,555 | 2.94% | - | - | - |
| Hewlett Packard | - | - | 371,029,334 | 4.27% | 4.27% |
| Tandem Computers Inc. | - | - | 236,815,869 | 2.73% | 2.73% |
| Vallco Shopping Mall LLC | 92,759,700 | 0.67% | - | - | - |
| Cupertino City Center Buildings | - | - | 74,584,523 | 0.86% | 0.86% |
| Sumitomo Bank Leasing and Financing | - | - | 73,427,002 | 0.85% | 0.85% |
| Cupertino Property LP | - | - | 72,800,000 | 0.84% | 0.84% |
| Irvine Company LLC | 71,194,693 | 0.52% | - | - | - |
| Teachers Insurance & Annuity | - | - | 65,767,795 | 0.76% | 0.76% |
| ECI Two Results LLC | 64,836,485 | 0.47% | - | - | - |
| RWC LLC | - | - | 64,305,598 | 0.74% | 0.74% |
| Irvine Apartment Commons LP | - | - | 62,633,713 | 0.72% | 0.72% |
| Rocktino Fee LLC | 61,822,271 | 0.45% | - | - | - |
| Ridgeview Court Associates | - | - | 55,664,911 | 0.64% | 0.64% |
| Berg Family Partners LP | 55,010,687 | 0.40% | - | - | - |
| Cupertino Village LP | 54,910,380 | 0.40% | - | - | - |
| 500 Forbes LLC | 54,850,604 | 0.40% | - | - | - |
| Villa Serra Apartments | 54,556,471 | 0.40% | - | - | - |
| Total | \$ 1,829,756,854 | 13.31% | \$ 1,321,289,639 | 15.22% | 15.22% |

Source: HdL, Coren & Cone

CITY OF CUPERTINO
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

| Fiscal Year | Total Tax Levy | Current Tax Collections | Percent of Levy Collected (1) | Delinquent Tax Collections (1) | Total Tax Collections | Percent of Total Tax Collections to Tax Levy |
|-------------|----------------|-------------------------|-------------------------------|--------------------------------|-----------------------|--|
| 2003 | 4,126,687 | 4,126,687 | 100.00% | - | 4,126,687 | 100.00% |
| 2004 | 4,021,029 | 4,021,029 | 100.00% | - | 4,021,029 | 100.00% |
| 2005 | 4,312,914 | 4,312,914 | 100.00% | - | 4,312,914 | 100.00% |
| 2006 | 4,914,487 | 4,914,487 | 100.00% | - | 4,914,487 | 100.00% |
| 2007 | 6,717,048 | 6,717,048 | 100.00% | - | 6,717,048 | 100.00% |
| 2008 | 7,162,177 | 7,162,177 | 100.00% | - | 7,162,177 | 100.00% |
| 2009 | 8,703,093 | 8,703,093 | 100.00% | - | 8,703,093 | 100.00% |
| 2010 | 8,760,881 | 8,760,881 | 100.00% | - | 8,760,881 | 100.00% |
| 2011 | 8,497,119 | 8,497,119 | 100.00% | - | 8,497,119 | 100.00% |
| 2012 | 7,681,925 | 7,681,925 | 100.00% | - | 7,681,925 | 100.00% |

(1) Per the Teeter Plan, the City receives 100% of the tax levy, while the County receives delinquencies and penalties.

Source: City of Cupertino

CITY OF CUPERTINO
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

| Fiscal Year | Certificates of Participation | Percentage of Estimated Actual Market Value of Taxable Property | Per Capita | % of Personal Income |
|-------------|-------------------------------|---|------------|----------------------|
| 2003 | 54,770,000 | 0.63% | 1,055 | 2.40% |
| 2004 | 53,550,000 | 0.58% | 1,033 | 2.26% |
| 2005 | 52,305,000 | 0.55% | 995 | 2.01% |
| 2006 | 51,035,000 | 0.50% | 963 | 1.82% |
| 2007 | 49,740,000 | 0.45% | 929 | 1.60% |
| 2008 | 48,385,000 | 0.41% | 886 | 1.44% |
| 2009 | 46,970,000 | 0.36% | 853 | 1.36% |
| 2010 | 45,510,000 | 0.34% | 815 | 1.36% |
| 2011 | 44,010,000 | 0.33% | 755 | 1.70% |
| 2012 | 43,940,000 | 0.32% | 744 | 1.56% |

Source: City of Cupertino

CITY OF CUPERTINO
Direct and Overlapping Bonded Debt
June 30, 2012
(Unaudited)

| | |
|---|--------------------------|
| 2011-12 Assessed Valuation | \$ 13,748,759,628 |
| Less: Redevelopment Incremental Valuation | (83,317,937) |
| Adjusted Assessed Valuation | <u>\$ 13,665,441,691</u> |

| <u>Overlapping Tax and Assessment Debt:</u> | <u>Total Debt</u> 6/30/2012 | <u>%</u> <u>Applicable (1)</u> | <u>City's Share of</u> <u>Debt 6/30/12</u> |
|--|--------------------------------|-----------------------------------|---|
| Santa Clara County | \$ 316,800,000 | 5.092% | \$ 16,131,456 |
| Foothill-DeAnza Community College District | 628,424,288 | 13.865% | 87,131,028 |
| West Valley Community College District | 210,961,930 | 0.641% | 1,352,266 |
| Santa Clara Unified School District | 441,095,000 | 2.050% | 9,042,448 |
| Fremont Union High School District | 260,605,108 | 29.932% | 78,004,321 |
| Cupertino Union School District | 120,672,535 | 48.980% | 59,105,408 |
| El Camino Hospital District | 142,280,000 | 1.393% | 1,981,960 |
| Santa Clara Valley Water District Benefit Assessment | <u>133,440,000</u> | 5.092% | <u>6,794,765</u> |
| Total Overlapping Tax and Assessment Debt | <u>2,254,278,861</u> | | <u>259,543,651</u> |

Ratios to 2011-12 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.89%

Direct and Overlapping General Fund Debt

Overlapping Debt:

| | | | |
|---|--------------------|---------|-------------------|
| Santa Clara County General Fund Obligations | 770,947,000 | 5.092% | \$ 39,256,621 |
| Santa Clara County Pension Obligations | 383,034,822 | 5.092% | 19,504,133 |
| Santa Clara County Board of Education COP | 11,540,000 | 5.092% | 587,617 |
| Foothill-De Anza Community College District COP | 18,890,000 | 13.865% | 2,619,099 |
| West Valley-Mission Community College District General Fund Obligations | 65,715,000 | 0.641% | 421,233 |
| Santa Clara Unified School District COP | 12,980,000 | 2.050% | 266,090 |
| Santa Clara County Vector Control District COP | 3,630,000 | 5.092% | 184,840 |
| Midpeninsula Regional Open Space Park District COP | <u>138,474,717</u> | 7.780% | <u>10,773,333</u> |
| Subtotal Overlapping General Fund Debt | 1,405,211,539 | | 73,612,965 |

Direct Debt: City of Cupertino Certificates of Participation

43,940,000 **100.000% **43,940,000****

Total Direct and Overlapping General Fund Debt 1,449,151,539 117,552,965

Combined Total Debt \$ 3,703,430,400 \$ 377,096,616 (2)

Ratios to Adjusted Assessed Valuation:

Total Direct Debt (\$43,940,000) 0.32%

Combined Total Debt 2.76%

State School Building Aid Repayable as of 6/30/12:

\$ -

(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: MuniServices

CITY OF CUPERTINO
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

| Fiscal Year | Debt Limit | Total Net Debt Applicable to Limit | Legal Debt Margin | Total net debt applicable to the limit as a % of debt limit |
|-------------|-------------|------------------------------------|-------------------|---|
| 2003 | 325,706,841 | - | 325,706,841 | - |
| 2004 | 345,745,500 | - | 345,745,500 | - |
| 2005 | 357,745,500 | - | 357,256,552 | - |
| 2006 | 376,159,758 | - | 376,159,752 | - |
| 2007 | 408,373,114 | - | 408,373,114 | - |
| 2008 | 431,735,623 | - | 431,735,623 | - |
| 2009 | 473,910,827 | - | 473,910,827 | - |
| 2010 | 486,725,480 | - | 486,725,480 | - |
| 2011 | 488,171,639 | - | 488,171,639 | - |
| 2012 | 495,734,039 | - | 495,734,039 | - |

Debt Limit:

Secured property assessed value, net of exempt real property

\$ 13,219,574,367

Adjusted valuation - 25% of assessed valuation

3,304,893,592

Debt limit - 15% of adjusted valuation

495,734,039

Amount of Debt Subject to Limit:

Total Bonded Debt

43,940,000

Less: Certificates of Participation not subject to debt limit

(43,940,000)

Amount of debt subject to limit

-

Legal Debt Margin

495,734,039

Note: The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City of Cupertino

CITY OF CUPERTINO
Ratio of General Bonded Debt
Last Ten Fiscal Years
(Unaudited)

| Fiscal Year | Population | Assessed Value | General Bonded Debt | Bonded Debt Per Capita | Ratio of General Bonded Debt to Assessed Value |
|-------------|------------|----------------|---------------------|------------------------|--|
| 2003 | 51,910 | 8,685,515,766 | - | - | - |
| 2004 | 51,858 | 9,219,879,996 | - | - | - |
| 2005 | 52,590 | 9,526,841,379 | - | - | - |
| 2006 | 53,012 | 10,292,965,413 | - | - | - |
| 2007 | 53,549 | 11,176,513,115 | - | - | - |
| 2008 | 54,584 | 11,930,514,178 | - | - | - |
| 2009 | 55,045 | 13,172,425,287 | - | - | - |
| 2010 | 55,838 | 13,545,013,769 | - | - | - |
| 2011 | 58,302 | 13,495,632,397 | - | - | - |
| 2012 | 59,022 | 13,748,274,686 | - | - | - |

Sources: HdL, Coren & Cone
City of Cupertino

CITY OF CUPERTINO
Demographic and Economic Statistics
Last Ten Calendar Years
(Unaudited)

| Calendar Year | City Population | County Population | City Population % of County | City Personal Income | Per Capita Personal Income | School Enrollment Grades 9-12 | Unemployment Rate | Median Age (1) | % of Population Over 25 with | |
|---------------|-----------------|-------------------|-----------------------------|----------------------|----------------------------|-------------------------------|-------------------|----------------|------------------------------|-----------------------|
| | | | | | | | | | High School Degree (1) | Bachelor's Degree (1) |
| 2002 | 51,910 | 1,675,915 | 3.10% | \$2,278,527,000 | \$43,894 | 9,108 | 5.4% | - | - | - |
| 2003 | 51,858 | 1,656,128 | 3.13% | \$2,368,206,000 | \$45,667 | 9,147 | 5.4% | - | - | - |
| 2004 | 52,590 | 1,759,585 | 2.99% | \$2,595,892,000 | \$49,361 | 9,138 | 4.1% | - | - | - |
| 2005 | 53,012 | 1,773,258 | 2.99% | \$2,805,559,000 | \$52,923 | 9,875 | 3.4% | - | - | - |
| 2006 | 53,549 | 1,794,522 | 2.98% | \$3,117,408,000 | \$58,216 | 9,823 | 2.8% | - | - | - |
| 2007 | 54,584 | 1,748,976 | 3.12% | \$3,369,668,000 | \$61,734 | 10,300 | 3.0% | - | - | - |
| 2008 | 55,045 | 1,857,621 | 2.96% | \$3,442,884,000 | \$62,547 | 10,300 | 3.8% | - | - | - |
| 2009 | 55,838 | 1,800,876 | 3.10% | \$3,350,250,000 | \$59,999 | 10,350 | 7.2% | 40.5 | 96.5% | 69.3% |
| 2010 | 58,302 | 1,781,642 | 3.27% | \$2,586,120,000 | \$44,357 | 10,365 | 7.3% | 39.1 | 96.3% | 72.6% |
| 2011 | 59,022 | 1,809,378 | 3.26% | \$2,818,655,000 | \$47,756 | 10,625 | 6.3% | 39.2 | 97.0% | 74.7% |

(1) New statistic available in 2009

Sources: HdL, Coren & Cone
Fremont Union High School District
US Census Bureau

CITY OF CUPERTINO
Principal Employers
Current Year and Nine Years Ago
(Unaudited)

| Employer | Fiscal Year 2012 | | Fiscal Year 2003 | |
|--|----------------------------|--|----------------------------|--|
| | Number of Employees | Percentage of Total City Employment | Number of Employees | Percentage of Total City Employment |
| Apple Inc. | 13,000 | 13.0% | 6,000 | 8.4% |
| Hewlett-Packard | 3,000 | 3.0% | 4,682 | 6.6% |
| Cupertino Union School District | 1,474 | 1.5% | 1,500 | 2.1% |
| Foothill/DeAnza Community College District | 1,291 | 1.3% | 1,200 | 1.7% |
| Fremont Union High School District | 846 | 0.8% | 735 | 1.0% |
| Symantec | - | - | 400 | 0.6% |
| Sears | (a) | - | 294 | 0.4% |
| Chordiant Software | 285 | 0.3% | - | - |
| Trend Micro Inc. | 250 | 0.3% | - | - |
| Health Care Center at The Forum | 250 | 0.3% | - | - |
| Target Stores | 220 | 0.2% | 270 | 0.4% |
| Cupertino Healthcare and Wellness | 180 | 0.2% | - | - |
| Honeywell-Measurex | - | - | 220 | 0.3% |
| JCPenney | (a) | - | 200 | 0.3% |

(a) Employer located in city in 2012, but not ranked in the top ten for number of employees.

Sources: InfoUSA.com

Cupertino Union School District

Fremont Union High School District

Foothill/DeAnza Community College District

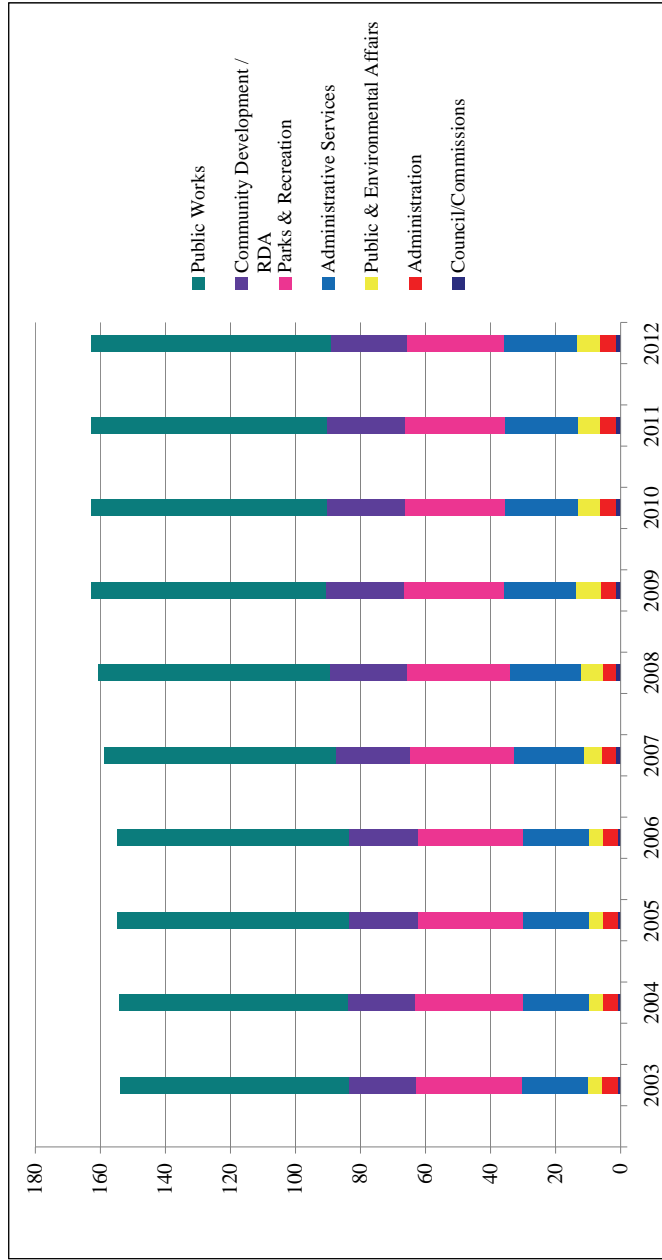
CA Employment Development Department Labor Market Information

US Census Bureau

City of Cupertino

CITY OF CUPERTINO
Full-Time Equivalent City Employees by Function/Program
Last Ten Fiscal Years
(Unaudited)

| Function/Program | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Council/Commissions | 0.80 | 0.80 | 0.80 | 0.80 | 1.40 | 1.40 | 1.40 | 1.47 | 1.46 | 1.47 |
| Administration | 4.90 | 4.65 | 4.70 | 4.70 | 4.30 | 4.30 | 4.85 | 4.90 | 4.85 | 5.05 |
| Public & Environmental Affairs | 4.40 | 4.40 | 4.40 | 4.40 | 5.55 | 6.50 | 7.45 | 6.95 | 6.95 | 6.95 |
| Administrative Services | 20.30 | 20.30 | 20.35 | 20.35 | 21.63 | 21.88 | 22.33 | 22.33 | 22.34 | 22.48 |
| Parks & Recreation | 32.63 | 33.13 | 32.13 | 32.13 | 31.96 | 31.76 | 30.77 | 30.78 | 30.78 | 29.78 |
| Community Development / RDA | 20.75 | 20.75 | 21.15 | 21.15 | 22.78 | 23.78 | 23.78 | 23.73 | 23.78 | 23.43 |
| Public Works | 70.22 | 70.22 | 71.22 | 71.22 | 71.13 | 71.13 | 72.17 | 72.59 | 72.59 | 73.59 |
| Total | 154.00 | 154.25 | 154.75 | 154.75 | 158.75 | 160.75 | 162.75 | 162.75 | 162.75 | 162.75 |



Source: City of Cupertino Budget

CITY OF CUPERTINO
Operating Indicators by Function/Program
Last Eight Fiscal Years
(Unaudited)

| Function/Program | 2005 (a) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-----------------|----------------|----------------|----------------|---------------------|---------------------|---------------------|---------------------|
| Public Safety Sheriff Response | | | | | | | | |
| Priority One | 5.37 Min. | 4.94 Min. | 4.94 Min. | 5.83 Min. | 3.88 Min. | 3.95 Min. | 4.49 Min. | 4.84 Min. |
| Priority Two | 8.61 Min. | 8.09 Min. | 7.15 Min. | 7.95 Min. | 5.94 Min. | 5.90 Min. | 5.76 Min. | 6.44 Min. |
| Priority Three | 18.92 Min. | 16.74 Min. | 15.82 Min. | 15.73 Min. | 9.40 Min. | 9.77 Min. | 9.79 Min. | 10.62 Min. |
| Public Works | | | | | | | | |
| Street Sweeping | 696 Curb Miles | 696 Curb Miles | 696 Curb Miles | 696 Curb Miles | 696 Curb Miles | 696 Curb Miles | 696 Curb Miles | 575 Curb Miles |
| Street Maintenance | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call | 24 Hrs of Call |
| Culture & Recreation | | | | | | | | |
| Teen Center Memberships | 441 | 550 | 510 | 444 | 400 | 447 | 492 | 576 |
| Sports Center Memberships | 916 | 1,021 | 1,336 | 1,419 | 1,700 | 1,385 | 1,598 | 1,776 |
| Senior Center Memberships | 2,000 | 3,100 | 1,935 | 2,110 | 2,243 | 2,287 | 2,387 | 2,470 |
| Local Resident Rentals at Blackberry Farm (b) | - | - | - | - | 28 | 91 | 120 | 135 |
| Quinlan Community Center Rental Revenue (b) | - | - | - | - | \$80,000 | \$71,000 | \$91,000 | \$133,000 |
| Community Development | | | | | | | | |
| Approved Building Plan Sets | Within 5 Days | Within 5 Days | Within 5 Days | Within 5 Days | 91% Within 5 Days | 96% Within 5 Days | 97% Within 5 Days | 93% Within 5 Days |
| Discretionary Land Use Applications | Within 21 Days | Within 21 Days | Within 21 Days | Within 21 Days | 95% Within 21 Days | 100% Within 21 Days | 100% Within 21 Days | 99% Within 21 Days |
| Public Notice of Upcoming Projects | Within 10 Days | Within 10 Days | Within 10 Days | Within 10 Days | 100% Within 10 Days | 100% Within 10 Days | 100% Within 10 Days | 100% Within 10 Days |
| Administrative Services | | | | | | | | |
| Accounts Payable Processing | 5 Days | 5 Days | 5 Days | 5 Days | 5 Days | 5 Days | 5 Days | 7 Days |
| Business License Renewal Certificates | 3 Days | 3 Days | 3 Days | 3 Days | 3 Days | 3 Days | 3 Days | 3 Days |
| Duplication Requests | 1 Day | 1 Day | 1 Day | 1 Day | 1 Day | 1 Day | By Request Date | By Request Date |

(a) First year of available information

(b) New operating indicator

Source: City of Cupertino

CITY OF CUPERTINO
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years
(Unaudited)

| Function/Program | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Public Works | | | | | | | | | | |
| Miles of Streets | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 450 |
| Streetlights | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 | 2,950 |
| Traffic Signals | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 |
| Culture & Recreation | | | | | | | | | | |
| City Parks | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 18 | 19 | 19 |
| City Park Acreage | 150.8 | 150.8 | 150.8 | 150.8 | 150.8 | 150.8 | 150.8 | 151.4 | 152.01 | 152.01 |
| City Trails | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Golf Courses | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Boathouse | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Community Center | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Community Hall | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Senior Center | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Sports Center | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Swimming Pools | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tennis Courts | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Sports Fields | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| City Library | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: City of Cupertino

***COMMUNITY
PROFILE***

History

Cupertino owes its name and earliest mention in recorded history to the 1776 expedition led by the Spaniard, Don Juan Bautista de Anza, from Sonora, Mexico to the Port of San Francisco to found the presidio of St. Francis.



Leaving the majority of the party of men, women, and children in Monterey to rest from their travels, deAnza, his diarist and cartographer, Petrus Font, and 18 other men pressed on through the Santa Clara Valley in late March to their San Francisco destination.

With the expedition encamped in what is now Cupertino, Font christened the creek next to the encampment the Arroyo San Joseph Cupertino in honor of his patron, San Guiseppe (San Joseph) of Cupertino, Italy. The arroyo is now known as Stevens Creek.

The village of Cupertino sprang up at the crossroads of Saratoga-Sunnyvale Road (now DeAnza Boulevard) and Stevens Creek Boulevard. It was first known as West Side; but

by 1898 the post office at the Crossroads needed a new name to distinguish it from other similarly named towns. John T. Doyle, a San Francisco lawyer and historian, had given the name Cupertino to his winery in recognition of the name bestowed on the nearby creek by Petrus Font. In 1904 the name was applied to the Crossroads and to the post office when the Home Union Store incorporated under the name, The Cupertino Stores, Inc.



Many of Cupertino's pioneer European settlers planted their land in grapes. Vineyards and wineries proliferated on Montebello Ridge, on the lower foothills, and on the flat lands below.

After 1906 a lot more than grape growing was going on in Cupertino. Orchards were thriving and new businesses were being started. In the late 1940's Cupertino was swept up in Santa Clara Valley's postwar population explosion. Concerned by unplanned development, higher taxes, and piecemeal annexation to adjacent cities, Cupertino's community leaders began a drive in 1954 for incorporation. Cupertino rancher Norman Nathanson, the Cupertino – Monta Vista Improvement Association, and the Fact Finding Committee played important roles in this movement.

Incorporation was approved in the September 27, 1955 election. Cupertino officially became Santa Clara County's 13th City on October 10, 1955.

A major milestone in Cupertino's development was the creation by some of the city's largest landowners of Vallco Business and Industrial Park in the early 1960's. Of the 25 property owners, 17 decided to pool their land to form Vallco Park, six sold to Varian Associates, a thriving young electronics firm, founded by Russell Varian, and two opted for transplanting to farms elsewhere. The name Vallco was derived from the names of the principal developers: Varian Associates and the Leonard, Lester, Craft, and Orlando families.

2012 Community Economic Profile

Cupertino, with a population of 59,022 and city limits stretching across 13 square miles, is considered to be one of the San Francisco Bay Area's most prestigious cities in which to live and work.

Economic health is an essential component to maintaining a balanced city, which provides high-level opportunities, and services that create and help sustain a sense of community and quality of life. Public and private interests must be mutual so that our success as a partnership is a direct reflection of our success as a community. The cornerstone of this partnership is a cooperative and responsive government that fosters business and residential prosperity and strengthens working relationships among all sectors of the community.

Our economic development strategies are tailored to address the specific needs of Cupertino. Because this is a mature, and 90% built-out city, the focus is on business retention and revitalization. Business recruitment is site specific and targeted to industries that enhance, rather than draw from, our existing business base.



Cupertino is home to many well-known high-tech companies, and offers a dynamic and exciting business climate. Apple Inc., Verigy, Durect Corporation, and Seagate are headquartered in the city. DeAnza College, one of the largest single-campus community colleges in the country, is another major employer.

The City's proactive economic development efforts have resulted in a number of innovative, mutually beneficial partnerships with local companies. The City strives to retain and attract local companies through active outreach and an entitlement process that is responsive and customer oriented.

The Vallco shopping center includes Macy's, JCPenney, and Sears as anchors and features many exciting entertainment and eating venues. Shoppers can enjoy the latest shows at the AMC 16-screen theater, skating at the mall's full-size ice rink, and bowling at the chic and upscale Bowl Mor Lanes. They can begin or top off the evening with fine dining at the critically-acclaimed Alexander's Steakhouse or enjoy more casual cuisine at TGI Friday's, Benihana's, Dynasty Seafood Restaurant, Fresh Choice, and the international food court. The city features many other stores and over 160 restaurants to serve the local workforce and residents.

Four hotels occupy the city: Hilton Garden Inn, Marriott Courtyard, Cupertino Inn and the Cypress Hotel, operated by the Kimpton Group. A fifth hotel with 123 rooms is under construction on DeAnza Boulevard.

The City of Cupertino has a history of providing high-level municipal services to complement the sense of community and quality of life enjoyed by our constituents. The City will continue to enhance and promote a strong local economy to provide municipal services that make Cupertino a place that people are proud to call home.

2012 City Profile

The City of Cupertino operates as a general law city with a City Council-City Manager form of government. Five council members serve four year, overlapping terms, with elections held every two years. The council meets twice a month on the first and third Tuesday at 6:45 p.m. in the Community Hall.

The City has 163 authorized full-time benefited employee positions. City departments include Administration (City Council, commissions, city manager, city attorney); Administrative Services (finance, human resources, information technology, city clerk, neighborhood watch, emergency preparedness, code enforcement); Community Development (planning, building, and economic development); Parks and Recreation; Public Works (engineering, maintenance, transportation, solid waste, and storm drain management); and Public and Environmental Affairs. Police service is provided by the Santa Clara County Sheriff's Department, and fire service is provided through the Santa Clara County Fire District.

Assisting the City Council are several citizen advisory commissions/committees which include housing, telecommunications, fine arts, library, planning, audit, parks and recreation, bicycle and pedestrian, teen, economic development, strategic planning, and public safety. Members of the volunteer boards are appointed by the City Council and vacancies are announced so that interested residents may apply for the positions. Residents are kept informed about city services and programs through the *Cupertino Scene*, a monthly newsletter; The *City Channel*, Cupertino's government access cable TV channel; and the city's website.

Housing

The average sales price of an existing single-family home is \$1,198,720 as of 2012.

Community Health Care Facilities

Cupertino is served by the Cupertino Medical Clinic, NovaCare Occupational Health Services. Nearby hospitals include Kaiser Permanente Medical Center in Santa Clara, El Camino Hospital in Mountain View, O'Connor Hospital in San Jose, Community Hospital of Los Gatos, Stanford Hospital in Palo Alto, and the Saratoga Walk-in Clinic in Saratoga.

Utilities

Gas & Electric – Pacific Gas and Electric, 800-743-5000.

Phone – AT&T, residential service, 800-894-2355; business service, 800-750-2355.

Cable – Comcast, 800- 945-2288.

Solid Waste & Recycling – Recology, 408-725-0420.

Water – San Jose Water Company, 408-279-7900 and California Water, 650-917-0152.

Sewer Service – Cupertino Sanitary District, 408-253-7071

Tax Rates and Government Services

Residential, commercial, and industrial property is appraised at full market value, as it existed on March 1, 1975, with increases limited to a maximum of 2% annually. Property created or sold since March 1, 1975 will bear full cash value as of the time created or sold, plus the 2% annual increase. The basic tax rate is \$1.00 per \$100 full cash value plus any tax levied to cover bonded indebtedness for county, city, school, or other taxing agencies. Assessed valuations and tax rates are published annually after July 1.

Retail Sales Tax: Cupertino 1%, State General Fund 3.9375%, State and Local Revenue Fund 1.0625%, State Local Public Safety 0.5%, State Local Revenue 0.5%, County Transportation 0.25%, Local District (Valley Transportation Authority) 1.125%. Grand Total = 8.375%.

Assessed Valuation: (Secured and Unsecured)

Cupertino: \$14,620,390,341 (7/1/12)

County: \$308,808,219,666 (7/1/12)

Transportation

Rail – CalTrain service to Gilroy and San Francisco, with local station four miles north of city; Amtrak station is 10 miles south.

Air – Mineta San Jose International Airport 11 miles south; San Francisco International Airport 30 miles north.

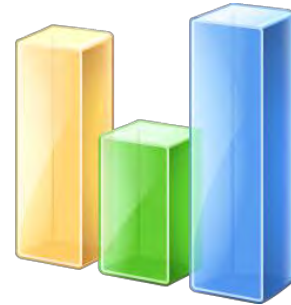
Bus – Santa Clara Valley Transportation Authority.

Highways – Interstate Route 280, State Route 85.

Community Statistics

Facts and Figures

| | |
|-------------------------------|-----------|
| Population in City Limits | 59,022 |
| Median Household Income | \$131,517 |
| Median Age | 39 |
| Registered Voters | 25,934 |
| Democrats | 9,507 |
| Republicans | 5,479 |
| American Independent | 367 |
| Other | 297 |
| No Political Party designated | 10,284 |



Top 40 Sales Tax Producers First Quarter 2012 (In Alphabetical Order)

| | | |
|------------------------------|-------------------------------|--------------------------|
| Alexander's Steakhouse | JC Penney | Sears |
| Apple Inc. | Jo-Ann Fabrics | Shane Diamond Jewelers |
| Argonaut Window & Door | Joy Luck Place | Shell Service Station |
| Benihana of Tokyo | Macy's | Staples |
| BJ's Bar & Grill | Marina Foods | Symantec |
| California Dental Arts | Michael's Arts & Crafts | Target |
| Chevron Service Stations | Mirapath | TJ Maxx |
| Cupertino Smog Pros | Mobil Service Stations | Union 76 Service Station |
| CVS Pharmacy | Outback Steakhouse | US Gas Service Station |
| DeAnza College Campus Center | Ricoh Corp. | Valero Service Station |
| Dynasty Restaurant | Rohde & Schwarz | Verigy |
| Elephant Bar | Rotten Robbie Service Station | Verizon Wireless |
| Hewlett-Packard | Ranch 99 Market | |
| Insight Direct | Scandinavian Designs | |



Demographic Information

| | |
|--|-------|
| Asian | 63.3% |
| White, non-Hispanic | 31.3% |
| Hispanic or Latino | 3.6% |
| Black or African American | 0.6% |
| American Indian/Alaska Native | 0.2% |
| Native Hawaiian/Other Pacific Islander | 0.1% |
| Other | .6% |

Community and Recreation Services

Blackberry Farm

Blackberry Farm has been upgraded and restored to improve the natural habitat for native trees, animals, and fish. Improvements to the park include construction of a new ticket kiosk, re-plastered pools, a new water slide, bocce ball, horseshoe courts, and numerous upgrades to the west bank picnic area. The park is located at 21979 San Fernando Avenue. Telephone: 408-777-3140.

The Blackberry Farm golf course is located at 22100 Stevens Creek Boulevard. Telephone: 408-253-9200.



The Quinlan Community Center

The City of Cupertino's Quinlan Community Center is a 27,000 square foot facility that provides a variety of recreational opportunities.

Most prominent is the Cupertino Room - a multi-purpose room that can accommodate 300 people in a banquet format. Telephone: 408-777-3120.

Cupertino Sports Center

The Sports Center is a great place to meet friends. The facility features 17 tennis courts, complete locker room facilities, and a fully equipped fitness center featuring free weights, Cybex, and cardio equipment. A teen center is also included as well as a child watch center. The center is located at the corner of Stevens Creek Boulevard and Stelling Road. Telephone: 408-777-3160.

Cupertino Senior Center

The Senior Center provides a welcome and friendly environment for adults over age 50. There is a full calendar of opportunities for learning, volunteering, and enjoying life. There are exercise classes, a computer lab and classes, language instruction including English as a second language, and cultural and special interest classes. The center also coordinates trips and socials.

The Senior Center is located at 21251 Stevens Creek Boulevard and is open Monday through Friday 8 a.m. to 5 p.m. Telephone: 408-777-3150.

Civic Center and Library

The complex has a 6,000 square foot Community Hall, plaza with fountain, trees and seating areas. City Council meetings are held in the Community Hall as well as Planning Commission and Parks and Recreation Commission sessions.

The 54,000 square foot library continues to be one of the busiest in the Santa Clara County Library system. For more information call 408-446-1677.

McClellan Ranch Park

A horse ranch during the 1930's and 40's, this 18-acre park has the appearance of a working ranch. Preserved on the property are the original ranch house, milk barn, livestock barn, and two historic buildings: Baer's Blacksmith Shop, originally located at DeAnza and Stevens Creek, and the old water tower from the Parish Ranch, now the site of Memorial Park. Rolling Hills 4-H Club members raise rabbits, chickens, sheep, swine, and cattle and a Junior Nature Museum, which features small live animal exhibits and dispenses information about bird, animal, and plant species of the area. McClellan Ranch is located at 22221 McClellan Road. Telephone: 408-777-3120.

Education

Winner of numerous state and national awards for excellence, our city's schools are widely acknowledged to be models of quality instruction.

Cupertino Union School District serves 18,000 students in a 26 square mile area that includes Cupertino and portions of five other cities. The district has 20 elementary schools and five middle schools, including several choice programs. Eighteen schools have received state and/or national awards for educational excellence.

Student achievement is exceptionally high. Historically, district test scores place Cupertino among the premier public school districts in California. The district is a leader in the development of a standards-based system of education and is nationally recognized for leadership in the use of technology as an effective tool for learning. Quality teaching and parent involvement are the keys to the district's success.



The Fremont Union High School District serves 10,000 students in a 42 square mile area covering all of Cupertino, most of Sunnyvale and portions of San Jose, Los Altos, Saratoga, and Santa Clara. The five high schools of the district have garnered many awards and recognition based on both the achievement of students and the programs designed to support student achievement. Many high schools in the district exceed their established achievement targets for the State Academic Performance Index. District students are encouraged to volunteer and/or provide service to organizations within the community. During their senior year, if students complete 80 hours of service to a non-profit community organization, they are recognized with a "Community Service Award" medal that may be worn during their graduation ceremonies.

Cupertino is served by two local institutions of higher education: DeAnza College and the University of San Francisco. In addition to these schools, Cupertino's location offers easy access to Stanford University, Santa Clara University and San Jose State University.

Building on its tradition of excellence and innovation, DeAnza College challenges students of every background to develop their intellect, character and abilities; to achieve their educational goals; and to serve their community in a diverse and changing world.

DeAnza College offers a wide range of quality programs and services to meet the work force development needs of our region. The college prepares current and future employees of Silicon Valley in traditional classroom settings and through customized training arranged by employers. Several DeAnza programs encourage economic development through college credit courses, short-term programs, services for manufacturers, technical

assistance, and/or recruitment and retention services.

Things to do and See

Euphrat Museum of Art

The highly regarded Euphrat Museum of Art, at its new location next to the new Visual Arts and Performance Center at DeAnza College, traditionally presents one-of-a-kind exhibitions, publications and events reflecting the rich diverse heritage of our area. The Museum prides itself on its changing exhibitions of national and international stature, emphasizing Bay Area artists. Museum hours are 10 a.m. – 3 p.m. Monday through Thursday. Telephone: 408-864-5464.

Fujitsu Planetarium

Stargazers have a Cupertino facility catering to their interests, the Fujitsu Planetarium on the DeAnza College campus. It hosts a variety of planetarium shows and events, including educational programs for school groups and family astronomy evenings. For more information, visit the website at <http://planetarium.deanza.edu> or call 408-864-8814.

Flint Center

The cultural life of the Peninsula and South Bay is enhanced by programs presented at the Flint Center for Performing Arts located at 21250 Stevens Creek Boulevard at DeAnza College campus. The center opened in 1971 and was named in honor of Calvin C. Flint, the first chancellor of the Foothill-DeAnza Community College District. The box office is open 10 a.m. – 4 p.m. Tuesday through Friday and one and one half hours prior to any performance. Box office: 408-864-8816; administrative office: 408-864-8820.

Cupertino Historical Society

On May 2, 1966, the Cupertino Historical Society was founded as a non-profit organization by a group of 177 longtime residents concerned about the rapid growth in the area and its impact on the quickly vanishing Cupertino heritage. On March 30, 1990, the Society opened the Cupertino Historical Museum dedicated to the preservation and exhibition of the city's history. Through its exhibits the museum attempts to develop and expand the learning opportunities that it offers to the ethnically diverse community of the City of Cupertino. The Society continues to build partnerships with the local school districts to ensure that the history of Cupertino is offered as part of the educational curriculum. The Society is located at the Quinlan Community Center, 10185 N. Stelling Road. Telephone: 408-973-1495.

Farmers' Market

Residents and visitors can visit the farmers' market every Friday from 9:00 a.m. to 1:00 p.m. at the Vallco Shopping Mall parking lot behind JCPenney.



California History Center

The California History Center and Foundation is located on the DeAnza College campus. The center has published 37 volumes on California history and has a changing exhibit program. The center's Stocklmeir Library Archives boasts a large collection of books, a pamphlet file, oral history tapes, videotapes and a couple thousand student research papers. The library's collection is for reference only. Heritage events focusing on California's cultural or natural history are offered by the center each quarter. For more information, call 408-864-8987. The center is open September through June 9:30 a.m. to noon and 1:00 p.m. to 4:00 p.m. Tuesday through Thursday.