

2009
2010
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2010

City of Cupertino, California

www.cupertino.org

CITY OF CUPERTINO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED
JUNE 30, 2010

PREPARED BY:
CITY OF CUPERTINO
ADMINISTRATIVE SERVICES DEPARTMENT
FINANCE DIVISION

NOTES

INTRODUCTORY SECTION

NOTES

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 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2010

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COMMUNITY PROFILE



CITY OF CUPERTINO

CITY HALL

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November 17, 2010

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, 2010. 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.

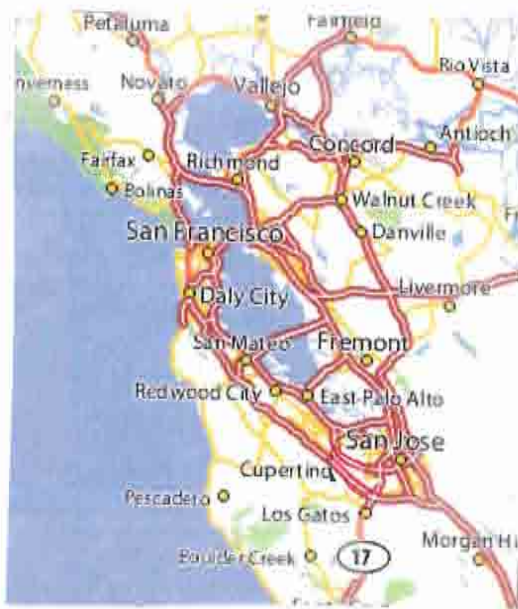
REPORTING ENTITY

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.

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 the 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. Its residential population of 55,838 expands to 71,194 when including the daytime workforce.



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 the Santa Clara 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 Inc., Verigy, Durect Corporation, and ArcSight and houses sixty high-tech firms including key Hewlett-Packard divisions. 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. Apple has purchased over sixty acres for a major expansion north of Highway 280 along Pruneridge Avenue between Wolfe Road and Tantau Avenue. Seagate Technology is moving its headquarters to Cupertino, but the Hewlett-Packard divisions are relocating to Palo Alto within two years. In 2009, ten million square feet of office and research and development space existed with vacancy rates of 13% for office and 4.9% for research and development. The City's unemployment rate of 7.2% falls below the statewide rate of 12.2%.

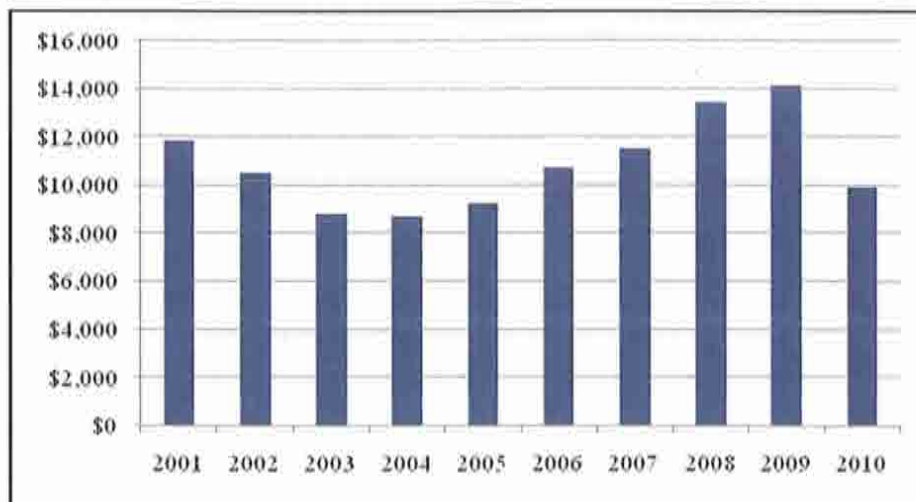
Retail space encompassed 3.6 million square feet in 2009, with over 150 eating establishments. The 1.2 million square foot Vallco Shopping Mall, formerly Cupertino Square, comprises most of the City's redevelopment project area and features two levels of enclosed shopping, three anchor stores, a 16-screen AMC theatre, a bowling center, ice rink, and international food court. In spite of the mall's additions and remodel and aside from the theatre being one of the top attended AMC cinemas regionally, the shopping center continues to underperform. Moreover, financing problems hit the former mall owners, resulting in a bankruptcy, foreclosure, and sale of the property in 2009. Sears, Macy's, JC Penney, Target, TJ Maxx, and Whole Foods Market are leading retailers in the City. A local restaurant association promotes the City as a regional dining destination.

For Santa Clara County property taxes, what began in 2009 intensified in 2010 in three areas: 1) Homes being purchased at prices lower than previously established assessment values because of foreclosures and distressed sales; 2) Lack of new construction that increases property values; and 3) the number of residential and commercial properties given temporary reductions in assessment values. Cities such as Cupertino with more higher-end housing were more negatively affected by these factors in 2010. Moreover for the first time ever, in 2010, homes that usually experience a maximum 2% assessed value increase under Proposition 13, received instead a 0.237% reduction in assessed values because of a lower California Consumer Price Index. While the residential market may have bottomed out in 2010, the reduction in the number of businesses and tight credit has caused commercial, industrial and retail

property assessed values to fall significantly countywide. Cupertino's total assessment roll grew by 2.82% from 2008 to 2009, but declined 0.36% from 2009 to 2010, with Cupertino finishing sixth or better in the percentages out of the sixteen cities and unincorporated area in the county. Apple and Hewlett-Packard both with significant presence in Cupertino are ranked county-wide in the top 25 for business personal property assessments. The Villa Serra Apartments in Cupertino was one of ten major construction projects in the County.

Cupertino has a high 70% of its sales taxes coming from business-to-business commerce, compared to California and San Francisco Bay Area averages of 17% and 20% respectively. One company comprises much of that sector. Conversely, 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 redevelopment of the Vallico Shopping Mall and recommends that quality retail components be incorporated into future developments. The following chart shows sales taxes over the past ten years reflecting the two recessions in the decade and the business-to-business concentration. The City is seeing a sharp pickup in sales taxes for the first quarter of fiscal 2011. However, Hewlett-Packard's move out of the City in two years will significantly affect sales taxes if their sales offices are not retained here.

Sales Tax Trend



Continuing postponement of major commercial or residential projects approved in recent years, such as Homestead Square, the mixed-use Main Street Cupertino complex, the 24,455 sq. ft. retail expansion of Cupertino Village, the 10,582 sq. ft. retail building at Tantau Avenue and Stevens Creek Blvd., the 51,000 sq. ft. mixed-use building and 122-room hotel at the Oaks Shopping Center, and the 19.8 acre One Results Way office campus redevelopment has kept a lid on construction taxes and permit, park, and housing fees, but plans have recently advanced on the 138-room hotel on North DeAnza Boulevard. Foundation and podium work on the Rose Bowl mixed-use project was done in 2009 but ultimate construction of the structures themselves is delayed. On the positive side, along with the Villa Serra and Grove expansion, the 4,871 square foot Learning Game retail commercial building, the Orange and Granada mixed-use projects, the 20-unit Las Palmas residential project, and 4-unit Linnet Lane townhome development are under construction along with tenant improvement work in various office buildings.

The City's pension and retiree medical unfunded actuarial accrued liabilities are discussed in Notes 11 and 12 to the Basic Financial Statements. The City expenses the annual installments (required contributions) to payoff this long-term liability. Cupertino's most recent pension actuarial valuation report of June 30, 2008 reports a pension unfunded actuarial accrued liability of \$10,766,000 and the City's annual pension costs required an \$1,841,000 contribution to CalPERS in 2009-10 with the amount

going up to \$2,030,000 in 2010-11 and continuing to rise after that because of CalPERS' investment losses and changes to the assumptions used in their actuarial studies. Most Bay Area Peninsula cities including Cupertino have agreed to work toward reducing pension benefits for new hires to address the long-term rising costs. As of the most recent January 1, 2009 health cost actuarial valuation report, the City has a retiree medical unfunded actuarial accrued liability of \$18,069,000 which requires an annual contribution of about \$2 million. The City has been setting aside monies annually for this purpose since 2004, investing \$7 million in an irrevocable trust and \$2 million into reserves in order to fund the annual normal cost and the amortization of past liabilities. The City's five-year budget plans to contribute about \$1.5 million additionally per year to the trust.

Because the City contracts out its 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 at a set amount 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 the strong revenue years and traditional under-spending of budgets enables the City to withstand weak revenue years, such as in 2009-10. However unless revenues pickup significantly, the City will eventually have to dip into its economic uncertainty reserves within the next five years.

ECONOMIC INITIATIVES

The recession and future planned departure of a major company 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 borrowings 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 solution provider, and update of the utility user tax are successes of the strategic plan. While the City is undertaking further actions on property tax share, pursuing a storm drain tax increase to eliminate the General Fund subsidy, and looking at the value of its water system ownership, other tax or fee initiatives in the plan have incurred opposition to their implementation. The City's Economic 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 economic stimulus opportunities from the American Recovery and Reinvestment Act and other programs. In 2009-10 and 2010-11 it has been awarded \$2,600,000 in grants for streets, energy efficiency, housing improvements, and emergency preparedness. The City is installing new streetlights and irrigation systems to save on future utility costs. A state proposition passed that will prevent further raids and borrowings of city taxes, however continuing state budget deficits will keep pressure on city resources. As part of its service delivery automation and streamlining initiative, Cupertino recently improved electronic services in Code Enforcement, Recreation, and City Clerk and plans to expand that work to Community Development with the goal of bringing City Hall closer to the customer at reduced costs. The fiscal strategic plan promotes the streamlining and repositioning of the workforce as opportunities arise along with decreasing expenditures and risk exposure by requiring that developers maintain new open space associated with their projects and that private and public capital projects be added only if ongoing maintenance is funded.

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. Macias Gini and O'Connell LLP 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, 2009. 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

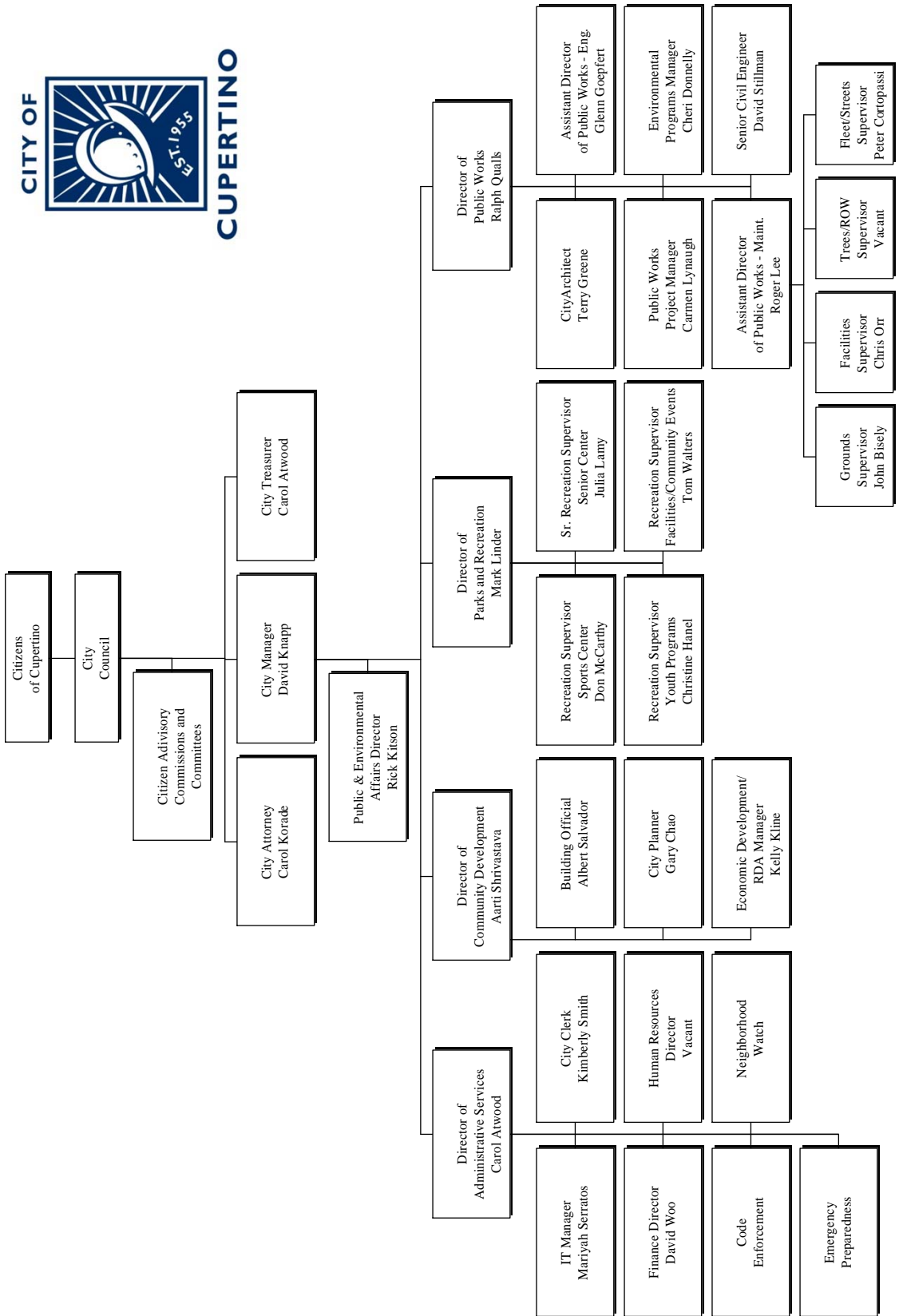
ACKNOWLEDGMENTS

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 the Finance staff - Tina Mao, Yulia Rumalean, and Richard Wong - 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 2009/10

CITY COUNCIL



Kris Wang
Mayor



Gilbert Wong
Vice Mayor



Orrin Mahoney
Councilmember



Mark Santoro
Councilmember



Barry Chang
Councilmember

DIRECTORY OF CITY OFFICIALS

David W. Knapp - City Manager

Carol Korade – City Attorney

Carol Atwood – Director of Administrative Services

Mark Linder – Director of Parks and Recreation

Ralph Qualls – Director of Public Works

Aarti Shrivastava - Director of Community Development

CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2009/10

COMMISSIONS AND COMMITTEES

AUDIT COMMITTEE

Myoung Kang
Mark Santoro
Stanley Stemkoski
Garrett Wade
Barry Chang

HOUSING COMMISSION

Harvey Barnett
Radha Kulkarni
Nicole Maroko
Liutyng Lin
Jimmy Chien

FINE ARTS COMMISSION

KC Chandratreya
John Fiegel
Srilakshmi Sitaraman
Robert Harrison
Jessi Kaur

PUBLIC SAFETY COMMISSION

Charles Caldwell
Nina Daruwalla
Craig Lee
Daniel Nguyen
Tamara Pow

TEEN COMMISSION

Utkarsh Bhagi	Kailash Sundaram
Jacqueline Do	Shailee Samar
Anand Hemmady	Anna Kathryn Sengupta
Esther Lim	Hadar Sachs
Laura Liu	

TECHNOLOGY, INFORMATION & COMMUNICATIONS COMMISSION

William Allen
Peter Friedland
Avinash Gadre
Wallace Iimura
Andrew Radle

PARKS & RECREATION COMMISSION

Jeanne Bradford
David Greenstein
David Lee
Darcy Paul

LIBRARY COMMISSION

Adrian Kolb
Ronald Miller
Katherine Stakey
Ann Stevenson
Susanna Tsai

PLANNING COMMISSION

Paul Brophy
Lisa Giefer
David Kaneda
Winnie Lee
Marty Miller

BICYCLE PEDESTRIAN COMMISSION

Mark Fantozzi
Geoffrey Paulsen
Alan Takahashi
James Wiant
William Chan

ECONOMIC DEVELOPMENT

Lisa Giefer	Orrin Mahoney
Carol Atwood	Lynn Ching
Mike Foulkes	Ralph Qualls
Kelly Kline	Aarti Shrivastava
David Knapp	Maria Streeby
	Gilbert Wong

FISCAL STRATEGIC COMMITTEE

Kris Wang	Kelly Kline
Orrin Mahoney	Aarti Shrivastava
Carol Atwood	
David Woo	
Roger Lee	

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, 2009

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.



President

Executive Director

NOTES

City Council
City of Cupertino, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cupertino, California (the City), as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cupertino, California as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(n) to the basic financial statements, effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

The management's discussion and analysis and the schedules of funding progress listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information section, statistical section, and community profile section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, statistical, and community profile sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

November 17, 2010

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2010

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.

2009-10 FINANCIAL HIGHLIGHTS

- Governmental activity revenues were \$46,152,000, down significantly from \$51,757,000 in 2008-09.
- Governmental activity expenses were \$46,223,000 in 2009-10, down slightly from \$46,807,000 in the prior year.
- Revenues from business-type activities were \$6,575,000 in current year, down from \$6,980,000 in the prior year.
- Expenses of business-type activities were \$5,808,000 in current year, down slightly from \$5,828,000 in the prior year.
- Governmental net assets were relatively unchanged while business-type net assets rose \$767,000.
- General Fund revenues of \$35,578,000 represented a large decrease of \$5,715,000 from the prior year; General Fund expenditures increased \$680,000 to \$32,956,000 in 2009-10.
- The General Fund incurred expenditure budget savings of \$2,338,000; however, revenues fell short of budget by \$2,310,000.
- Including net transfers out, the General Fund balance declined \$6,266,000 to end the year at \$15,931,000.

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.

- ***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, 2010

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

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 OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2010

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

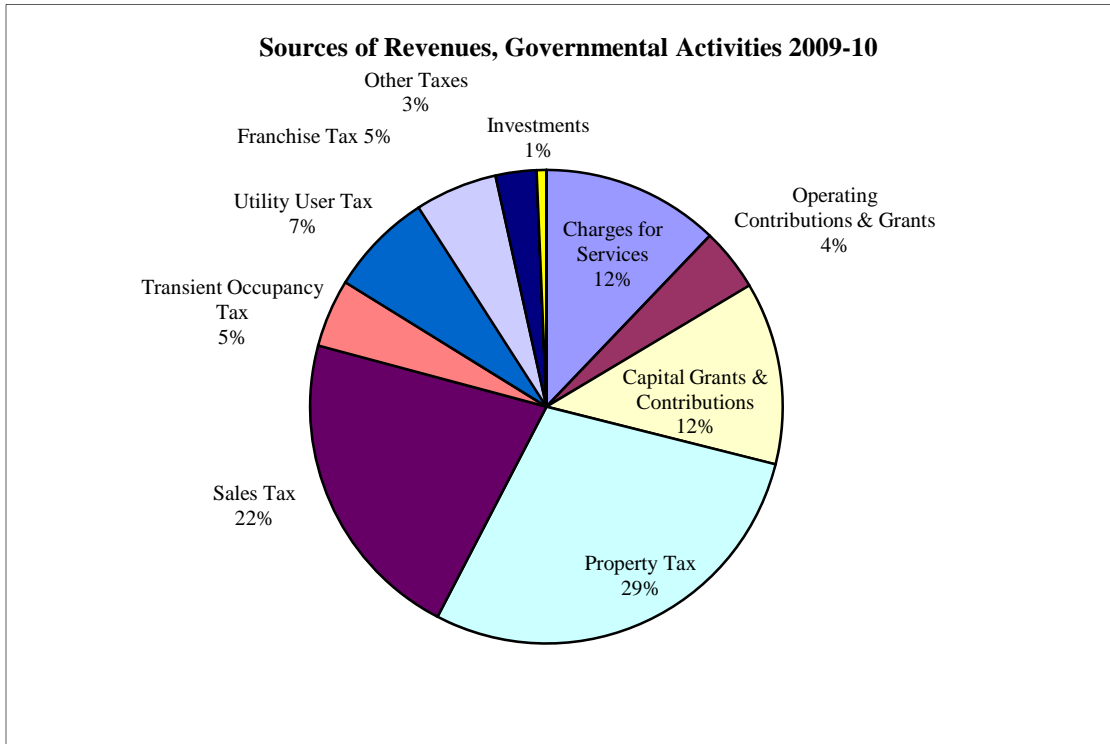
Table 1
Condensed Statement of Net Assets at June 30
(in thousands)

	Governmental Activities	
	2010	2009
Assets:		
Cash and investments	\$ 41,700	\$ 48,363
Other assets	10,391	6,446
Capital assets	165,915	167,275
Total assets	218,006	222,084
Liabilities:		
Long term debt	45,510	46,970
Other liabilities	12,311	14,858
Total liabilities	57,821	61,828
Net assets:		
Invested in capital assets, net of debt	120,405	120,305
Restricted	8,692	6,661
Unrestricted	31,088	33,290
Total net assets	\$ 160,185	\$ 160,256

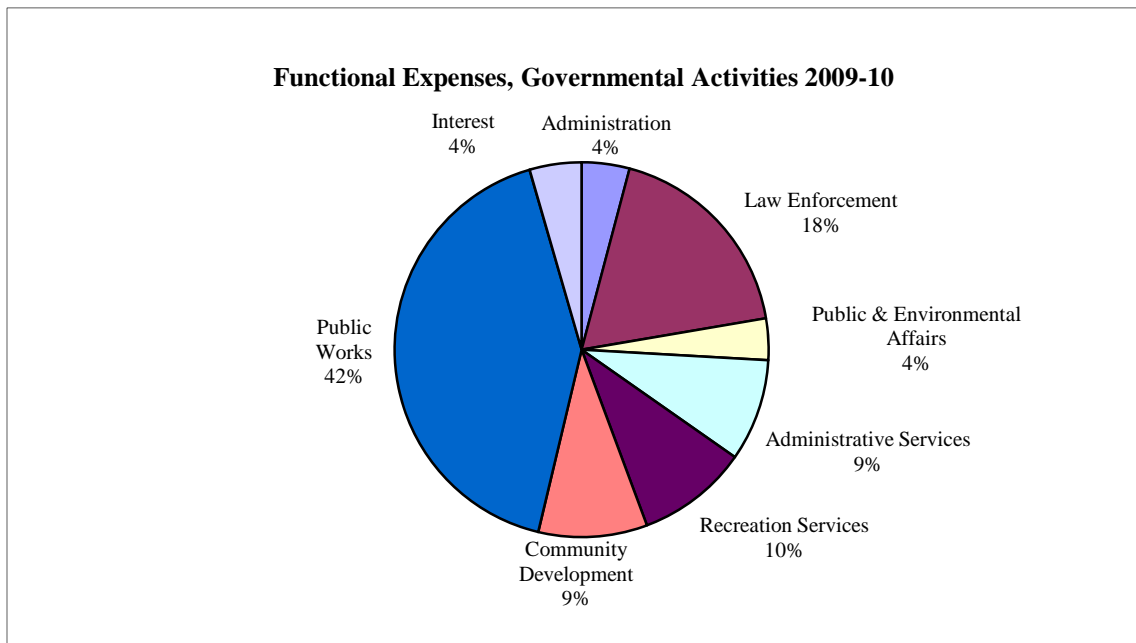
The City's net assets from governmental activities were relatively unchanged from the prior year. The following significant changes within asset, liability, and net asset categories occurred:

- A \$7,000,000 investment into an irrevocable trust dedicated to future other post employment benefits (OPEB) was the major cause of the cash and investments decrease. It also reduced the OPEB obligation portion of other liabilities by \$1,827,000 and increased the OPEB portion of other assets by \$3,747,000.
- Principal payments on the 2002 certificates of participation lowered long-term debt by \$1,460,000.
- Approximately \$2 million in net assets changed from unrestricted to restricted reflecting lower unrestricted general funds and higher balances restricted to transportation, redevelopment, and housing purposes.

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As the Sources of Revenue chart above shows, property and sales taxes make up 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.



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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.

Table 2
Condensed Changes in Net Assets For The Year Ended June 30
(in thousands)

	Governmental Activities	
	2010	2009
Expenses:		
Administration	\$ 1,912	\$ 1,770
Law enforcement	8,385	8,804
Public and environmental affairs	1,653	1,624
Administrative services	4,080	4,002
Recreation services	4,445	4,206
Community development	4,351	6,178
Public works	19,320	18,104
Interest on long term debt	2,077	2,119
Total expenses	46,223	46,807
Revenues		
Program revenues:		
Charges for services	5,631	5,417
Operating contributions and grants	2,043	4,014
Capital grants and contributions	5,511	4,760
Total program revenues	13,185	14,191
General revenues:		
Taxes:		
Property tax	7,489	7,492
Property tax in lieu of motor vehicle fee	4,421	4,300
Incremental property tax	1,323	1,211
Sales tax	9,931	14,139
Transient occupancy tax	2,142	2,140
Utility user tax	3,271	3,205
Franchise tax	2,598	2,618
Other taxes	1,212	1,318
Intergovernmental, unrestricted		
Motor vehicle license fee	166	172
Investment earnings	295	890
Miscellaneous	119	81
Total general revenues	32,967	37,566
Total revenues	46,152	51,757
Change in net assets	(71)	4,950
Beginning net assets, as previously reported	143,293	138,343
Prior period adjustment for easements	16,963	16,963
Beginning net assets, as restated	160,256	155,306
Ending net assets	\$ 160,185	\$ 160,256

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City-wide Governmental Revenues

Table 2 shows that total governmental revenues fell \$5,605,000 or 11% off of last year, finishing at \$46,152,000.

Sales taxes fell \$4,208,000 or 30% off of last year to finish up at \$9,931,000. The state's mechanism of collecting and allocating these taxes to the City lags actual sales trends by up to a year, so a part of last year's recessionary downturn in business-to-business and retail sales showed up in this year's City results. Actual sales tax collections in this current year, with prior year effects excluded, were down by only 4% from 2008-09. This year's result was also negatively impacted by the timing of a sales tax consulting agreement that is payable out of a percentage of revenues. The positive revenue result that will show in first quarter of the new fiscal year is offset by the corresponding higher amount payable for the consulting agreement in the current fiscal year.

Grants and contributions, both operating and capital related, decreased a combined \$1,220,000 or 14% from 2008-09 as this year's Stevens Creek Corridor Park and pavement resurfacing grants from federal and state sources such as the American Recovery and Reinvestment Act, Surface Transportation Program, Proposition 1B bonds, and Park Bond Act were under the 2008-09 Mary Avenue Bicycle Footbridge and community housing program reimbursements received from the Santa Clara Valley Transportation Authority and Community Development Block Grants (CDBG).

City-wide Governmental Expenses

City-wide governmental expenses in Table 2 decreased \$584,000 or 1% under 2008-09. Administration, Recreation Services, and Public Works rose while Law Enforcement and Community Development declined. Administrative Services, Public & Environmental Affairs, and debt interest were stable.

Administration increased \$142,000 or 8% this year due to higher contract attorney use.

Recreation Services rose \$239,000 or 6% because the Blackberry Farm recreation area and swimming pool reopened in July 2009 after a two-year construction project.

Higher depreciation costs caused Public Works expenses to go up \$1,216,000 or 7% over the prior year reflecting the Mary Avenue Footbridge, Stevens Creek Corridor Park, and pavement capital projects completed in the prior year.

The General Fund paid the County Sheriff's Office, under a Law Enforcement contract with the City, \$251,000 or 3% more this year because of an annual cost of living adjustment, but on a consolidated financial basis, law enforcement expenses dropped \$419,000 from the previous year as internal service costs for information technology, equipment, and insurance were no longer allocated to this function starting in 2009-10.

Community Development expenses fell \$1,827,000 or 30% primarily because of 2008-09 CDBG monies and City development impact fees expended on the Maitri domestic violence shelter and the Senior Housing Solution senior living residence.

Change in Net Assets

City-wide governmental expenses in excess of revenues and accompanying net asset decrease of \$71,000 was under the \$4,950,000 increase of last year, mostly due to the revenue falloff.

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

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services and facilities to the general public on a continuing basis can be financed or recovered primarily through user fees.

Business-type net assets totaled \$9,852,000 at June 30, 2010, an increase of \$767,000 from the prior year with \$652,000 of the rise going into capital assets and the rest into unrestricted net assets.

Overall revenues of \$6,575,000 this year were \$405,000 or 6% lower than last year with declines in all of the City's enterprises.

Expenses for all business-type activities were flat at \$5,808,000. Revenues over expenses of \$767,000 declined from the \$1,152,000 in 2008-09, reflecting the lower operating incomes of the Sports Center, Recreation, and Resources Recovery enterprises. The major proprietary funds section of this report provides more information on business-type results.

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

	Business Type Activities	
	2010	2009
Assets:		
Cash and investments	\$ 9,762	\$ 9,749
Other assets	348	353
Capital assets	788	136
Total assets	10,898	10,238
Current liabilities	1,046	1,153
Total liabilities	1,046	1,153
Net assets:		
Invested in capital assets	788	136
Unrestricted	9,064	8,949
Total net assets	\$ 9,852	\$ 9,085

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

	Business Type Activities	
	2010	2009
Expenses:		
Resources recovery	\$ 2,018	\$ 1,998
Blackberry farm	457	496
Sports center	1,478	1,594
Recreation programs	1,855	1,740
Total expenses	5,808	5,828
Revenues		
Program revenues:		
Charges for services	6,501	6,794
Operating contributions and grants	7	14
Total program revenues	6,508	6,808
General revenues:		
Investment income	67	172
Total revenues	6,575	6,980
Change in net assets	767	1,152
Beginning net assets	9,085	7,933
Ending assets	\$ 9,852	\$ 9,085

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MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund Revenues

General Fund revenues of \$35,578,000 ended up \$2,310,000 or 6% below the final budget and \$5,003,000 or 12% below the original budget for the year ended June 30, 2010. This was \$5,715,000 or 14% under last year. Severe declines in property and sales taxes caused the year-to-year falloff while underperformance in almost all revenue categories except for transient occupancy taxes and intergovernmental grants produced the budget shortfall. Table 5 displays year-to-year variations, while Table 6 shows budget versus actual differences.

Property taxes ended the year at \$10,439,000, dropping 11% or \$1,304,000 from last year while meeting the final budget. The budget was adjusted downward at mid-year by \$770,000 after the State adopted a late 2009-10 budget in September 2009 that included the borrowing of \$1,419,000 in property taxes to fund their budget deficit. Proposition 1A requires that the State repay this to the City by June 30, 2013 with 2% annual interest and until that is done, it cannot seize any more property taxes under this statute; accordingly, this loan is carried as a receivable and deferred revenue. The revenue decline was partially offset by actual tax receipts, aside from the borrowing, coming in slightly better than predicted from the assessed valuation known at the original budget adoption. However, the City was not immune to the weakness in the residential and commercial real estate markets and tax roll growth was down from previous years. But because of the City's low foreclosure rates and its popular local school districts, assessed values have been impacted less severely relative to many other cities in the County. This category also includes property taxes that replace motor vehicle license fees lost due to the statewide fee reduction in 2005.

Sales taxes fell \$4,208,000 or 30% off of last year to finish up at \$9,931,000. It was \$1,718,000 or 15% below the original budget and \$1,318,000 or 12% below the final budget. The state's mechanism of collecting and allocating these taxes to the City lags actual sales trends by up to a year, so a part of last year's recessionary downturn in business-to-business and retail sales showed up in this year's City results. Actual sales tax collections in this current year, with prior year effects excluded, were down by only 4% from 2008-09. This year's result was also negatively impacted by the timing of a sales tax consulting agreement that is payable out of a percentage of revenues. The positive revenue result that will show in first quarter of the new fiscal year is offset by the corresponding higher amount payable for the consulting agreement in the current fiscal year.

After the City saw declines in the first two quarters, it lowered its sales tax budget by \$400,000.

The four hotels in the City remitted \$2,142,000 in transient occupancy taxes this year, equaling last year's performance. It was 7% or \$148,000 better than the final budget. Receipts began to improve in November 2009 as the hotels, which all cater to business, saw a pickup in occupancy rates. Average room rates, however, continued to lag the prior year. The City had forecasted a stronger business recovery in hotels than what was unfolding, so the budget for this 10% tax was decreased at mid-year by \$400,000.

The City's 2.4% utility user tax on telecommunication, gas, and electric services rose 2% above last year. This \$3,271,000 in revenues was \$95,000 or 3% under the original and final budget. On November 3, 2009, voters passed an ordinance to ensure that this tax can continue to be collected on contemporary telecom systems.

Franchise taxes of \$2,598,000 from electric, gas, water, solid waste, and cable utilities were mostly unchanged from last year and in-line with this year's original and final budget.

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. The increase in housing transactions offset the continuing decline in building activity and the associated construction tax on its value, causing the other tax category to grow by a net 13% or \$133,000 from 2008-09

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figures. However, the lack of a pickup in construction, due to difficulties in commercial financing, caused other taxes to be 4% or \$49,000 off of the final budget and 23% or \$349,000 under the original budget.

Licenses and permits finished at \$2,583,000, declining 6% or \$157,000 from 2008-09. It was 20% or \$627,000 below the final and original budget. The slump in residential construction continued, while expected new commercial projects did not come to fruition. Fees from a partially completed project at the Rosebowl were delayed.

Zoning, planning, and engineering review fees comprise two-thirds of the charges for services category, with non-enterprise recreational programs encompassing the rest. The category improved from \$1,266,000 last year to \$1,334,000 this year, a 5% rise. It finished \$100,000 or 7% below the final budget and \$500,000 and 27% under the original budget. Entitlement and street cut review fees were below forecasts as developments were placed on hold, while Senior Center revenues turned out better than expected and grew over last year as the mild economic recovery helped trip and class bookings. The Blackberry Farm recreation area reopened in July 2009, resuming fees for picnic ground and swimming pool use, after being closed for a two year capital improvement project.

Intergovernmental revenues of \$626,000 rose 48% or \$205,000 from last year, exceeded the final budget by 27% or \$134,000, and topped the original budget by 51% or \$211,000. \$88,000 of an American Recovery and Reinvestment Act grant for energy efficiency work appeared in 2009-10 while \$40,000 of a Citizens Option for Public Safety grant, normally received in 2008-09, arrived instead in October 2009. Cost reimbursements from other governments and districts, including those for State mandates, grew by \$42,000. \$77,000 in new emergency management grants were awarded to the City during 2009-10 and subsequently added to the budget.

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, which extended their slump into a second year, falling 41% from 2008-09, to finish at \$686,000 versus \$1,163,000 a year ago. Results include \$25,000 of unrealized losses from declines in market value on the fixed rate securities in the portfolio. Current results were 23% and 51% under the final and original budgets, respectively. Falling cash balances because of lower revenues and the portfolio's increased concentration in safe short-term Treasuries kept yields down. As interest rates did not increase as expected and investments into higher yielding Federal agencies and the Local Agency Investment Fund did not occur, the investment revenue budget was decreased at mid-year by \$500,000. A further explanation of the investment picture for the year is in Note 2 of the Basic Financial Statements. Rent income was stable and on budget.

Fines and forfeitures year-to-year were relatively flat. Actual receipts came in \$166,000 or 18% below final and original budget as courts were assessing lower fine amounts in certain cases.

Transfers into the General Fund dropped 22% from \$624,000 last year to \$487,000 this year. There were fewer surplus dollars returned to the General Fund from project savings in the Capital Project Improvement Fund. The budget for transfers added \$992,000 during the year to reflect the project savings and a \$505,000 borrowing of money from an internal service fund to replace the State property tax takeaway. However the borrowing was actually recorded as an advance from another fund liability, rather than as a transfer-in, causing the budget versus actual difference.

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Table 5
Revenue Changes
General Fund, Fiscal 2010 vs. 2009
(in thousands)

Revenue by Source	Fiscal 2010		Increase/(Decrease) From Fiscal 2009	
	Amount	% of Total	Amount	Percent
Taxes:				
Property	\$ 10,439	30%	\$ (1,304)	-11%
Sales	9,931	28%	(4,208)	-30%
Transient occupancy	2,142	6%	2	0%
Utility user	3,271	9%	66	2%
Franchise	2,598	7%	(20)	-1%
Other	1,151	3%	133	13%
Use of money & property	686	2%	(477)	-41%
Intergovernmental	626	2%	205	49%
Licenses and permits	2,583	7%	(157)	-6%
Charges for services	1,334	4%	68	5%
Fines and forfeitures	736	2%	(25)	-3%
Other	81	--	2	3%
Total revenues	<u>\$ 35,578</u>	<u>100%</u>	<u>\$ (5,715)</u>	<u>-14%</u>
Transfers in	<u>\$ 487</u>	<u>100%</u>	<u>\$ (137)</u>	<u>-22%</u>

Table 6
Revenue Budget and Actual Comparisons
General Fund, 2009-10
(in thousands)

Revenue by Source	Budgeted Amounts		Actual	Over/(Under) Final
	Original	Final		
Taxes:				
Property	\$ 11,190	\$ 10,420	\$ 10,439	\$ 19
Sales	11,649	11,249	9,931	(1,318)
Transient occupancy	2,394	1,994	2,142	148
Utility user	3,366	3,366	3,271	(95)
Franchise	2,630	2,630	2,598	(32)
Other	1,500	1,200	1,151	(49)
Use of money & property	1,391	891	686	(205)
Intergovernmental	415	492	626	134
Licenses and permits	3,210	3,210	2,583	(627)
Charges for services	1,834	1,434	1,334	(100)
Fines and forfeitures	902	902	736	(166)
Other	100	100	81	(19)
Total revenues	<u>\$ 40,581</u>	<u>\$ 37,888</u>	<u>\$ 35,578</u>	<u>\$ (2,310)</u>
Transfers in	<u>\$ -</u>	<u>\$ 992</u>	<u>\$ 487</u>	<u>\$ (505)</u>

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General Fund Expenditures

Fiscal 2009-10 overall expenditures, at \$32,956,000, were \$680,000 or 2% higher than last year's total of \$32,276,000. However, this result came in 7% or \$2,338,000 under the final budget and \$2,533,000 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 \$1,469,000 rose 10% or \$132,000 over last year while finishing \$48,000 or 3% under final budget. Higher usage of contract attorney services accounted for the yearly rise while a staff attorney vacancy led to a minor budget reduction at mid-year.

Law Enforcement sheriff contract costs of \$8,384,000 were under the final budget by \$182,000 or 2%. The budget contains dollars for unexpected events or incidences, so by the end of the year, the normal rate of general law enforcement, service requests, emergency calls, patrol, and investigations usually brings budget savings. Funds for school traffic safety was carried over from the previous year and added to the amended budget. The results exceeded past year expenditures by 3% or \$251,000, because of the contract's cost of living adjustment. Having contract law enforcement helps the City contain costs.

Public and Environmental Affairs expenditures of \$1,487,000 were flat on a budget and year-to-year basis.

Administrative Services increased 3% from last year and finished 8% or \$329,000 under final budget. The City's biennial City Council election affected the yearly fluctuation. Budget savings were realized in finance, city clerk, disaster preparedness, insurance, code enforcement and neighborhood watch. The final budget was \$192,000 under the original budget due mid-year budget cuts from a human resource staff vacancy and a lower insurance reserve.

Non-enterprise Recreation expenditures ended up \$285,000 or 7% below final budget, but exceeded last year's spending by \$215,000 or 6%. The Blackberry Farm recreation area and swimming pool reopened in July 2009 after a two-year closure for construction. Most operational areas realized budget savings but the senior travel program comprised 45% of the savings as their cost of trips sold budget was set for a higher revenue level than what was actually realized, even after a mid-year budget decrease.

Community Development costs of \$3,069,000 was \$492,000 or 14% below the final budget due to a lower amount of building activity and associated reduction in plan checking and inspection work. Additionally, the department employed fewer consultant hours than anticipated for its long-term planning work. Costs dipped 4% or \$140,000 from last year as the less contract plan checking was needed.

Public Works maintenance, repair, and engineering expenditures of \$10,809,000 rose a slight 1% or \$121,000 over the prior year. It was \$995,000 or 8% under final budget due to a school traffic safety project that will continue into next year, two engineering staff vacancies, and surplus engineering, traffic, and maintenance contingencies. Purchase orders from last year comprised the \$253,000 increase from original to final budget.

Transfers out of the General Fund climbed from \$7,110,000 in 2008-09 to \$9,375,000 in 2009-10, as finally budgeted, with \$3,538,000 for ongoing debt service, \$2,625,000 for one-time capital projects, \$1,848,000 for ongoing retiree health obligations, \$750,000 for ongoing road maintenance, \$300,000 for ongoing accrued leave payouts, \$199,000 for new information technology and equipment, \$100,000 for ongoing infrastructure reserve additions, and a \$15,000 new subsidy for storm drain management. The increase over 2008-09 resulted from new capital funding offset by a reduction in the retiree health contribution, accrued leave payout, and information technology support. \$1,696,000 of the capital funding came out of General Fund reserves for a citywide streetlight and irrigation retrofit project which is slated to generate future energy savings. The \$929,000 remaining capital commitment was for various tasks described in the Capital Improvement Projects section of this discussion, \$487,000 of it reflects a redeployment of budget savings from older projects. The budget varied during the fiscal year as new projects were authorized.

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Table 7
Expenditure Changes from Prior Year
General Fund, 2009-10
(in thousands)

Service Area	Fiscal 2010		Increase/(Decrease) From Fiscal 2009	
	Amount	% of Total	Amount	Percent
Administration	\$ 1,469	4%	\$ 132	10%
Law enforcement	8,384	25%	251	3%
Public and environmental affairs	1,487	5%	1	0%
Administrative services	3,734	11%	100	3%
Recreation services	4,004	12%	215	6%
Community development	3,069	10%	(140)	-4%
Public works	10,809	33%	121	1%
Total expenditures	<u>\$ 32,956</u>	<u>100%</u>	<u>\$ 680</u>	<u>2%</u>
Transfers out	<u>\$ 9,375</u>	<u>100%</u>	<u>\$ 2,265</u>	<u>32%</u>

Table 8
Expenditure Budget and Actual Comparison
General Fund, 2009-10
(in thousands)

Service Area	Budgeted Amounts		Actual	Under Final
	Original	Final		
Administration	\$ 1,547	\$ 1,517	\$ 1,469	\$ 48
Law enforcement	8,537	8,566	8,384	182
Public and environmental affairs	1,500	1,494	1,487	7
Administrative services	4,255	4,063	3,734	329
Recreation services	4,366	4,289	4,004	285
Community development	3,733	3,561	3,069	492
Public works	11,551	11,804	10,809	995
Total expenditures	<u>\$ 35,489</u>	<u>\$ 35,294</u>	<u>\$ 32,956</u>	<u>\$ 2,338</u>
Transfers out	<u>\$ 7,573</u>	<u>\$ 9,375</u>	<u>\$ 9,375</u>	<u>\$ -</u>

General Fund Balance

At June 30, 2010, the General Fund reported a total ending fund balance of \$15,931,000, down 28% or \$6,266,000 from the prior year. The City designates \$12,500,000 of this for economic uncertainty and \$916,000 for utility user taxes specified for capital projects. \$1,104,000 is reserved for open purchase orders, future public access programming, and prepaid expenses. \$1,204,000 is earmarked as rehabilitation and employee housing loans due back to the City. Finally, \$207,000 in unreserved, undesignated funds is available to balance future budgets.

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The fund balance falloff resulted from revenues exceeding expenditures by \$2,622,000 offset by a net transfer out of \$8,888,000. The unreserved, undesignated fund balance took the bulk of the hit dropping from \$4,857,000 a year ago to \$207,000 at June 30, 2010. The \$915,000 set-aside for state budget raids was depleted when the state took property taxes at mid-year for their budget deficit. The designated utility user tax balance was drawn down by \$684,000 during the year for capital project use. Loan payoffs reduced loan reserves by \$17,000.

Public Facilities Corporation

This fund accounts for the payments of principal and interest on the 2002 certificates of participation (COPs), which refinanced the long-term debt that funded many of the City's major parks and facilities. As in previous years, General Fund transfers into the fund cover the debt service payments of \$3,538,000.

Capital Improvement Projects

All of the City's non-enterprise capital projects are in this fund, except for the Stevens Creek Corridor Park, which is a separate major fund, and the Mary Avenue Bicycle Footbridge, which is a part of Other Governmental Funds. Funding for these projects come from grants, General Fund, and Other Governmental Funds. Outlays for park, facility, and traffic projects declined from \$2,048,000 in 2008-09 to \$1,359,000 in 2009-10, as Sterling/Barnhart Park construction, Service Center equipment wash rack, Quinlan Community Center courtyard trellis, and Sports Center tennis court lighting were new projects worked on this year. The General Fund and Other Governmental Funds provided \$2,322,000 and \$60,000 respectively in new project funding this year, compared to none the previous year, as earlier revenue forecasts allowed a cautious resumption of capital spending and an investment in a streetlight and irrigation retrofit project was deemed to be worthwhile because of future utility bill savings. \$487,000 in completed project cost savings were returned to the General Fund. The General Fund maintained its commitment of contributing \$100,000 annually to the Capital Improvement Fund and designating these contributions towards future projects. As of June 30, 2010, the Capital Improvement Fund has \$1,775,000 designated for capital projects of which \$1,000,000 is designated for infrastructure projects, \$699,000 is designated for capital improvement, and \$76,000 for construction in progress.

Stevens Creek Corridor Park

This fund contains three capital projects. The \$13,577,000 Phase One segment to completely re-design the picnic grounds at Blackberry Farm, re-align and restore the natural habitat of the creek, renovate the swimming pool facilities, and build the creek trail, completed major construction and re-opened to the public on July 4, 2009. Outlays for this segment fell to \$994,000 during 2009-10 compared to \$9,472,000 the previous year as this year's work consisted of providing minor improvements to the area facilities. Phase Two, initially budgeted at \$200,000 for designing a trail extension to Stevens Creek Boulevard, began with \$37,000 in expenditures for 2009-10. A new third project, the \$800,000 Blackberry Farm infrastructure upgrade, kicked off with \$33,000 spent in 2009-10 for design. The General Fund financed two-thirds of Phase One, with the City's recreation enterprise fund, State grants, and the Santa Clara Valley Water District backing the rest of the undertaking. The City billed for and received many of the cost-reimbursement grants during this fiscal year, with \$2,294,000 received and accrued this year compared to \$804,000 the prior year. Moreover, the infrastructure upgrade project received a \$303,000 transfer from the General Fund this year. With the reimbursements and transfers, the \$838,000 fund balance deficit of the past year turned into a current \$965,000 positive fund balance designated for Phase Two and the infrastructure upgrade.

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MAJOR PROPRIETARY FUNDS

Resources Recovery

The City's solid waste disposal enterprise, operated by a franchise agreement with Recology, experienced little change in solid waste pickup and debris box revenues compared to the previous year. Operating expenses for pickup, landfill disposal, recycling, and City administration rose a modest 1%. Operating income declined from \$117,000 to \$93,000 this year. With interest earnings of \$41,000, net assets increased by \$134,000 ending the year at \$5,827,000 in unrestricted net assets. The net asset increase underperformed the \$222,000 growth of last year, because of lower interest earnings from the City's pooled investment portfolio and the lower operating income. The City renewed its 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.

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 at a lower degree than the previous year, as the older demographics of golf course users continued to negatively impact customer counts. Operating revenues of \$569,000 represented a 5% or \$28,000 drop in 2009-10, compared to a 7% and \$44,000 decline in 2008-09. Expenses decreased by \$39,000 or 8% finishing at \$457,000 this year as water irrigation cost increases of the previous year were avoided and managed with lower water usage. Increase in net assets was \$115,000, an improvement over the \$109,000 of last year. At June 30, 2010, unrestricted net assets were \$534,000.

Cupertino Sports Center

Tennis lesson, membership, fitness class and rent revenues of \$1,578,000 declined by \$154,000 or 9% off of last year, resulting from a falloff in tennis lesson revenues generated by a private sports operator. Corresponding contract instructor and in-house staff costs fell by \$122,000, but with unchanged facility maintenance costs, operating income fell to \$100,000 in 2009-10, off of the \$138,000 produced in 2008-09. After adding-in interest earnings, the increase in net assets of \$104,000 brought ending unrestricted net assets to \$346,000 by year-end. The Sports Center completed \$83,000 of tennis court resurfacing and equipment purchases during the year, enhancing capital assets by that amount.

Recreation Programs

Cultural events, youth and teen programs, sports, dance and fitness classes generated earnings of \$2,249,000, which was \$115,000 or 5% less than last year, for this enterprise operated 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 decreased only \$22,000 or 1% from 2008-09. Along with one-time furniture purchases of \$137,000, operating income dropped to \$395,000 compared to \$624,000 of a year ago. After adding interest earnings, the fund ended up with an increase in net assets of \$413,000 and an unrestricted net asset balance of \$2,355,000. This balance is committed toward future capital improvement and insurance needs. Memorial Park softball and Library multi-purpose field renovations, park tennis court resurfacings, and the new Monta Vista Recreation Center roof added \$594,000 to capital assets this year.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2010

CAPITAL ASSETS

At June 30, 2010 the City had \$166,703,000, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the following table and in Note 6 to the Basic Financial Statements:

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

	2010	2009, as restated
Government Activities:		
Land	\$ 60,806	\$ 60,806
Easements	17,939	16,963
Buildings	25,589	26,787
Improvements other than buildings	18,016	17,606
Machinery and equipment	1,377	1,566
Roads, curbs, gutters, sidewalks, medians and bridges	34,676	35,273
Streetlights	85	46
Strom drain structures and mains	5,981	6,701
Traffic signals	1,446	1,527
	165,915	167,275
Total Governmental Activities		
Business-Type Activities		
Buildings	285	-
Improvements other than buildings	387	-
Machinery and equipment	116	136
	788	136
Total Business Type Activities		
Total City	\$ 166,703	\$ 167,411

City capital assets decreased by \$708,000 due to normal depreciation. 2008-09 includes \$16,963,000 of easements adopted since 2003 added as a prior year adjustment, with \$976,000 of new easements added in 2009-10. Business-type asset gains came from recreational facility improvements.

DEBT ADMINISTRATION

The City's only long-term debt liability comes from \$56,640,000 in Certificates of Participation (COPs) issued in 2002 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, and the City Hall remodel. It provided capital for the new library opened in 2004. The serial, fixed interest rate debt ranging from 2% to 5% requires annual debt payments of \$3,534,000 that are covered by the General Fund. The June 30, 2010 outstanding principal of \$45,510,000 is due to be paid off by 2030.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2010

At June 30, 2010, a total of \$35,000 in special assessment district debt was outstanding. This debt is secured by a traffic impact fee, charged as a special assessment on the three commercial parcels in the district. The City, which is not liable for the debt, acts solely as the district's agent for the collection and remittance of the assessment. The bond will be paid off in September 2010.

More information can be found in Note 7 to the Basic Financial Statements.

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.

FINANCIAL SECTION

NOTES

CITY OF CUPERTINO

Statement of Net Assets

June 30, 2010

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 39,152,990	\$ 9,762,252	\$ 48,915,242
Restricted cash and investments	2,547,475	-	2,547,475
Receivables:			
Accounts	3,934,978	347,728	4,282,706
Loans	1,997,824	-	1,997,824
Prepaid items and other assets	96,455	-	96,455
Land held for housing development	615,000	-	615,000
Net OPEB assets	3,746,683	-	3,746,683
Capital assets:			
Nondepreciable	78,744,826	-	78,744,826
Depreciable, net of accumulated depreciation	87,170,464	788,213	87,958,677
Total assets	<u>218,006,695</u>	<u>10,898,193</u>	<u>228,904,888</u>
Liabilities:			
Accounts payable and accruals	6,035,988	415,482	6,451,470
Accrued payroll and benefits	493,166	42,676	535,842
Deposits	1,608,232	-	1,608,232
Unearned revenue	32,328	548,068	580,396
Compensated absences:			
Due in one year	16,684	40,138	56,822
Due in more than one year	2,491,028	-	2,491,028
Claims payable:			
Due in one year	376,037	-	376,037
Due in more than one year	1,257,906	-	1,257,906
Long-term debt:			
Due in one year	1,500,000	-	1,500,000
Due in more than one year	44,010,000	-	44,010,000
Total liabilities	<u>57,821,369</u>	<u>1,046,364</u>	<u>58,867,733</u>
Net Assets:			
Invested in capital assets, net of related debt	<u>120,405,290</u>	<u>788,213</u>	<u>121,193,503</u>
Restricted for:			
Special revenue projects	6,582,681	-	6,582,681
Affordable housing	1,457,707	-	1,457,707
Public access television	594,110	-	594,110
Debt service	57,677	-	57,677
Total restricted net assets	<u>8,692,175</u>	<u>-</u>	<u>8,692,175</u>
Unrestricted	<u>31,087,861</u>	<u>9,063,616</u>	<u>40,151,477</u>
Total net assets	<u><u>\$160,185,326</u></u>	<u><u>\$ 9,851,829</u></u>	<u><u>\$170,037,155</u></u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Statement of Activities
For the Year Ended June 30, 2010

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	Business-type Activities	
Governmental Activities:							
Administration	\$ 1,911,665	\$ 21,873	\$ 28,271	\$ -	\$ (1,861,521)	\$ -	\$ (1,861,521)
Law enforcement	8,385,476	811,676	166,482	-	(7,407,318)	-	(7,407,318)
Public and environmental affairs	1,653,034	-	-	-	(1,653,034)	-	(1,653,034)
Administrative services	4,080,134	-	-	-	(4,080,134)	-	(4,080,134)
Recreation services	4,444,536	930,773	-	-	(3,513,763)	-	(3,513,763)
Community development	4,351,975	3,310,355	884,714	-	(156,906)	-	(156,906)
Public works	19,320,151	556,636	963,090	5,511,359	(12,289,066)	-	(12,289,066)
Interest on long - term debt	2,076,264	-	-	-	(2,076,264)	-	(2,076,264)
Total governmental activities	46,223,235	5,631,313	2,042,557	5,511,359	(33,038,006)	-	(33,038,006)
Business-type activities:							
Resource recovery	2,018,147	2,104,299	6,895	-	-	93,047	93,047
Blackberry farm	457,169	568,770	-	-	-	111,601	111,601
Cupertino sports center	1,478,143	1,578,330	-	-	-	100,187	100,187
Recreation programs	1,854,648	2,249,191	-	-	-	394,543	394,543
Total business-type activities	5,808,107	6,500,590	6,895	-	-	699,378	699,378
Total	\$ 52,031,342	\$ 12,131,903	\$ 2,049,452	\$ 5,511,359	(33,038,006)	699,378	(32,338,628)
General revenues:							
Taxes:							
Property taxes					7,488,701	-	7,488,701
Property tax in lieu of motor vehicle fee					4,420,912	-	4,420,912
Incremental property tax					1,322,925	-	1,322,925
Sales taxes					9,930,530	-	9,930,530
Transient occupancy tax					2,142,137	-	2,142,137
Utility user tax					3,271,452	-	3,271,452
Franchise tax					2,597,930	-	2,597,930
Other taxes					1,211,899	-	1,211,899
Intergovernmental, unrestricted:							
Motor vehicle license fee					166,440	-	166,440
Investment earnings					295,059	67,182	362,241
Miscellaneous					119,393	-	119,393
Total general revenues					32,967,378	67,182	33,034,560
Change in net assets					(70,628)	766,560	695,932
Net assets, beginning of year, as previously reported					143,293,029	9,085,269	152,378,298
Prior period adjustment					16,962,925	-	16,962,925
Net assets, beginning of year, as restated					160,255,954	9,085,269	169,341,223
Net assets, end of year					\$ 160,185,326	\$ 9,851,829	\$ 170,037,155

See accompanying notes to basic financial statements

CITY OF CUPERTINO

Governmental Funds

Balance Sheet

June 30, 2010

	General	Public Facilities Corporation	Capital Improvement Projects	Stevens Creek Corridor Park	Other Governmental Funds	Total
Assets:						
Cash and investments	\$ 18,294,292	\$ 57,677	\$ 5,562,446	\$ 1,009,508	\$ 6,704,480	\$ 31,628,403
Restricted cash and investments	-	2,496,972	-	50,503	-	2,547,475
Receivables:						
Accounts	3,197,767	-	-	349,165	388,046	3,934,978
Loans	1,204,540	-	-	-	793,284	1,997,824
Prepaid items	73,474	-	-	-	-	73,474
Due from other funds	39,788	-	-	-	-	39,788
Land held for housing development	-	-	-	-	615,000	615,000
Other assets	3,884	-	-	-	-	3,884
Total assets	\$ 22,813,745	\$ 2,554,649	\$ 5,562,446	\$ 1,409,176	\$ 8,500,810	\$ 40,840,826
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accruals	\$ 2,878,151	\$ 2,496,972	\$ 238,336	\$ 95,139	\$ 271,688	\$ 5,980,286
Accrued payroll and benefits	440,206	-	-	-	28,818	469,024
Deposits	1,608,232	-	-	-	-	1,608,232
Due to other funds	-	-	-	-	39,788	39,788
Advance from other funds	504,497	-	-	-	-	504,497
Unearned revenue	32,044	-	-	-	284	32,328
Deferred revenue	1,419,497	-	-	349,165	139,638	1,908,300
Total liabilities	6,882,627	2,496,972	238,336	444,304	480,216	10,542,455
Fund balances:						
Reserved for:						
Encumbrances	436,166	-	2,325,674	265,282	705,437	3,732,559
Debt service	-	57,677	-	-	-	57,677
Prepaid items	73,474	-	-	-	-	73,474
Loans receivable	1,204,540	-	-	-	653,646	1,858,186
Land held for housing development	-	-	-	-	615,000	615,000
Low and moderate income housing	-	-	-	-	842,707	842,707
Public access television	594,110	-	-	-	-	594,110
Unreserved, reported in:						
General Fund	13,622,828	-	-	-	-	13,622,828
Special Revenue Funds	-	-	-	-	5,113,020	5,113,020
Capital Project Funds	-	-	2,998,436	699,590	90,784	3,788,810
Total fund balances	15,931,118	57,677	5,324,110	964,872	8,020,594	30,298,371
Total liabilities and fund balances	\$ 22,813,745	\$ 2,554,649	\$ 5,562,446	\$ 1,409,176	\$ 8,500,810	\$ 40,840,826

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
 Reconciliation of the Balance Sheet of Governmental Funds to
 the Statement of Net Assets - Governmental Activities
 June 30, 2010

Total fund balances reported on the governmental funds balance sheet	\$ 30,298,371
<p>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:</p>	
<p>Capital assets:</p>	
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	164,910,359
<p>Allocation of internal service funds net assets:</p>	
Internal service funds are used by management to charge the costs of activities such as 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 governmental activities in the statement of net assets.	11,026,435
<p>Receivables not available:</p>	
Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	1,908,300
<p>Long-term liabilities:</p>	
<p>The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:</p>	
Certifications of participation	(45,510,000)
Compensated absences	(2,448,139)
	\$160,185,326

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2010

	General	Public Facilities Corporation	Capital Improvement Projects	Stevens Creek Corridor Park	Other Governmental Funds	Total
Revenues:						
Taxes	\$ 29,532,759	\$ -	\$ -	\$ -	\$ 1,461,824	\$ 30,994,583
Use of money and property	685,490	-	-	-	88,729	774,219
Intergovernmental	625,523	-	115,928	2,293,500	4,504,884	7,539,835
Licenses and permits	2,583,131	-	-	-	-	2,583,131
Charges for services	1,333,729	-	-	-	367,428	1,701,157
Fines and forfeitures	736,239	-	-	-	-	736,239
Other	81,352	-	-	-	608,589	689,941
Total revenues	35,578,223	-	115,928	2,293,500	7,031,454	45,019,105
Expenditure:						
Current:						
Administration	1,469,004	-	-	-	-	1,469,004
Law enforcement	8,384,310	-	-	-	-	8,384,310
Public and environmental affairs	1,487,265	-	-	-	-	1,487,265
Administrative services	3,733,414	-	-	-	-	3,733,414
Recreation services	4,003,764	-	-	-	-	4,003,764
Community development	3,069,287	-	-	-	1,056,452	4,125,739
Public works	10,802,938	-	631	-	1,157,649	11,961,218
Capital outlay	6,110	-	1,358,010	993,543	2,352,697	4,710,360
Debt service:						
Principal	-	1,460,000	-	-	-	1,460,000
Interest and fiscal charges	-	2,076,264	-	-	-	2,076,264
Total expenditures	32,956,092	3,536,264	1,358,641	993,543	4,566,798	43,411,338
Excess (deficiency) of revenues over (under) expenditures	2,622,131	(3,536,264)	(1,242,713)	1,299,957	2,464,656	1,607,767
Other financing sources (uses)						
Transfers in	487,015	3,538,000	2,481,845	503,040	778,517	7,788,417
Transfers out	(9,374,885)	-	(487,015)	-	(273,517)	(10,135,417)
Total other financing sources (uses)	(8,887,870)	3,538,000	1,994,830	503,040	505,000	(2,347,000)
Change in fund balances	(6,265,739)	1,736	752,117	1,802,997	2,969,656	(739,233)
Fund balance, beginning of year	22,196,857	55,941	4,571,993	(838,125)	5,050,938	31,037,604
Fund balance, end of year	\$ 15,931,118	\$ 57,677	\$ 5,324,110	\$ 964,872	\$ 8,020,594	\$ 30,298,371

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities - Governmental Activities
 For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ (739,233)

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	4,710,360
Public works	235,282
Easement received during the year	975,820
Less current year depreciation	(7,148,481)
Net effect of sales/disposal of capital assets	(2,335)

Long term debt transactions:

Repayment of bond principal is an expenditure in the governmental funds, but in the statement of net assets the repayment reduces long-term liabilities. 1,460,000

Accrual of noncurrent 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 revenues or expenditures in governmental funds (net change):

Change in compensated absences	(79,209)
Change in deferred revenue	61,923

Allocation of internal service funds' activities:

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

Change in net assets - internal service funds	455,245
Change in net assets of governmental activities	<u><u>\$ (70,628)</u></u>

See accompanying notes to basic 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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 32,729,000	\$ 30,858,503	\$ 29,532,759	\$ (1,325,744)
Use of money and property	1,391,000	891,000	685,490	(205,510)
Intergovernmental	415,000	492,296	625,523	133,227
Licenses and permits	3,210,000	3,210,000	2,583,131	(626,869)
Charges for services	1,834,000	1,434,000	1,333,729	(100,271)
Fines and forfeitures	902,000	902,000	736,239	(165,761)
Other	100,000	100,000	81,352	(18,648)
Amounts available for appropriation	40,581,000	37,887,799	35,578,223	(2,309,576)
Charges for appropriation (outflows):				
Current:				
Administration	1,546,992	1,517,004	1,469,004	48,000
Law enforcement	8,536,636	8,565,636	8,384,310	181,326
Public and environmental affairs	1,499,563	1,494,522	1,487,265	7,257
Administrative services	4,254,619	4,062,641	3,733,414	329,227
Recreation services	4,366,560	4,289,549	4,003,764	285,785
Community development	3,733,423	3,560,750	3,069,287	491,463
Public works	11,550,993	11,803,700	10,809,048	994,652
Total charges for appropriations	35,488,786	35,293,802	32,956,092	2,337,710
Excess of revenues over expenditures	5,092,214	2,593,997	2,622,131	28,134
Other financing sources (uses)				
Transfers in	-	991,512	487,015	(504,497)
Transfers out	(7,573,000)	(9,374,885)	(9,374,885)	-
Total other financing sources (uses)	(7,573,000)	(8,383,373)	(8,887,870)	(504,497)
Change in fund balance	\$ (2,480,786)	\$ (5,789,376)	(6,265,739)	\$ (476,363)
Fund balance, beginning of year			22,196,857	
Fund balance, end of year			\$ 15,931,118	

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Proprietary Funds
Statement of Fund Net Assets
June 30, 2010

	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	\$5,659,856	\$ 574,627	\$ 612,293	\$2,915,476	\$9,762,252	\$ 7,524,587
Accounts receivable	334,701	-	719	12,308	347,728	-
Prepaid items	-	-	-	-	-	19,097
Total current assets	<u>5,994,557</u>	<u>574,627</u>	<u>613,012</u>	<u>2,927,784</u>	<u>10,109,980</u>	<u>7,543,684</u>
Noncurrent assets:						
Advances to other funds	-	-	-	-	-	504,497
Net OPEB assets	-	-	-	-	-	3,746,683
Capital assets:						
Depreciable, net of accumulated depreciation	40,537	4,298	126,151	617,227	788,213	1,004,931
Total noncurrent assets	<u>40,537</u>	<u>4,298</u>	<u>126,151</u>	<u>617,227</u>	<u>788,213</u>	<u>5,256,111</u>
Total assets	<u>6,035,094</u>	<u>578,925</u>	<u>739,163</u>	<u>3,545,011</u>	<u>10,898,193</u>	<u>12,799,795</u>
Liabilities:						
Current liabilities:						
Accounts payable and accruals	158,178	16,419	154,791	86,094	415,482	55,702
Accrued payroll and benefits	5,154	3,658	7,812	26,052	42,676	24,142
Compensated absences	3,739	20,123	16,276	-	40,138	16,684
Claims payable	-	-	-	-	-	376,037
Unearned revenue	-	-	87,661	460,407	548,068	-
Total current liabilities	<u>167,071</u>	<u>40,200</u>	<u>266,540</u>	<u>572,553</u>	<u>1,046,364</u>	<u>472,565</u>
Noncurrent liabilities:						
Compensated absences, net of current portion	-	-	-	-	-	42,889
Claims payable, net of current portion	-	-	-	-	-	1,257,906
Total liabilities	<u>167,071</u>	<u>40,200</u>	<u>266,540</u>	<u>572,553</u>	<u>1,046,364</u>	<u>1,773,360</u>
Net assets:						
Invested in capital assets	40,537	4,298	126,151	617,227	788,213	1,004,931
Unrestricted	5,827,486	534,427	346,472	2,355,231	9,063,616	10,021,504
Total net assets	<u>\$5,868,023</u>	<u>\$ 538,725</u>	<u>\$ 472,623</u>	<u>\$2,972,458</u>	<u>\$9,851,829</u>	<u>\$11,026,435</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2010

	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	\$ 2,104,299	\$ 554,502	\$ 1,575,672	\$ 2,249,049	\$ 6,483,522	\$ 2,686,010
Other	6,895	14,268	2,658	142	23,963	22,633
Total operating revenues	<u>2,111,194</u>	<u>568,770</u>	<u>1,578,330</u>	<u>2,249,191</u>	<u>6,507,485</u>	<u>2,708,643</u>
Operating expenses:						
Salaries and benefits	171,921	129,821	289,420	484,313	1,075,475	3,205,703
Materials and supplies	21,653	70,880	153,427	157,026	402,986	415,155
Contractual services	1,821,221	255,531	1,020,882	1,206,957	4,304,591	359,194
Insurance claims and premium	-	-	-	-	-	340,023
Depreciation	3,352	937	14,414	6,352	25,055	376,082
Total operating expenses	<u>2,018,147</u>	<u>457,169</u>	<u>1,478,143</u>	<u>1,854,648</u>	<u>5,808,107</u>	<u>4,696,157</u>
Operating income (loss)	93,047	111,601	100,187	394,543	699,378	(1,987,514)
Nonoperating revenues:						
Investment income	41,141	3,764	3,731	18,546	67,182	95,759
Income (loss) before transfers	134,188	115,365	103,918	413,089	766,560	(1,891,755)
Transfers in	-	-	-	-	-	2,347,000
Change in net assets	134,188	115,365	103,918	413,089	766,560	455,245
Net assets, beginning of year	<u>5,733,835</u>	<u>423,360</u>	<u>368,705</u>	<u>2,559,369</u>	<u>9,085,269</u>	<u>10,571,190</u>
Net assets, end of year	<u>\$ 5,868,023</u>	<u>\$ 538,725</u>	<u>\$ 472,623</u>	<u>\$ 2,972,458</u>	<u>\$ 9,851,829</u>	<u>\$ 11,026,435</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2010

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds	
	Resources Recovery	Blackberry Farm	Cupertino Sports Center	Recreation Programs		Totals
Cash flows from operating activities:						
Cash received from customers	\$2,114,592	\$ 568,770	\$1,560,264	\$2,189,382	\$6,433,008	\$ 2,708,643
Cash payments to suppliers for goods and services	(1,845,500)	(340,604)	(1,213,501)	(1,345,099)	(4,744,704)	(942,337)
Cash payments to employees	(169,460)	(126,161)	(288,454)	(481,202)	(1,065,277)	(1,734,443)
Cash payments for judgment and claims	-	-	-	-	-	(272,065)
Net cash provided by (used in) operating activities	<u>99,632</u>	<u>102,005</u>	<u>58,309</u>	<u>363,081</u>	<u>623,027</u>	<u>(240,202)</u>
Cash flows from noncapital financing activities:						
Contributions to an irrevocable trust	-	-	-	-	-	(7,000,000)
Transfers in	-	-	-	-	-	2,347,000
Advances to other funds	-	-	-	-	-	(504,497)
Cash flows used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,157,497)</u>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	-	-	(82,675)	(594,466)	(677,141)	(245,896)
Cash flows from investing activities:						
Interest received	41,141	3,764	3,731	18,546	67,182	95,759
Net change in cash and cash equivalents	140,773	105,769	(20,635)	(212,839)	13,068	(5,547,836)
Cash and cash equivalents, beginning of year	5,519,083	468,858	632,928	3,128,315	9,749,184	13,072,423
Cash and cash equivalents, end of year	<u>\$ 5,659,856</u>	<u>\$ 574,627</u>	<u>\$ 612,293</u>	<u>\$ 2,915,476</u>	<u>\$ 9,762,252</u>	<u>\$ 7,524,587</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 93,047	\$ 111,601	\$ 100,187	\$ 394,543	\$ 699,378	\$ (1,987,514)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	3,352	937	14,414	6,352	25,055	376,082
Contributions to an irrevocable trust for current year's annual OPEB cost	-	-	-	-	-	1,426,240
Change in assets and liabilities:						
Accounts receivable	3,398	-	(719)	2,358	5,037	-
Prepaid items	-	-	-	-	-	(19,097)
Accounts payable and accruals	(2,626)	(14,193)	(39,192)	18,884	(37,127)	(135,957)
Accrued payroll and benefits	1,017	574	771	3,111	5,473	5,086
Unearned revenue	-	-	(17,347)	(62,167)	(79,514)	-
Compensated absences	1,444	3,086	195	-	4,725	29,015
Claims payable	-	-	-	-	-	65,943
Net cash provided by (used in) operating activities	<u>\$ 99,632</u>	<u>\$ 102,005</u>	<u>\$ 58,309</u>	<u>\$ 363,081</u>	<u>\$ 623,027</u>	<u>\$ (240,202)</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Statement of Fiduciary Assets and Liabilities
June 30, 2010

	<u>Agency Fund</u>
Assets:	
Cash and investments	<u>\$ 118,241</u>
Total assets	<u><u>\$ 118,241</u></u>
Liabilities:	
Deposits	<u>\$ 118,241</u>
Total liabilities	<u><u>\$ 118,241</u></u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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 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.

The Corporation does not issue separate financial statements, since it is reported separately in the City's basic financial statements. The Redevelopment Agency's separate report is available from the City of Cupertino's website at www.cupertino.org.

(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, 2010

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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 advance refunding of the City Hall/Library, Wilson Park and Memorial Park certificates of participation.
- The *Capital Improvement Projects Fund* accounts for activities related to the acquisition or construction of major capital facilities.
- The *Stevens Creek Corridor Park Capital Projects Fund* accounts for the design and construction of the Stevens Creek Corridor Park projects.

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 and disposal 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. The City acts as an agent for repayment of certain special assessment debt described in Note 7. This fund accounts for the tax assessments used for bond payments.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 consisting of agency funds, report only assets and liabilities, and therefore have no measurement focus. They recognize 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 taxes rebates 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, 2010

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 transfer appropriations within functional expenditure classifications. Any revision which requires transfers between functional expenditure classifications or 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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 of \$615,000 at June 30, 2010 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.

(g) 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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *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 funds to account for termination payouts.

The changes in compensated absences for the year ended June 30, 2010 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance, beginning of year	\$ 2,399,488	\$ 35,413	\$ 2,434,901
Additions	1,238,874	27,908	1,266,782
Payments	(1,130,650)	(23,183)	(1,153,833)
Balance, end of year	2,507,712	40,138	2,547,850
Less current portion	(16,684)	(40,138)	(56,822)
Non-current portion	<u>\$ 2,491,028</u>	<u>\$ -</u>	<u>\$ 2,491,028</u>

(i) *Fund Equity*

Reservations of fund balances represent those portions of fund balances which are not available for appropriation or expenditure or are legally restricted for a specific future use. Designated fund balances represent management’s tentative plans for future use of financial resources.

(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, 2010

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) *Effects of New Pronouncements*

During the year ended June 30, 2010, the City implemented the following GASB Statement:

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

With the implementation of GASB Statement No. 51, the City reevaluated its capital assets inventory and determined that easements totaling \$16,962,925 should have been capitalized as of June 30, 2009. As a result, beginning net assets and capital assets for governmental activities have been restated to correct this error and these balances were increased by \$16,962,925.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective to this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

(o) 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.

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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (Continued)

(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	Agency Funds	Total
Cash and investments	\$ 48,915,242	\$ 118,241	\$ 49,033,483
Restricted cash and investments:			
Held by Fiscal Agent for bond repayments	2,496,972	-	2,496,972
Held in escrow accounts for contractor retentions	50,503	-	50,503
Total restricted cash and investments	2,547,475	-	2,547,475
Total cash and investments	<u>\$ 51,462,717</u>	<u>\$ 118,241</u>	<u>\$ 51,580,958</u>

(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, 2010

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
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
General obligations of states	N/A	A2, A	None
Investment agreements or other forms of investments, including repurchase agreements, approved by the financial guaranty insurance carrier.	N/A	N/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, 2010

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>Maturities in</u>		<u>Total</u>
	<u>Less Than 3 Months</u>	<u>3 to 12 Months</u>	
<i>Pooled investments</i>			
U.S. Treasury Securities	\$ 8,026,120	\$ 30,508,620	\$ 38,534,740
Federal Agency Obligations	1,010,000	-	1,010,000
Local Agency Investment Fund	-	593,219	593,219
Money Market Mutual Funds	8,396,571	-	8,396,571
Non-Negotiable Certificates of Deposit	-	98,988	98,988
Total pooled investments	17,432,691	31,200,827	48,633,518
<i>Investment held by fiscal agent</i>			
Money Market Mutual Funds	2,496,972	-	2,496,972
Total investments	<u>\$ 19,929,663</u>	<u>\$ 31,200,827</u>	51,130,490
Cash in banks and on hand			399,965
Cash held in escrow accounts for contractor retentions			50,503
Total cash and investments			<u>\$ 51,580,958</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. As of June 30, 2010, the total amount recorded by all participating public agencies in LAIF was approximately \$23.3 billion. Of that amount, 94.58% was invested in non-derivative financial products and 5.42% in structured notes and asset backed securities. These investments had weighted average maturity of 203 days.

Money market mutual funds are available for withdrawal on demand. At June 30, 2010, money market mutual funds in the pooled investment and held by fiscal agent had weighted average maturity of 51 days and 7 days, respectively.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010 for each investment type, including those with fiscal agents, as provided by Moody's ratings:

<u>Investment Type</u>	<u>Ratings</u>	<u>Total</u>
Federal Agency Obligations	Aaa	\$ 1,010,000
Money Market Mutual Funds	Aaam	10,893,543
Total rated		<u>11,903,543</u>
Exempt from credit rating disclosure:		
U.S. Treasury Securities		38,534,740
Not rated:		
Local Agency Investment Fund		593,219
Non-Negotiable Certificates of Deposit		98,988
Total investments		<u>\$ 51,130,490</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. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. 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, 2010

NOTE 4 – LOANS RECEIVABLE

(a) *Related Party Loans*

In conjunction with the City's executive housing assistance program, loans totaling \$849,360 have been provided to two executive managers. These 40-year loans bear an interest rate equal to the 11th District Cost of Funds at the time of the loan, and require monthly 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. The balance remaining on these loans was \$712,682 at June 30, 2010.

(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, 2010, 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, 2010, the balance on the loan was \$258,930.

In addition to these loans, the City has \$205,212 in housing and other loans at June 30, 2010. These loans bear interest at 3 to 6 percent and are due by June 30, 2035.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2010 were as follows:

<u>Fund Making Transfers</u>	<u>Fund Receiving Transfers</u>	<u>Amount Transferred</u>
General Fund	Public Facilities Corporation Debt Service Fund	\$ 3,538,000 ^(A)
	Capital Improvement Projects Fund	2,421,845 ^(B)
	Stevens Creek Corridor Park Capital Project Fund	303,040 ^(C)
	Nonmajor governmental funds	765,000 ^(D)
	Internal Service Funds	2,347,000 ^(E)
Capital Improvement Projects Fund	General Fund	487,015 ^(F)
Nonmajor governmental funds	Capital Improvement Projects Fund	60,000 ^(G)
	Stevens Creek Corridor Park Capital Project Fund	200,000 ^(H)
	Nonmajor governmental funds	<u>13,517 ^(I)</u>
Total interfund transfers		<u>\$ 10,135,417</u>

The reasons for these transfers are set forth below:

- (A) For annual lease payment related to the 2002 Certificates of Participation debt issue.
- (B) To fund various capital improvements projects and the City's infrastructure reserve.
- (C) To fund the Blackberry Farm infrastructures upgrade.
- (D) To fund operating expenditures of the Environmental Management Special Revenue Fund (\$15,000) and street maintenance expenditures (\$750,000).
- (E) To fund management information systems, equipment revolving, compensated absences, and retiree medical expenses.
- (F) To return capital projects savings back to General Fund.
- (G) To fund the Bollinger Bike Lane and Calabazas Creek project.
- (H) To fund the cost for Stevens Creek Corridor Park Project Phase II design.
- (I) To return excess funds to the Mary Avenue Bicycle Footbridge Capital Project 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.

Due from and due to other funds

The General Fund loaned the Mary Avenue Bicycle Footbridge Capital Projects Fund \$39,788 to fund a temporary cash shortfall.

Advance to and advance from other funds

The Equipment Revolving Internal Service Fund loaned the General Fund \$504,497 for payment of Prop 1A borrowing by the State of California during fiscal year ended June 30, 2010. 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, 2010

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance, July 1, 2009, as restated	Additions	Retirements	Transfers	Balance, June 30, 2010
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 60,806,081	\$ -	\$ -	\$ -	\$ 60,806,081
Easements	16,962,925	975,820	-	-	17,938,745
Total capital assets, not being depreciated	<u>77,769,006</u>	<u>975,820</u>	<u>-</u>	<u>-</u>	<u>78,744,826</u>
<i>Capital assets, being depreciated:</i>					
Buildings	40,635,227	365,772	(2,071)	-	40,998,928
Improvements other than buildings	37,681,060	2,016,182	(12,444)	-	39,684,798
Machinery and equipment	7,576,940	306,533	(306,941)	-	7,576,532
Roads, curbs, gutters, sidewalks, medians and bridges	119,258,220	2,353,789	-	-	121,612,009
Streetlights	6,555,104	41,352	-	-	6,596,456
Storm drain structure and mains	31,726,132	73,101	-	-	31,799,233
Traffic signals	5,999,399	34,809	-	-	6,034,208
Total capital assets, being depreciated	<u>249,432,082</u>	<u>5,191,538</u>	<u>(321,456)</u>	<u>-</u>	<u>254,302,164</u>
<i>Less accumulated depreciation for:</i>					
Buildings	(13,848,160)	(1,563,034)	834	-	(15,410,360)
Improvements other than buildings	(20,074,099)	(1,606,210)	11,564	-	(21,668,745)
Machinery and equipment	(6,010,706)	(495,074)	306,723	-	(6,199,057)
Roads, curbs, gutters, sidewalks, medians and bridges	(83,987,301)	(2,948,706)	-	-	(86,936,007)
Streetlights	(6,509,077)	(2,755)	-	-	(6,511,832)
Storm drain structure and mains	(25,024,687)	(793,153)	-	-	(25,817,840)
Traffic signals	(4,472,228)	(115,631)	-	-	(4,587,859)
Total accumulated depreciation	<u>(159,926,258)</u>	<u>(7,524,563)</u>	<u>319,121</u>	<u>-</u>	<u>(167,131,700)</u>
Total capital assets, being depreciated, net	<u>89,505,824</u>	<u>(2,333,025)</u>	<u>(2,335)</u>	<u>-</u>	<u>87,170,464</u>
Governmental activities, capital assets, net	<u>\$ 167,274,830</u>	<u>\$ (1,357,205)</u>	<u>\$ (2,335)</u>	<u>\$ -</u>	<u>\$ 165,915,290</u>
Business-type activities					
<i>Capital assets, being depreciated:</i>					
Buildings	\$ -	\$ 244,022	\$ -	\$ 49,350	\$ 293,372
Improvements other than buildings	5,053	387,422	-	(2,964)	389,511
Machinery and equipment	310,755	45,697	(37,978)	(46,386)	272,088
Total capital assets, being depreciated	<u>315,808</u>	<u>677,141</u>	<u>(37,978)</u>	<u>-</u>	<u>954,971</u>
<i>Less accumulated depreciation for:</i>					
Buildings	-	(3,352)	-	(5,461)	(8,813)
Improvements other than buildings	(5,053)	-	-	2,964	(2,089)
Machinery and equipment	(174,628)	(21,703)	37,978	2,497	(155,856)
Total accumulated depreciation	<u>(179,681)</u>	<u>(25,055)</u>	<u>37,978</u>	<u>-</u>	<u>(166,758)</u>
Total capital assets, being depreciated, net	<u>136,127</u>	<u>652,086</u>	<u>-</u>	<u>-</u>	<u>788,213</u>
Business-type activities, capital assets, net	<u>\$ 136,127</u>	<u>\$ 652,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 788,213</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 6 - CAPITAL ASSETS (Continued)

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	\$ 311,747
Law enforcement	1,166
Public and environmental affairs	13,478
Administration services	26,551
Recreation service	80,773
Community development	429
Public works	6,714,337
Amount reported in the internal service funds	<u>376,082</u>
Total depreciation expense - governmental activities	<u>\$ 7,524,563</u>

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

Resources Recovery	\$ 3,352
Blackberry Farm	937
Cupertino Sports Center	14,414
Recreation Programs	<u>6,352</u>
Total depreciation expense - business-type activities	<u>\$ 25,055</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 7 - LONG-TERM DEBT

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

	Original Issue Amount	Balance July 1, 2009	Retirements	Balance June 30, 2010	Amount Due Within One Year
Governmental activities debt:					
2002 Refinancing and Capital Improvement Project, 2.00 - 5.00%, due 07/01/2030	\$ 56,640,000	\$ 46,970,000	\$ (1,460,000)	\$ 45,510,000	\$ 1,500,000

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 are insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation (Ambac). The reserve fund required for the 2002 COPs is funded with a reserve fund surety bond issued by Ambac.

The 2002 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. In the event that insufficient funds are available to make the lease payments, payments will be made from an apportionment of moneys to which the City is entitled from the Motor Vehicle Licenses Fee Account in the Transportation Fund of the State of California.

Annual debt service requirements for the 2002 COPs are shown below:

For the Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 1,500,000	\$ 2,030,144
2012	1,545,000	1,985,144
2013	1,600,000	1,934,931
2014	1,660,000	1,870,931
2015	1,730,000	1,804,531
2016-2020	9,795,000	7,868,556
2021-2025	12,280,000	5,385,175
2026-2030	15,400,000	2,262,188
	<u>\$ 45,510,000</u>	<u>\$ 25,141,600</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 7 - LONG-TERM DEBT (Continued)

(b) 1915 Act Bonds Without City Commitment

The City acts as agent for the property owners of parcels upon which assessments were made for local improvements. The City collects the assessments and forwards the collections to bond holders. The City is not directly liable for the repayment of special assessment district bonds as such bonds and interest payable are secured by fixed lien assessments on real property; however, the City has determined that it is not probable that the government would assume responsibility for all or part of the debt in the event of default. The amount of outstanding bond principal at June 30, 2010 was \$35,000.

(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, 2010 was \$928,000.

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.

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, 2010, the government-wide statement of net assets reported restricted assets of \$8,692,175 in governmental activities, of which \$153,585 are restricted by enabling legislation.

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, Reserves and Designations - In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and City’s management and can be increased, reduced or eliminated by similar actions.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

The unreserved fund balances include amounts which have been internally designated to be set aside and are not considered to be available for immediate appropriation. The components of the designated fund balance for the Governmental Funds at June 30, 2010 are as follows:

General Fund:	
Economic Uncertainty	\$ 12,500,000
Utilities Users Tax Revenue	916,000
Capital Improvement Projects Fund:	
Capital Improvement	699,000
Construction in Progress - Future Projects	75,924
Infrastructure	1,000,000
Nonmajor Special Revenue Funds, Transportation	1,667,559
Total designated fund balances	\$ 16,858,483

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, 2010, 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) *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, 2010, the cost and carrying value of the building which opened in October 2004, is \$21,935,325 and \$17,545,856 respectively, with \$4,389,469 in accumulated depreciation.

(c) *Consulting Agreement for Sales Taxes Rebate*

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 two 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 two companies will expire by June 30, 2011 and June 30, 2012.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010, the City paid ABAG PLAN premiums of \$247,112.

(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, 2010, the City paid premiums of \$43,278 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.

Changes in the balances of workers' compensation claims liabilities during the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of year	\$ 1,568,000	\$ 1,497,000
Incurred claims and changes in estimate	232,696	313,642
Claim payments and credits	<u>(166,753)</u>	<u>(242,642)</u>
Unpaid claims, end of year	1,633,943	1,568,000
Less current portion	<u>(376,037)</u>	<u>(411,000)</u>
Non-current portion	<u>\$ 1,257,906</u>	<u>\$ 1,157,000</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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, 2007 actuarial report, the Plan's provisions and benefits in effect at June 30, 2010, are summarized as follows:

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	15.560%

The City covered 75% of the employees' required payroll contributions for fiscal year 2010.

(c) Annual Pension Cost

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. 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.

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

Fiscal Year	Annual Pension Cost (APC)	Percent of APC Contributed
06/30/2008	\$ 1,454,415	100%
06/30/2009	1,835,521	100%
06/30/2010	1,841,350	100%

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

The required contributions were determined as part of the June 30, 2007 actuarial valuations using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.75%; (b) inflation of 3.00%; (c) payroll growth of 3.25%; and (d) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized separately on a close basis over twenty years. Market value fluctuations in the actuarial value of plan assets are smoothed over 15 years. All gains and losses are tracked and amortized over a rolling thirty year period.

(d) Funded Status and Funding Progress

CALPERS' latest available actuarial data and funding progress are set forth below at their actuarial valuation date as of June 30, 2008.

Actuarial accrued liability (AAL)	\$ 65,337,134
Actuarial value of plan assets	<u>54,571,233</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 10,765,901</u></u>
Funded ratio (actuarial value of plan assets/AAL)	83.5%
Covered payroll (active plan members)	\$ 11,009,984
UAAL as a percentage of covered payroll	97.8%

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 plans, 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 \$1,202 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, 2010

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

(b) Funding Policy

The contribution requirements to the OPEB Plan are established and may be amended by the City Council. Based on the actuarial valuation date of January 1, 2009, the annual required contribution rate is 16.93% of annual covered payroll. As of June 30, 2010, the City contributed \$7,000,000 to the PARS Trust and paid \$616,760 through healthcare premium payments during the year to fully pre-fund OPEB Plan. The City is planning to fully fund the Annual OPEB Cost in the future years.

(c) Annual OPEB Cost

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, 2010

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (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 City's actuary determined the City's OPEB liability and contribution requirements using the Entry Age Normal Actuarial Cost Method. The annual rate of return on future assets for benefit payments was assumed to be 6% on a fully prefunded basis. Inflation of 3%, annual salary increases of 3.25%, City contribution increases of 3.5%, and healthcare cost growth ranging from 10% initially down to 5% long-term were also assumed. The Unfunded Actuarial Accrued Liability is amortized as a level percentage of pay (assuming 3.25% per year growth in total payroll) over a rolling twenty year period. The payment for a given year is expressed as a percentage of projected active member payroll for that year. 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.

The City's annual OPEB cost and actual contributions to the Plan for the years ended 2010 and 2009 are as follows:

Fiscal Year Year Ended	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
6/30/2009	\$ 2,475,000	\$ 647,923	26%	\$ 1,827,077
6/30/2010	2,043,000	7,616,760	373%	(3,746,683)

The City's Net OPEB Obligation or Asset is recorded in the Retiree Medical Internal Service Fund, and is calculated as follows:

	<u>June 30, 2010</u>
Annual required contribution	\$ 2,049,000
Interest on prior year net OPEB obligation	102,000
Adjustment to annual required contribution	<u>(108,000)</u>
Annual OPEB Cost	2,043,000
Contribution made	<u>(7,616,760)</u>
Increase (Decrease) in net OPEB obligation	(5,573,760)
Net OPEB obligation - beginning of year	<u>1,827,077</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (3,746,683)</u></u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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

(d) Funded Status and Funding Progress

The latest available actuarial data and funding progress are set forth below at their actuarial valuation date of January 1, 2009.

Actuarial accrued liability (AAL)	\$ 18,069,366
Actuarial value of plan assets	-
	-
Unfunded actuarial accrued liability (UAAL)	\$ 18,069,366
Funded ratio (actuarial value of plan assests/AAL)	0.0%
Covered payroll (active plan members)	\$ 11,892,000
UAAL as a percentage of covered payroll	151.9%

The Schedule of Funding Progress, presented as Required Supplemental 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 13 – SUBSEQUENT EVENTS

(a) Land Held for Redevelopment

On July 1, 2010, the City entered into a Disposition and Development Agreement (DDA) with a developer. In accordance with the DDA, the City will transfer the land held for redevelopment 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.

CITY OF CUPERTINO
 Required Supplementary Information (Unaudited)
 Schedules of Funding Progress
 For the Year Ended June 30, 2010

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

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability- Entry Age	Accrued Liability – UAAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
6/30/2006	\$ 44,876,584	\$ 54,287,591	\$ 9,411,007	82.7%	\$ 10,133,914	92.9%
6/30/2007	50,157,077	59,241,300	9,084,223	84.7%	10,751,350	84.5%
6/30/2008	54,571,233	65,337,134	10,765,901	83.5%	11,009,984	97.8%

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability- Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
1/1/2007	\$ -	\$ 21,981,544	\$ 21,981,544	0.0%	\$ 11,118,000	197.7%
1/1/2009	-	18,069,366	18,069,366	0.0%	11,892,000	151.9%

**MAJOR GOVERNMENTAL FUNDS OTHER THAN THE
GENERAL FUND AND SPECIAL REVENUE FUNDS**

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, GASB Statement 34 states that budget-to-actual information in the basic financial statements should be limited to the General Fund and major Special Revenue Funds. All other major governmental fund schedules with such information should be included as Supplementary Information.

Public Facilities Corporation Debt Service Fund - Accounts for the accumulation of resources for and the payments of principal and interest on certificates of participation issued in 2002 to advance refund debt that was previously issued to finance the City Hall, Library, Wilson Park and Memorial Park projects.

CITY OF CUPERTINO
Public Facilities Corporation Debt Service Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 2,000	\$ -	\$ (2,000)
Total revenues	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
Expenditures:			
Debt service:			
Principal	1,460,000	1,460,000	-
Interest and fiscal charges	<u>2,079,543</u>	<u>2,076,264</u>	<u>3,279</u>
Total expenditures	<u>3,539,543</u>	<u>3,536,264</u>	<u>3,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,537,543)</u>	<u>(3,536,264)</u>	<u>1,279</u>
Other financing sources:			
Transfers in	<u>3,538,000</u>	<u>3,538,000</u>	<u>-</u>
Total other financing sources	<u>3,538,000</u>	<u>3,538,000</u>	<u>-</u>
Change in fund balance	<u>\$ 457</u>	1,736	<u>\$ 1,279</u>
Fund balance, beginning of year		<u>55,941</u>	
Fund balance, end of year		<u>\$ 57,677</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 nonmajor funds are identified and included in this supplementary section and includes all of the City's Special Revenue Funds and one Capital Project Fund.

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 - 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 - Accounts for all activities related to operating the non-point source pollution program.

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 project area and low and moderate income housing funds.

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

Mary Avenue Bicycle Footbridge – 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
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2010

Special Revenue Funds

	Storm Drain	Park Dedication	Environmental Management	Transportation	Housing Development
Assets:					
Cash and investments	\$ 964,379	\$ 454,561	\$ 163,655	\$ 1,933,372	\$ 1,704,123
Accounts receivable	-	-	-	141,321	89,828
Loans receivable	-	-	-	-	793,284
Land held for housing development	-	-	-	-	615,000
Total assets	<u>\$ 964,379</u>	<u>\$ 454,561</u>	<u>\$ 163,655</u>	<u>\$ 2,074,693</u>	<u>\$ 3,202,235</u>
Liabilities and fund balances:					
Liabilities:					
Accounts payable and accruals	\$ 2,087	\$ 9,812	\$ 4,783	\$ 103,111	\$ 141,113
Accrued payroll and benefits	2,067	-	5,287	11,878	4,400
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	-	284	-
Deferred revenue	-	-	-	-	139,638
Total liabilities	<u>4,154</u>	<u>9,812</u>	<u>10,070</u>	<u>115,273</u>	<u>285,151</u>
Fund balances:					
Reserved for:					
Encumbrances	60,763	-	-	291,861	323,753
Loans receivable	-	-	-	-	653,646
Land held for housing development	-	-	-	-	615,000
Low and moderate income housing	-	-	-	-	-
Unreserved, reported in:					
Special Revenue Funds	899,462	444,749	153,585	1,667,559	1,324,685
Capital Project Fund	-	-	-	-	-
Total fund balances	<u>960,225</u>	<u>444,749</u>	<u>153,585</u>	<u>1,959,420</u>	<u>2,917,084</u>
Total liabilities and fund balances	<u>\$ 964,379</u>	<u>\$ 454,561</u>	<u>\$ 163,655</u>	<u>\$ 2,074,693</u>	<u>\$ 3,202,235</u>

Special Revenue Funds	Capital Projects Funds	
Redevelopment Agency	Mary Avenue Bicycle Footbridge	Total
\$ 1,470,873	\$ 13,517	\$ 6,704,480
-	156,897	388,046
-	-	793,284
-	-	615,000
<u>\$ 1,470,873</u>	<u>\$ 170,414</u>	<u>\$ 8,500,810</u>
\$ -	\$ 10,782	\$ 271,688
5,186	-	28,818
-	39,788	39,788
-	-	284
-	-	139,638
<u>5,186</u>	<u>50,570</u>	<u>480,216</u>
-	29,060	705,437
-	-	653,646
-	-	615,000
842,707	-	842,707
622,980	-	5,113,020
-	90,784	90,784
<u>1,465,687</u>	<u>119,844</u>	<u>8,020,594</u>
<u>\$ 1,470,873</u>	<u>\$ 170,414</u>	<u>\$ 8,500,810</u>

CITY OF CUPERTINO
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2010

	Special Revenue Funds				
	Storm Drain	Park Dedication	Environmental Management	Transportation	Housing Development
Revenues:					
Taxes	\$ 26,230	\$ 60,561	\$ -	\$ -	\$ 52,108
Use of money and property	7,207	3,408	(34)	3,146	68,569
Intergovernmental	-	-	-	3,012,517	194,373
Charges for services	-	3,305	364,123	-	-
Other	-	-	-	-	608,589
Total revenues	<u>33,437</u>	<u>67,274</u>	<u>364,089</u>	<u>3,015,663</u>	<u>923,639</u>
Expenditures:					
Current:					
Community development	-	-	-	-	439,446
Public works	28,326	-	390,637	738,686	-
Capital outlay	44,775	-	-	2,072,572	-
Total expenditures	<u>73,101</u>	<u>-</u>	<u>390,637</u>	<u>2,811,258</u>	<u>439,446</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,664)</u>	<u>67,274</u>	<u>(26,548)</u>	<u>204,405</u>	<u>484,193</u>
Other financing sources (uses):					
Transfers in	-	-	15,000	750,000	-
Transfers out	(60,000)	(200,000)	-	(13,517)	-
Total other financing sources (uses)	<u>(60,000)</u>	<u>(200,000)</u>	<u>15,000</u>	<u>736,483</u>	<u>-</u>
Change in fund balances	(99,664)	(132,726)	(11,548)	940,888	484,193
Fund balances, beginning of year	<u>1,059,889</u>	<u>577,475</u>	<u>165,133</u>	<u>1,018,532</u>	<u>2,432,891</u>
Fund balances, end of year	<u>\$ 960,225</u>	<u>\$ 444,749</u>	<u>\$ 153,585</u>	<u>\$ 1,959,420</u>	<u>\$ 2,917,084</u>

Special Revenue Funds	Capital Projects Fund	
Redevelopment Agency	Mary Avenue Bicycle Footbridge	Total
\$ 1,322,925	\$ -	\$ 1,461,824
6,433	-	88,729
-	1,297,994	4,504,884
-	-	367,428
-	-	608,589
<u>1,329,358</u>	<u>1,297,994</u>	<u>7,031,454</u>
617,006	-	1,056,452
-	-	1,157,649
-	235,350	2,352,697
<u>617,006</u>	<u>235,350</u>	<u>4,566,798</u>
<u>712,352</u>	<u>1,062,644</u>	<u>2,464,656</u>
-	13,517	778,517
-	-	(273,517)
<u>-</u>	<u>13,517</u>	<u>505,000</u>
712,352	1,076,161	2,969,656
<u>753,335</u>	<u>(956,317)</u>	<u>5,050,938</u>
<u>\$ 1,465,687</u>	<u>\$ 119,844</u>	<u>\$ 8,020,594</u>

CITY OF CUPERTINO
 Nonmajor Governmental Funds - Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended June 30, 2010

	Storm Drain			Park Dedication		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenues:						
Taxes	\$ 50,000	\$ 26,230	\$ (23,770)	\$ 1,400,000	\$ 60,561	\$ (1,339,439)
Use of money and property	33,000	7,207	(25,793)	29,000	3,408	(25,592)
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	3,305	3,305
Other	-	-	-	-	-	-
Total revenues	83,000	33,437	(49,563)	1,429,000	67,274	(1,361,726)
Expenditures:						
Current:						
Community development	-	-	-	-	-	-
Public works	28,326	28,326	-	-	-	-
Capital outlay	631,475	44,775	586,700	24,118	-	24,118
Total expenditures	659,801	73,101	586,700	24,118	-	24,118
Excess (deficiency) of revenues over (under) expenditures	(576,801)	(39,664)	537,137	1,404,882	67,274	(1,337,608)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(60,000)	(60,000)	-	(200,000)	(200,000)	-
Total other financing sources (uses)	(60,000)	(60,000)	-	(200,000)	(200,000)	-
Change in fund balances	\$ (636,801)	(99,664)	\$ 537,137	\$ 1,204,882	(132,726)	\$ (1,337,608)
Fund balances, beginning of year		1,059,889			577,475	
Fund balances, end of year		\$ 960,225			\$ 444,749	

Environmental Management			Transportation			Housing Development		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 52,108	\$ 2,108
2,000	(34)	(2,034)	66,000	3,146	(62,854)	122,000	68,569	(53,431)
-	-	-	2,275,000	3,012,517	737,517	496,013	194,373	(301,640)
365,000	364,123	(877)	-	-	-	-	-	-
365,000	-	(365,000)	-	-	-	-	608,589	608,589
<u>732,000</u>	<u>364,089</u>	<u>(367,911)</u>	<u>2,341,000</u>	<u>3,015,663</u>	<u>674,663</u>	<u>668,013</u>	<u>923,639</u>	<u>255,626</u>
-	-	-	-	-	-	1,352,946	439,446	913,500
519,953	390,637	129,316	897,759	738,686	159,073	-	-	-
-	-	-	3,622,344	2,072,572	1,549,772	-	-	-
<u>519,953</u>	<u>390,637</u>	<u>129,316</u>	<u>4,520,103</u>	<u>2,811,258</u>	<u>1,708,845</u>	<u>1,352,946</u>	<u>439,446</u>	<u>913,500</u>
212,047	(26,548)	(238,595)	(2,179,103)	204,405	2,383,508	(684,933)	484,193	1,169,126
15,000	15,000	-	750,000	750,000	-	-	-	-
-	-	-	(13,517)	(13,517)	-	-	-	-
<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>736,483</u>	<u>736,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 227,047</u>	<u>(11,548)</u>	<u>\$ (238,595)</u>	<u>\$ (1,442,620)</u>	<u>940,888</u>	<u>\$ 2,383,508</u>	<u>\$ (684,933)</u>	<u>484,193</u>	<u>\$ 1,169,126</u>
	<u>165,133</u>			<u>1,018,532</u>			<u>2,432,891</u>	
	<u>\$ 153,585</u>			<u>\$ 1,959,420</u>			<u>\$ 2,917,084</u>	

(Continued)

CITY OF CUPERTINO
 Nonmajor Governmental Funds - Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended June 30, 2010

	Redevelopment Agency		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,256,000	\$ 1,322,925	\$ 66,925
Use of money and property	20,000	6,433	(13,567)
Intergovernmental	-	-	-
Charges for services	-	-	-
Other	-	-	-
Total revenues	<u>1,276,000</u>	<u>1,329,358</u>	<u>53,358</u>
Expenditures:			
Current:			
Community development	682,040	617,006	65,034
Public works	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>682,040</u>	<u>617,006</u>	<u>65,034</u>
Excess (deficiency) of revenues over (under) expenditures	<u>593,960</u>	<u>712,352</u>	<u>118,392</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances	<u>\$ 593,960</u>	<u>712,352</u>	<u>\$ 118,392</u>
Fund balances, beginning of year		<u>753,335</u>	
Fund balances, end of year		<u>\$ 1,465,687</u>	

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department 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 and 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.

Management Information Systems - 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.

Compensated Absences and Long-Term Disability - Accounts for the activities related to the City's program for compensated absences payouts and long-term disability.

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, 2010

	Management Information Systems	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Assets:						
Current assets:						
Cash and investments	\$2,005,997	\$1,832,129	\$1,575,936	\$ 81,702	\$2,028,823	\$ 7,524,587
Prepaid items	19,097	-	-	-	-	19,097
Total current assets	<u>2,025,094</u>	<u>1,832,129</u>	<u>1,575,936</u>	<u>81,702</u>	<u>2,028,823</u>	<u>7,543,684</u>
Noncurrent assets:						
Advances to other funds	-	-	504,497	-	-	504,497
Net OPEB assets	-	-	-	-	3,746,683	3,746,683
Capital assets:						
Depreciable, net of accumulated depreciation	370,655	-	634,276	-	-	1,004,931
Total noncurrent assets	<u>370,655</u>	<u>-</u>	<u>1,138,773</u>	<u>-</u>	<u>3,746,683</u>	<u>5,256,111</u>
Total assets	<u>2,395,749</u>	<u>1,832,129</u>	<u>2,714,709</u>	<u>81,702</u>	<u>5,775,506</u>	<u>12,799,795</u>
Liabilities:						
Current liabilities:						
Accounts payable and accruals	25,014	2,015	28,673	-	-	55,702
Accrued payroll and benefits	14,244	651	9,247	-	-	24,142
Compensated absences	-	-	-	16,684	-	16,684
Claims payable	-	376,037	-	-	-	376,037
Total current liabilities	<u>39,258</u>	<u>378,703</u>	<u>37,920</u>	<u>16,684</u>	<u>-</u>	<u>472,565</u>
Noncurrent liabilities:						
Compensated absences, net of current portion	32,037	-	10,852	-	-	42,889
Claims payable, net of current portion	-	1,257,906	-	-	-	1,257,906
Total liabilities	<u>71,295</u>	<u>1,636,609</u>	<u>48,772</u>	<u>16,684</u>	<u>-</u>	<u>1,773,360</u>
Net assets:						
Invested in capital assets	370,655	-	634,276	-	-	1,004,931
Unrestricted	1,953,799	195,520	2,031,661	65,018	5,775,506	10,021,504
Total net assets	<u>\$2,324,454</u>	<u>\$ 195,520</u>	<u>\$2,665,937</u>	<u>\$ 65,018</u>	<u>\$5,775,506</u>	<u>\$11,026,435</u>

CITY OF CUPERTINO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2010

	Management Information Systems	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Operating revenues:						
Charges for services	\$ 1,231,000	\$ 405,696	\$ 985,030	\$ 64,284	\$ -	\$ 2,686,010
Other	22,633	-	-	-	-	22,633
Total operating revenues	<u>1,253,633</u>	<u>405,696</u>	<u>985,030</u>	<u>64,284</u>	<u>-</u>	<u>2,708,643</u>
Operating expenses:						
Salaries and related expenses	523,981	23,087	350,142	254,574	2,053,919	3,205,703
Materials and supplies	127,401	-	287,754	-	-	415,155
Contractual services	251,778	-	107,416	-	-	359,194
Insurance claims and premium	-	275,974	-	64,049	-	340,023
Depreciation	185,535	-	190,547	-	-	376,082
Total operating expenses	<u>1,088,695</u>	<u>299,061</u>	<u>935,859</u>	<u>318,623</u>	<u>2,053,919</u>	<u>4,696,157</u>
Operating income (loss)	164,938	106,635	49,171	(254,339)	(2,053,919)	(1,987,514)
Nonoperating revenues:						
Investment income	13,355	12,081	11,640	555	58,128	95,759
Income (loss) before transfers	178,293	118,716	60,811	(253,784)	(1,995,791)	(1,891,755)
Transfers in	169,000	-	30,000	300,000	1,848,000	2,347,000
Change in net assets	347,293	118,716	90,811	46,216	(147,791)	455,245
Net assets, beginning of year	<u>1,977,161</u>	<u>76,804</u>	<u>2,575,126</u>	<u>18,802</u>	<u>5,923,297</u>	<u>10,571,190</u>
Net assets, end of year	<u>\$ 2,324,454</u>	<u>\$ 195,520</u>	<u>\$ 2,665,937</u>	<u>\$ 65,018</u>	<u>\$ 5,775,506</u>	<u>\$ 11,026,435</u>

CITY OF CUPERTINO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2010

	Management Information Systems	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Cash flows from operating activities:						
Cash received from customers	\$ 1,253,633	\$ 405,696	\$ 985,030	\$ 64,284	\$ -	\$ 2,708,643
Cash payments to suppliers for goods and services	(417,900)	-	(513,518)	-	(10,919)	(942,337)
Cash payments to employees	(511,397)	(23,000)	(345,396)	(237,890)	(616,760)	(1,734,443)
Cash payments for judgment and claims	-	(208,016)	-	(64,049)	-	(272,065)
Cash flows provided by (used in) operating activities	<u>324,336</u>	<u>174,680</u>	<u>126,116</u>	<u>(237,655)</u>	<u>(627,679)</u>	<u>(240,202)</u>
Cash flows from noncapital financing activities:						
Contribution to an irrevocable trust	-	-	-	-	(7,000,000)	(7,000,000)
Transfers in	169,000	-	30,000	300,000	1,848,000	2,347,000
Advances to other funds	-	-	(504,497)	-	-	(504,497)
Cash flows provided by (used in) noncapital financing activities	<u>169,000</u>	<u>-</u>	<u>(474,497)</u>	<u>300,000</u>	<u>(5,152,000)</u>	<u>(5,157,497)</u>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(216,521)	-	(29,375)	-	-	(245,896)
Cash flows from investing activities:						
Interest received	13,355	12,081	11,640	555	58,128	95,759
Net change in cash and cash equivalents	290,170	186,761	(366,116)	62,900	(5,721,551)	(5,547,836)
Cash and cash equivalents, beginning of year	1,715,827	1,645,368	1,942,052	18,802	7,750,374	13,072,423
Cash and cash equivalents, end of year	<u>\$ 2,005,997</u>	<u>\$ 1,832,129</u>	<u>\$ 1,575,936</u>	<u>\$ 81,702</u>	<u>\$ 2,028,823</u>	<u>\$ 7,524,587</u>
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:						
Operating income (loss)	\$ 164,938	\$ 106,635	\$ 49,171	\$ (254,339)	\$ (2,053,919)	\$ (1,987,514)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	185,535	-	190,547	-	-	376,082
Contributions to an irrevocable trust for current year's annual OPEB cost	-	-	-	-	1,426,240	1,426,240
Change in assets and liabilities:						
Prepaid items	(19,097)	-	-	-	-	(19,097)
Accounts payable and accruals	(19,624)	2,015	(118,348)	-	-	(135,957)
Accrued payroll and benefits	1,951	87	3,048	-	-	5,086
Compensated absences	10,633	-	1,698	16,684	-	29,015
Claims payable	-	65,943	-	-	-	65,943
Cash flows provided by (used in) operating activities	<u>\$ 324,336</u>	<u>\$ 174,680</u>	<u>\$ 126,116</u>	<u>\$ (237,655)</u>	<u>\$ (627,679)</u>	<u>\$ (240,202)</u>

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.

CITY OF CUPERTINO
Special Assessment District Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2010

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Assets:				
Cash and investments	<u>\$ 115,322</u>	<u>\$ 37,719</u>	<u>\$ (34,800)</u>	<u>\$ 118,241</u>
Liabilities:				
Deposits	<u>\$ 115,322</u>	<u>\$ 37,719</u>	<u>\$ (34,800)</u>	<u>\$ 118,241</u>

STATISTICAL SECTION

NOTES

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 revenues, 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. Direct and Overlapping Bonded Debt
3. Legal Bonded Debt Margin Information
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 Employees by Function/Programs
2. Operating Indicators by Function/Program
3. Capital Asset 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. The City implemented GASB Statement 34 in 2002-03; schedules presenting government-wide information include information beginning in that year.

NOTES

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

	Fiscal Year Ended June 30							
	2003	2004	2005	2006	2007	2008	2009	2010
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
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
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
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
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
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
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
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
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
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
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

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

	Fiscal Year Ended June 30							
	2003	2004	2005	2006	2007	2008	2009	2010
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
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
Public and environmental affairs	763,254	710,754	824,317	914,024	1,186,929	1,216,164	1,624,210	1,653,034
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
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
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
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
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
Total governmental activities expenses	38,719,088	34,931,608	34,352,325	38,603,025	38,963,177	41,113,458	46,807,228	46,223,235
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
Blackberry farm	1,497,420	1,353,362	1,341,712	1,302,855	975,064	450,206	495,845	457,169
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
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
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
Total primary government expenses	45,369,256	41,514,108	42,201,930	45,773,138	46,286,856	47,020,344	52,635,474	52,031,342
Program Revenues								
Governmental activities:								
Charges for services:								
Administration	-	-	-	23,201	3,618	10,711	2,240	21,873
Law enforcement	468,110	838,457	694,952	722,164	1,031,736	799,350	869,295	811,676
Administrative services	294,577	16,650	-	-	-	-	-	-
Recreation services	161,969	148,337	163,462	240,074	193,752	847,424	801,280	930,773
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
Public works	348,905	325,959	286,280	201,250	200,969	135,942	157,311	556,636
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
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
Total government activities program revenues	6,251,152	9,341,471	8,068,050	10,399,737	12,742,708	13,434,016	14,190,640	13,185,229
Business-type activities:								
Charges for services:								
Resource recovery	2,397,459	2,398,819	2,395,282	2,203,127	2,254,416	2,254,790	2,100,704	2,104,299
Blackberry farm	1,479,312	1,301,092	1,218,958	1,155,986	1,101,564	640,771	596,944	568,770
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
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
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
Total primary government program revenues	13,594,236	16,677,712	15,738,479	18,349,860	20,855,523	20,442,645	20,999,078	19,692,714

(Continued)

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

	Fiscal Year Ended June 30							
	2003	2004	2005	2006	2007	2008	2009	2010
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)
Business-type activities	754,357	753,741	(179,176)	780,010	789,136	1,101,743	980,192	699,378
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)
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
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
Incremental property tax	25,831	76,570	15,974	185,676	187,276	220,267	1,211,128	1,322,925
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
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
Utility user tax	2,566,265	2,636,264	2,705,888	2,809,587	3,011,755	3,175,724	3,205,073	3,271,452
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
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
Intergovernmental (2)	3,215,866	2,460,137	978,059	(300,039)	364,261	266,789	171,621	166,440
Investment earnings	1,207,017	526,560	684,952	669,820	1,752,177	1,451,973	889,823	295,059
Miscellaneous	79,280	166,714	545,155	189,262	291,423	103,529	81,342	119,393
Gain on sale of land	-	-	-	1,222,849	1,510,410	-	-	-
Transfers	225,000	175,000	1,388,000	800,000	500,000	992,150	-	-
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
Business-type activities:								
Investment earnings	211,093	95,127	215,769	201,159	366,596	378,828	171,804	67,182
Transfers	(225,000)	(175,000)	(1,388,000)	(800,000)	(500,000)	(992,150)	-	-
Total business-type activities	106,496	(56,228)	(1,172,231)	(598,841)	(133,404)	(613,322)	171,804	67,182
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
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)
Business-type activities	860,853	697,513	(1,351,407)	181,169	655,732	488,421	1,151,996	766,560
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

(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.

CITY OF CUPERTINO
Fund Balances of Governmental Funds
Last Eight Fiscal Years
(Accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30							
	2003	2004	2005	2006	2007	2008	2009	2010
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

The City implemented GASB Statement 34 in fiscal year 2003 and has elected to show the above information from that date.

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

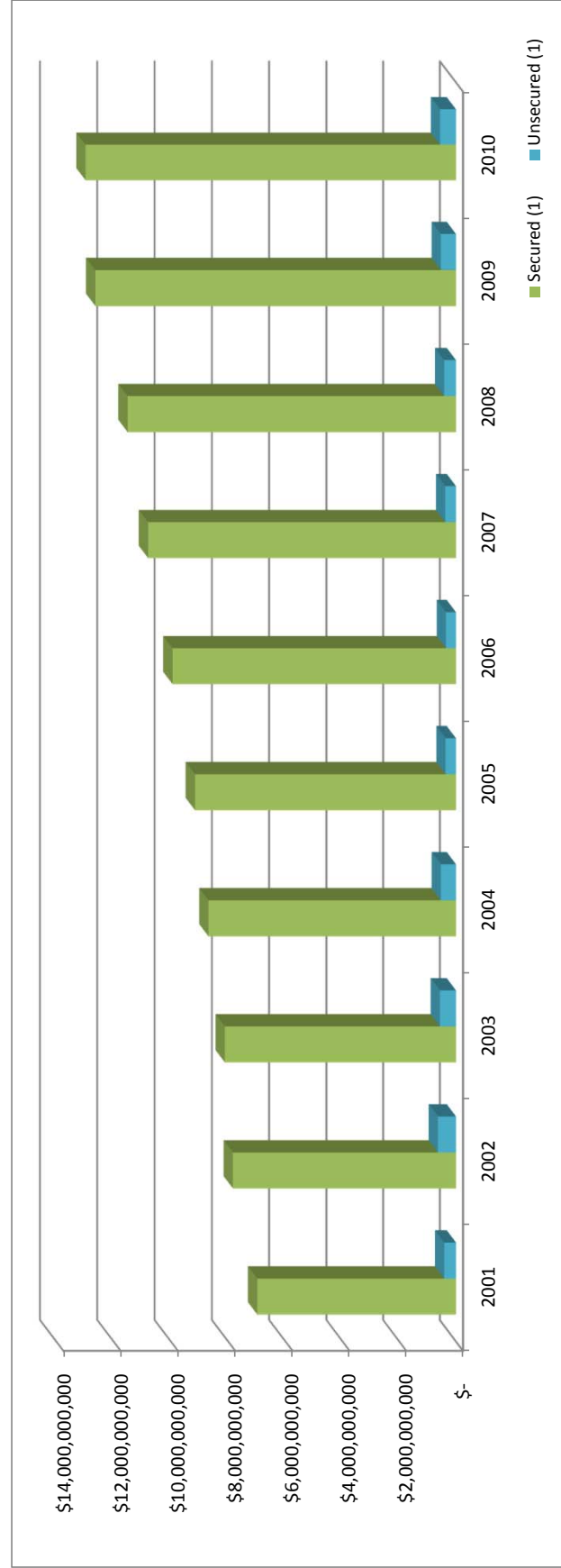
	Fiscal Year Ended June 30							
	2003	2004	2005	2006	2007	2008	2009	2010
Revenues								
Taxes	\$ 20,200,250	\$ 21,004,405	\$ 23,614,623	\$ 25,616,553	\$ 28,903,993	\$ 34,589,139	\$ 36,395,950	\$ 30,994,583
Use of money and property	1,910,503	940,963	1,119,399	1,607,837	2,169,977	2,490,444	1,300,508	774,219
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
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
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
Fines and forfeitures	550,377	723,748	559,791	629,586	926,310	722,087	761,320	736,239
Other	59,219	1,009,260	1,792,795	245,176	154,235	95,388	80,835	689,941
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
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
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
Public and environmental affairs	703,431	686,798	758,314	853,484	1,121,437	1,169,247	1,486,443	1,487,265
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
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
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
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
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
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
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
Total expenditures	44,069,851	49,429,867	40,212,457	36,154,402	37,777,735	44,461,067	61,931,930	43,411,338
Excess (deficiency) of revenues over (under) expenditures	(12,764,563)	(16,043,726)	(3,093,648)	3,599,599	7,965,210	6,105,387	(12,048,927)	1,607,767
Other Financing Sources (Uses)								
Bond proceeds	57,677,519	-	-	-	-	-	-	-
Proceeds from sale of land	-	-	-	2,422,849	1,663,842	-	-	-
Payment to refunded debt escrow agent	(39,208,286)	-	-	-	-	-	-	-
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
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)
Total other financing sources	18,404,233	5,000	968,000	3,002,849	(3,455,658)	(1,569,585)	(2,723,000)	(2,347,000)
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)
Debt service as a percentage of noncapital expenditures (1)	25.3%	11.6%	11.4%	10.6%	10.6%	9.8%	8.9%	9.1%

The City implemented GASB Statement 34 in fiscal year 2003. This calculation is included only for fiscal years from that date.

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

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

Fiscal Year	Total		SBE		Secured Exemptions	Total Assessed & Est. Full Market Valuation (1)	Direct Tax Rate
	Secured (1)	Unsecured (1)	NonUnitary	Unitary			
2001	\$ 6,986,833,015	\$ 416,844,493	\$ 185,735		67,242,848	\$ 7,407,208,836	1.65%
2002	7,836,349,904	634,624,124	203,348		82,089,594	8,562,981,335	2.29%
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%



(1) Net of exemptions
Sources: HdL, Coren & Cone

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0122
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	0.0356	0.0364	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388
Cupertino Elementary	0.0264	0.0457	0.0329	0.0357	0.0360	0.0350	0.0289	0.0337	0.0306	0.0312
El Camino Hospital 2003	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0129	0.0129	0.0129	0.0129
Foothill/DeAnza College 1999	0.0140	0.0115	0.0108	0.0110	0.0129	0.0119	0.0346	0.0113	0.0123	0.0322
Fremont High	0.0239	0.0204	0.0246	0.0249	0.0268	0.0260	0.0243	0.0241	0.0339	0.0306
Los Gatos/Saratoga High 1998	0.0320	0.0224	0.0530	0.0417	0.0409	0.0371	0.0351	0.0345	0.0330	0.0352
Santa Clara Unified	0.0174	0.0366	0.0252	0.0263	0.0344	0.0861	0.0797	0.0271	0.0743	0.0701
Santa Clara Valley Water District	0.0075	0.0062	0.0072	0.0087	0.0092	0.0078	0.0072	0.0071	0.0061	0.0074
Saratoga Elementary	0.03650	0.0285	0.0387	0.0385	0.0361	0.0356	0.0351	0.0363	0.0363	0.0388
West Valley College 2004	0.0000	0.0000	0.0000	0.0000	0.0000	0.0140	0.0126	0.0118	0.0032	0.0140
Total Direct & Overlapping Rates	1.1957	1.2101	1.2336	1.2280	1.2375	1.2947	1.3116	1.2400	1.2838	1.3258
City's Share of 1% Levy	0.02236	0.02236	0.02236	0.02234	0.02234	0.04343	0.05725	0.05706	0.05661	0.05641
Redevelopment Rate	-	1.04500	1.04840	1.04990	1.05040	1.04900	1.04840	1.04830	1.04730	1.04860
Total Direct Rate	0.01650	0.02293	0.01687	0.01726	0.01664	0.04374	0.05742	0.05870	0.06263	0.06510

Source: HdL, Coren & Cone

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

Taxpayer	2010		Percentage of		2001		Percentage of	
	Assessed	Valuation	Total Assessed	Valuation	Assessed	Valuation	Total Assessed	Valuation
Apple Inc.	\$ 937,206,385		6.92%		\$ 89,818,363		1.21%	
Hewlett Packard	351,121,167		2.59%		366,226,505		4.94%	
Tandem Computer	-		0.00%		274,315,562		3.70%	
Cupertino Gateway Partners	-		0.00%		132,704,969		1.79%	
Symantec Corp.	197,258,103		1.46%		-		0.00%	
Cupertino City Center Buildings	95,628,679		0.71%		71,688,321		0.97%	
Teachers Insurance & Annuity	-		0.00%		62,988,168		0.85%	
Cupertino Square	76,229,430		0.56%		-		0.00%	
500 Forbes LLC	72,466,198		0.54%		-		0.00%	
Irvine Company LLC	70,950,909		0.52%		60,439,327		0.82%	
Cupertino Village LP	69,402,996		0.51%		-		0.00%	
ECI Two Results LLC	64,504,800		0.48%		-		0.00%	
Rocktino Fee LLC	61,506,000		0.45%		-		0.00%	
RWC LLC	-		0.00%		60,419,918		0.82%	
Ridgeview Court Associates	-		0.00%		53,503,378		0.72%	
Villa Serra Apartments	-		0.00%		49,825,498		0.67%	
Total	\$ 1,996,274,667		14.74%		\$ 1,221,930,009		16.49%	

Source: The HdL Companies

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	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2001	\$ 3,209,623	\$ 3,209,623	100.00%	\$ -	\$ 3,209,623	100.00%
2002	4,024,705	4,024,705	100.00%	-	4,024,705	100.00%
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%

Source: County of Santa Clara, Department of Finance

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 (1)
2001	\$ 44,745,000	0.60%	\$ 885	-
2002	42,370,000	0.49%	838	-
2003	54,770,000	0.63%	1,053	-
2004	53,550,000	0.58%	1,018	-
2005	52,305,000	0.55%	994	-
2006	51,035,000	0.50%	948	-
2007	49,740,000	0.45%	902	-
2008	48,385,000	0.41%	877	1.53%
2009	46,970,000	0.36%	841	1.59%
2010	45,510,000	0.34%	815	1.36%

(1) Not available prior to 2008

CITY OF CUPERTINO
Direct and Overlapping Bonded Debt
June 30, 2010
(Unaudited)

2008-09 Assessed Valuation:	\$ 13,545,013,769
Redevelopment Incremental Valuation:	119,794,449
Adjusted Assessed Valuation	<u>\$ 13,664,808,218</u>

	Total Debt 6/30/2010	% Applicable (1)	City's Share of Debt 6/30/10
Overlapping Tax and Assessment Debt:			
Santa Clara County	\$ 350,000,000	4.972%	\$ 17,402,000
Santa Clara Valley Water District, Zone W-1	910,000	5.084	46,264
Foothill-DeAnza Community College District	479,279,288	13.807	66,174,091
West Valley Community College District	215,069,692	0.669	1,438,816
Santa Clara Unified School District	267,085,000	2.108	5,630,152
Fremont Union High School District	202,415,000	29.573	59,860,188
Cupertino Union School District	127,264,911	49.571	63,086,489
El Camino Hospital District	144,975,000	1.361	1,973,110
Santa Clara Valley Water District Benefit Assessment	152,440,000	4.972	7,579,317
City of Cupertino 1915 Act Bonds	35,000	100.000	35,000
	<u>1,939,473,891</u>		<u>223,225,427</u>

Direct and Overlapping General Fund Debt			
Santa Clara County General Fund Obligations	825,070,000	4.972%	41,022,480
Santa Clara County Pension Obligations	388,044,822	4.972	19,293,589
Santa Clara County Board of Education COP	13,580,000	4.972	675,198
Foothill-De Anza Community College District COP	23,450,000	13.807	3,237,742
West Valley-Mission Community College District General Fund Obligations	56,120,000	0.669	375,443
Santa Clara Unified School District COP	12,980,000	2.108	273,618
City of Cupertino Certificates of Participation	45,510,000	100.000	45,510,000
Santa Clara County Vector Control District COP	3,965,000	4.972	197,140
Midpeninsula Regional Open Space Park District COP	113,788,031	7.752	8,820,848
	<u>1,482,507,853</u>		<u>119,406,058</u>
Total Direct and Overlapping General Fund Debt			
Combined Total Debt	<u>\$ 3,421,981,744</u>		<u>\$ 342,631,485 (2)</u>

Ratios to 2009-10 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	1.65%
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Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$45,510,000)	0.33%
Combined Total Debt	2.51%

State School Building Aid Repayable as of 6/30/10:	\$ -
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(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

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

Source: California Municipal Services

CITY OF CUPERTINO
Legal Bonded 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
2001	\$ 277,770,332	\$ -	277,770,332	-
2002	321,111,800	-	321,111,800	-
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	-

Assessed Valuation:	
Secured property assessed value, net of exempt real property	\$ 12,979,346,158
Adjusted valuation - 25% of assessed valuation	\$ 3,244,836,540
Debt limit - 15% of adjusted valuation	\$ 486,725,481
Amount of Debt Subject to Limit:	
Total Bonded Debt	45,510,000
Less: Certificates of Participation not subject to debt limit	(45,510,000)
Amount of debt subject to limit	-
Legal Bonded Debt Margin	\$ 486,725,481

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 Outstanding
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	
					General Bonded Debt	Bonded Debt to Assessed Value
2001	50,546	\$ 7,407,208,836	\$ -	\$ -	-	-
2002	50,546	8,562,981,335	-	-	-	-
2003	52,000	8,685,515,766	-	-	-	-
2004	52,628	9,219,879,996	-	-	-	-
2005	52,600	9,526,841,379	-	-	-	-
2006	52,600	10,292,965,413	-	-	-	-
2007	55,162	11,176,513,115	-	-	-	-
2008	55,162	11,512,949,952	-	-	-	-
2009	55,840	13,172,425,287	-	-	-	-
2010	55,838	13,545,013,769	-	-	-	-

Source: (1) HdL, Coren & Cone
(2) City of Cupertino

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

Fiscal Year	City Population	County Population	City Personal Income	Per Capita Personal Income	School Enrollment Grades 9-12	Unemployment Rate	City Population % of County
2001	50,602	1,674,634	\$ 2,161,154,000	\$ 42,709	8,822	2.0%	3.02%
2002	50,913	1,668,309	2,221,262,000	43,629	9,063	3.2%	3.05%
2003	51,910	1,675,915	2,278,527,000	43,894	9,108	5.4%	3.10%
2004	51,858	1,656,128	2,368,206,000	45,667	9,147	5.4%	3.13%
2005	52,590	1,759,585	2,595,892,000	49,361	9,138	4.1%	2.99%
2006	53,012	1,773,258	2,805,559,000	52,923	9,875	3.4%	2.99%
2007	53,549	1,794,522	3,117,408,000	58,216	9,823	2.8%	2.98%
2008	54,584	1,748,976	3,369,668,000	61,734	10,300	3.0%	3.12%
2009	55,045	1,857,621	3,442,884,000	62,547	10,300	3.8%	2.96%
2010	55,838	1,800,876	3,350,250,000	59,999	10,350	7.2%	2.97%

Source: (1) HdL, Coren & Cone
(2) Fremont Union High School District

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

	Fiscal Year 2010		Fiscal Year 2001	
	Number of Employees	Percentage of Total City Employment (2)	Number of Employees	Percentage of Total City Employment(2)
Apple, Inc.	34,300	(1)	3,000	11.3%
Oracle	8,000	(1)	-	0.0%
Foothill/DeAnza Community College District	3,100	12.9%	3,000	11.3%
Hewlett-Packard	3,000	12.4%	3,500	13.2%
Cupertino Union School District	1,679	7.0%	1,400	5.3%
Arc Sight Inc.	512	2.1%	-	0.0%
Fremont Union High School District	429	1.8%	443	1.7%
Chordiant Software	285	1.2%	-	0.0%
Health Care Center at the Forum	285	1.0%	-	0.0%
Trend Micro Inc.	250	1.0%	-	0.0%
Compaq Computers	-	0.0%	3,000	11.3%
Symantec Corp.	-	0.0%	1,300	4.9%
Honeywell-Measurex Corp.	-	0.0%	375	1.4%
Rational Software Corp.	-	0.0%	375	1.4%
Pacific Gas & Electric	-	0.0%	278	1.0%

(1) Because employees outside of the City are included, percentage of City employment not shown.

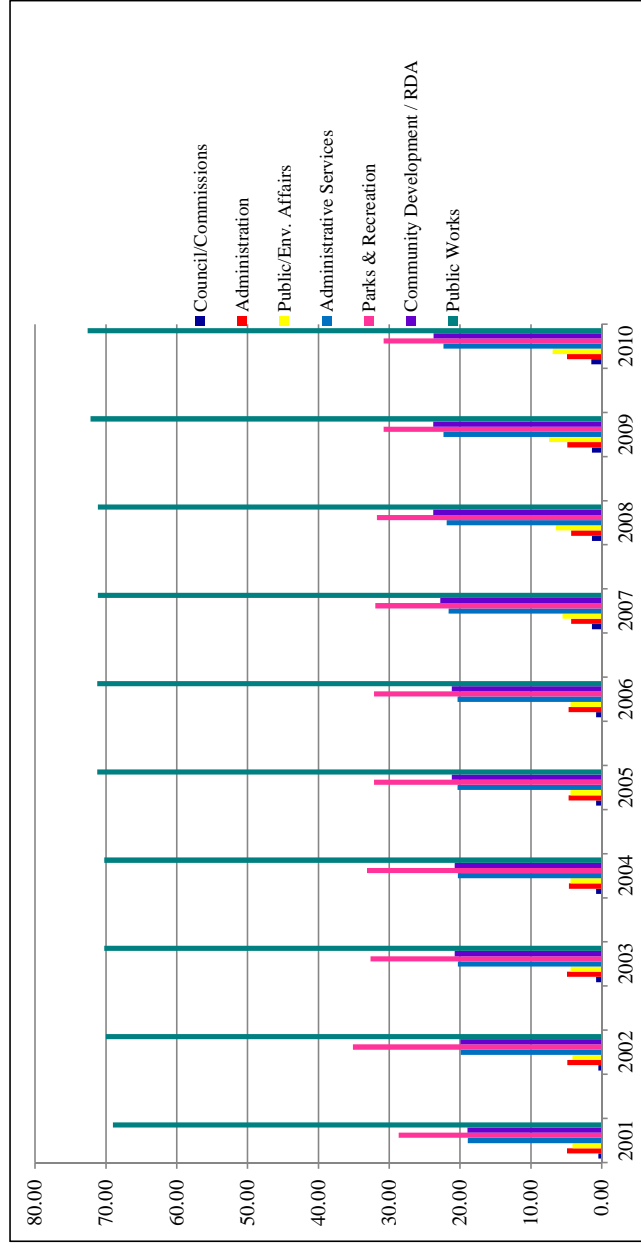
(2) Based on City labor force of 24,100 in 2010 and 26,500 in 2001.

Sources: InfoUSA.com

- Cupertino Union School District
- Fremont Union High School District
- City of Cupertino
- California Employment Development Department

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

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Council/Commissions	0.50	0.50	0.80	0.80	0.80	0.80	1.40	1.40	1.40	1.47
Administration	4.90	4.85	4.90	4.65	4.70	4.70	4.30	4.30	4.85	4.90
Public/Env. Affairs	4.15	4.15	4.40	4.40	4.40	4.40	5.55	6.50	7.45	6.95
Administrative Services	18.90	19.90	20.30	20.30	20.35	20.35	21.63	21.88	22.33	22.33
Parks & Recreation	28.65	35.15	32.63	33.13	32.13	32.13	31.96	31.76	30.77	30.78
Community Development / RDA	18.95	19.95	20.75	20.75	21.15	21.15	22.78	23.78	23.78	23.73
Public Works	69.00	70.00	70.22	70.22	71.22	71.22	71.13	71.13	72.17	72.59
Total	145.05	154.50	154.00	154.25	154.75	154.75	158.75	160.75	162.75	162.75



Source: City of Cupertino Budget

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

Function/Program	2005	2006	2007	2008	2009	2010
Public Information						
Access Cupertino	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days
Public Safety Sheriff Response						
Priority One	5.37 Min.	4.94 Min.	4.94 Min.	5.83 Min.	3.88 Min.	3.95 Min.
Priority Two	8.61 Min.	8.09 Min.	7.15 Min.	7.95 Min.	5.94 Min.	5.90 Min.
Priority Three	18.92 Min.	16.74 Min.	15.82 Min.	15.73 Min.	9.40 Min.	9.77 Min.
Public Works						
Street Sweeping	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 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
Culture & Recreation						
Teen Center Memberships	441	550	510	444	400	447
Sports Center Memberships	916	1,021	1,336	1,419	1,700	1,385
Senior Center Memberships	2,000	3,100	1,935	2,110	2,243	2,287
Community Development						
Approved Building Plan Sets	Within 5 Days	Within 5 Days	Within 5 Days	Within 5 Days	Within 5 Days	Within 5 Days
Discretionary Land Use Applications	Within 21 Days	Within 21 Days	Within 21 Days	Within 21 Days	Within 21 Days	Within 21 Days
Public Notice of Upcoming Projects	Within 10 Days	Within 10 Days	Within 10 Days	Within 10 Days	Within 10 Days	Within 10 Days
Administrative Services						
Accounts Payable Processing	5 Days	5 Days	5 Days	5 Days	5 Days	5 Days
Business License Renewal Certificates	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

(1) Statistical information was not tracked prior to 2005.

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

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Works										
Miles of Streets	450	450	450	450	450	450	450	450	450	450
Streetlights	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
Traffic Signals	39	39	39	39	39	39	39	39	39	39
Culture & Recreation										
City Parks	15	15	15	15	15	15	15	15	15	16
City Park Acreage	150.8	150.8	150.8	150.8	150.8	150.8	150.8	150.8	150.8	151.4
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	0	0	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***

NOTES

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.

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.

The village of Cupertino sprang up at the crossroads of Saratoga-Sunnyvale Road (now DeAnza Boulevard) and



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.

2010 Community Economic Profile

Cupertino, with a population of 55,162 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 environment, 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 in that our success as a partnership is a direct reflection of our success as a community. The cornerstone of this partnership is that of a cooperative and responsive government that provides an environment for business and residential prosperity and fosters strong working relationships with all sectors of the community.

Our economic development strategies are tailored to address the specific needs of the community. As the City of Cupertino is a mature city with over 90% build-out, our focus concentrates more on business retention and revitalization. Business recruitment is site specific and targeted to industries that enhance, rather than draw from, our existing business base.



As home to many well-known high-tech companies, Cupertino offers a dynamic and exciting business climate. Apple Inc., Verigy, Durect Corporation, and ArcSight, are headquartered in the city. Hewlett-Packard and DeAnza College, one of the largest single-campus community colleges in the country, are other major employers. Seagate Technology will consolidate offices and relocate their headquarters into the city.

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 policies of balanced growth and streamlined permitting.

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 Strike Cupertino. 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 food court. The city features many other restaurants and stores to serve the local workforce and residents.

Four hotels occupy the city, with three of them operated by Hilton, Marriott, and Kimpton Group.

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.

2010 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; Cupertino's government access cable TV channel; The City Channel; and the city's website.

Housing

The estimated median home value in Cupertino is \$907,731 as of May 2009, a decline of 1.56% from a year ago, according to RealtyTrac.

Community Health Care Facilities

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

Garbage – 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: Santa Clara County: 1.25%; City: 1%; State General Fund: 6%; State Local Public Safety Fund: 0.50%; State Local Revenue Fund: 0.25%; County Transportation Fund: 0.25%. Total: 9.25%.

Assessed Valuation: (Secured and Unsecured)

Cupertino: \$13,495,632,397 (7/1/10)

County: \$296,474,111,554 (7/1/10)

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.

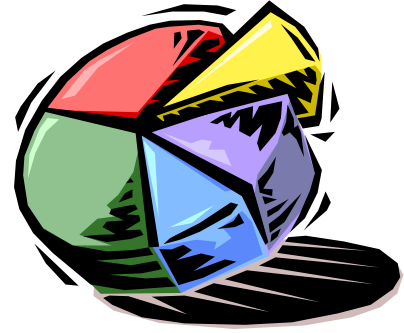
Bus – Santa Clara Valley Transportation Authority.

Highways – Interstate Route 280, State Route 85.

Community Statistics

Facts and Figures

Population in City Limits	55,162
Median Household Income	\$131,517
Median Age	39
Sales Tax Rate	9.25%
Registered Voters	26,658
Democrats	10,023
Republicans	5,829
American Independent	366
Other	320
Decline to State	10,120



Top 40 Sales Tax Producers Fourth Quarter 2009 (In Alphabetical Order)

Alexander's Steakhouse	Insight Direct	Scandinavian Designs
Apple Inc.	JC Penney	Sears
Argonaut Window & Door	Joy Luck Place	Shane Diamond Jewelers
Benihana of Tokyo	Macy's	Shell Service Station
BJ's Bar & Grill	Marina Foods	Symantec
California Dental Arts	Mervyn's	Target
Chevron Service Stations	Michael's Arts & Crafts	TJ Maxx
CVS Pharmacy	Mirapath	Union 76 Service Station
Cypress Hotel/Park Place	Outback Steakhouse	Valero Service Station
DeAnza College Campus Center	Proofpoint	Verigy
Dynasty Restaurant	Ranch 99 Market	Verizon Wireless
Elephant Bar	Ricoh	Whole Foods
Granite Rock	Rite Aid Drug Store	
Hewlett-Packard	Rotten Robbie Service Station	



Demographic Information

Asian	56.9%
White, non-Hispanic	33.8%
Hispanic or Latino	4.2%
Black or African American	1.4%
American Indian/Alaska Native	0.1%
Native Hawaiian/Other Pacific	0.1%
Islander	
Other	3.5%

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 16,500 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 over 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. Four of five high schools in the district exceeded their state established achievement targets for the 2009 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 four local institutions of higher education: DeAnza College, the University of San Francisco, National University and the UCSC Extension. 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. – 4 p.m. Monday through Thursday. Telephone: 408-864-8836.

Fujitsu Planetarium

Stargazers will have a Cupertino facility catering to their interests, the Fujitsu Planetarium on the DeAnza College campus. It will host a variety of planetarium shows and events, including educational programs for school groups and family astronomy evenings when it reopens for Saturday evening shows on September 25, 2010. For more information, visit the website at www.deanza.edu/planetarium 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 Center parking lot near Sears.



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.

NOTES
