

2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT 2011



For Fiscal Year Ended June 30, 2011



CUPERTINO

City of Cupertino, California

www.cupertino.org

CITY OF CUPERTINO, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR FISCAL YEAR ENDED
JUNE 30, 2011**

**PREPARED BY:
CITY OF CUPERTINO
ADMINISTRATIVE SERVICES DEPARTMENT
FINANCE DIVISION**

NOTES

CITY OF CUPERTINO
Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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INTRODUCTORY SECTION

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CITY OF CUPERTINO

CITY HALL

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November 10, 2011

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, 2011. 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.

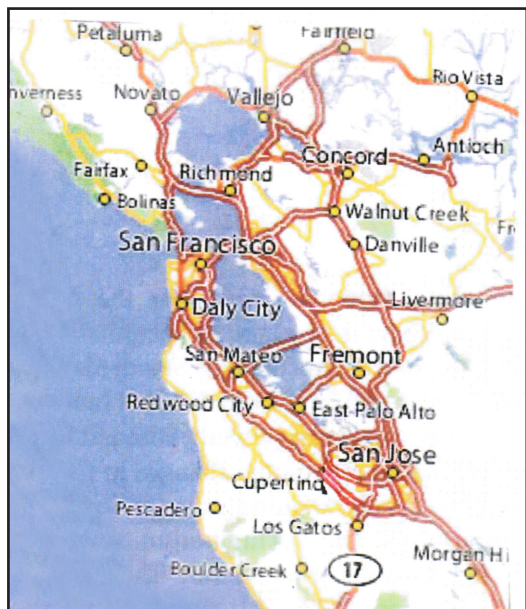
REPORTING ENTITY

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 City affairs. The City Council also appoints the City Attorney and the City Treasurer. All other employees are appointed by the City Manager.

ECONOMIC CONDITIONS

The City of Cupertino is located in Santa Clara County at the southern end of the San Francisco Bay Peninsula. The City is comprised of 13 square miles and is bordered by the cities of San Jose, Saratoga, Sunnyvale, Santa Clara and Los Altos. It has a residential population of 58,302 and a daytime workforce of 99,623.



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

Cupertino is the corporate headquarters of almost twenty companies including Apple, Seagate Technology, Verigy, Durect Corporation, and ArcSight, and houses sixty high-tech firms. Other major employers include DeAnza College, one of the largest single-campus community colleges in the country, the Fremont Union High School District, and Cupertino Union School District.

With Hewlett-Packard, a primary employer, leaving the City in 2012, Apple purchased their properties as part of 155 acres acquired for a major expansion between Interstate 280, Homestead Road, Wolfe Road and Tantau Avenue. Apple has submitted plans for a new circular-shaped research building at the site that will accommodate 12,000 people. In 2011, ten million square feet of office and research and development space existed with vacancy rates of 10.7% for office and 8.1% for research and development. The City's unemployment rate of 7.3% falls below the statewide rate of 12.2%.

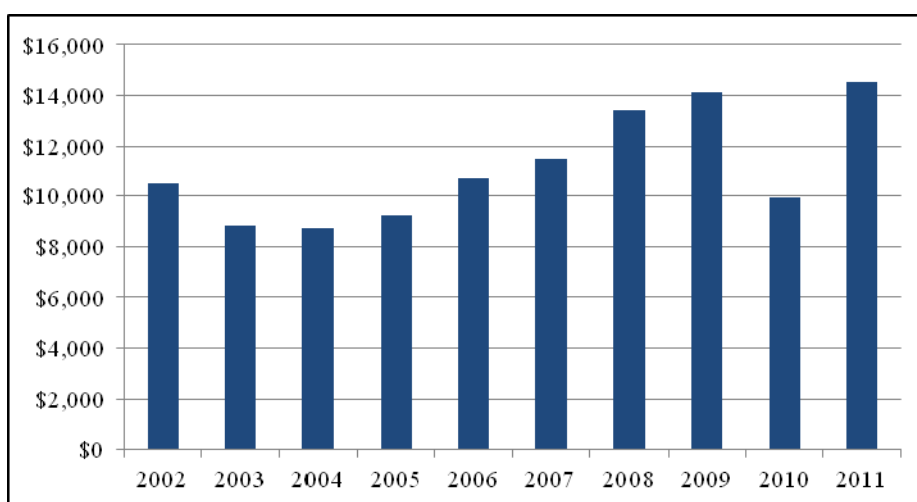
City retail space encompasses 3.6 million square feet, with over 160 eating establishments. The 1.2 million square foot Vallco Shopping Mall comprises most of the City's redevelopment agency area and features two levels of enclosed shopping, three anchor stores, a 16-screen AMC theatre, a bowling center, ice rink, and international food court. A new Western Athletic Health Club is being built within the existing Sears store at the mall. In spite of earlier additions and remodel, the shopping center continues to underperform. Macy's, JCPenney, Target, Sears, and Whole Foods Market are leading City retailers. A local restaurant association promotes the City as a regional dining destination.

The assessed value of properties in the City grew by 1.87% from 2010 to 2011, a reversal of the 0.36% decline experienced from 2009 to 2010. Cupertino ranked seventh in this percentage change out of the sixteen cities and unincorporated area in the county. The number of City properties receiving a reduction in assessed value increased from 2,901 to 2,934, but the dollar cost of the reductions fell from \$530 million to \$510 million, as the county continues to adjust tax rolls based on home prices. Moreover, the cost of living index adjustment for all assessed values experienced a 0.753% increase for 2011 compared to a 0.237% cut for 2010. The City's popular school districts and high median income levels allowed it to avoid the steep property value declines suffered in other regions during the housing recession. Apple is the leading assessed value property owner in the City and is in the top twenty-five, county-wide, for

business personal property assessment. The WW DASC Owner LLC office property in Cupertino is ranked sixth in the county for 2011-12 assessed value growth due to ownership change. Looking forward, cities in the county are seeing increases in assessed value due to changes in ownership and higher assessed values per new building permit.

Cupertino has a high 73% of its sales taxes coming from business-to-business commerce, compared to California and San Francisco Bay Area averages of 18% and 21% respectively. Three companies comprise a large part of that sector and one of those companies, Hewlett-Packard is leaving the City. 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 Vallco Shopping Mall and recommends that quality retail components be incorporated into future developments. The following chart shows City sales tax variations over the past ten years, reflecting two recessions and the volatility of the business-to-business and company concentration.

Sales Tax Trend



Commercial development activity picked up in 2011 led by initial plan submittals for the expanded Apple campus along with tenant improvement work in various office buildings. Homestead Square and Cupertino Crossroads retail center improvement projects and the new 123-room Hyatt Place hotel are undergoing development or building review. On the other hand, continuing postponement of major commercial or residential projects approved in recent years, such as 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, the 19.8 acre One Results Way office campus redevelopment, and the Rose Bowl mixed-use project, has deferred potential construction, permit, park, and housing fees.

The City’s pension and retiree medical unfunded actuarial accrued liabilities are discussed in the Notes to the Basic Financial Statements. The City must pay CalPERS, the state’s government pension system, annually to reduce this long-term liability. Cupertino’s pension actuarial valuation report of June 2009 reports a pension unfunded liability of \$17,021,000 with annual payments to CalPERS of \$2,089,000 in 2010-11 and \$2,657,000 in 2011-12, with ongoing increases 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 January 2011 health cost actuarial valuation report, the City has a retiree medical unfunded liability of \$13,431,000 that requires an annual contribution of \$1.9 million in 2010-11 and 2011-12 in order to fund it. The City has been setting aside monies annually for health costs since 2004, accumulating \$9 million in an irrevocable trust and \$840,000 in City reserves as of June 30, 2011.

Regarding other fiscal strategies, because the City contracts out police services to the County Sheriff and because fire protection is handled by a special district, the City avoids the high pension, capital, and operating costs of a City-operated public safety function. The City caps its contributions to employee health insurance premiums and works with its bargaining units to come up with labor agreements that benefit both the City and employees. A build-up of operating reserves from strong revenue years, such as 2010-11, along with a traditional under-spending of budgets, enables the City to withstand the weak revenue years that periodically occur, such as in 2009-10.

ECONOMIC INITIATIVES

The recessions and the departure of a major company, Hewlett-Packard, demonstrates the need for diversification of the City's revenue base and a long-term balance of revenues and expenditures as described in the City's Fiscal Strategic Plan. The City needs to find other revenues to mitigate the fluctuating nature of sales taxes, hotel taxes, user fees, and state grabs of local taxes in times of budget distress. It needs to reduce the concentration of sales taxes among its top companies and top economic sector, the volatile business-to-business area. Legislation raising the City's property tax share, the opening of a regional sales office of a major technology provider, and the update of the utility user tax are successes of the strategic plan. Voters approved a two percent increase in the transient occupancy tax rate this month. The City is studying further increases of the 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. Nevertheless, other tax or fee initiatives in the plan have incurred opposition to their implementation. The City's Community Development department strives to generate revenues by recruiting and retaining retail, by finding office tenants, facilitating development, branding and outreaching to new business, revising policies, coordinating with regional organizations, and promoting economic vitality.

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

State budget deficits continue to pressure City resources. Despite a state law that prevents raids and borrowings of city taxes, the state proposed an elimination of all city redevelopment agencies unless they paid a large share of their taxes to schools and special districts. While the courts review an appeal of the proposal, Cupertino's redevelopment agency has opted to continue its existence and pay the taxes.

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

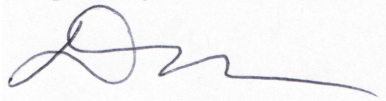
City ordinance requires an annual audit of the financial records by an independent certified public accounting firm selected by the City Council and its audit committee. Macias Gini and O'Connell LLP audited the City's Basic Financial Statements, and their opinion thereon is included in the Financial 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, 2010. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

Respectfully submitted,

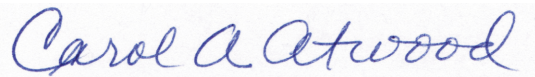


David Woo
Finance Director

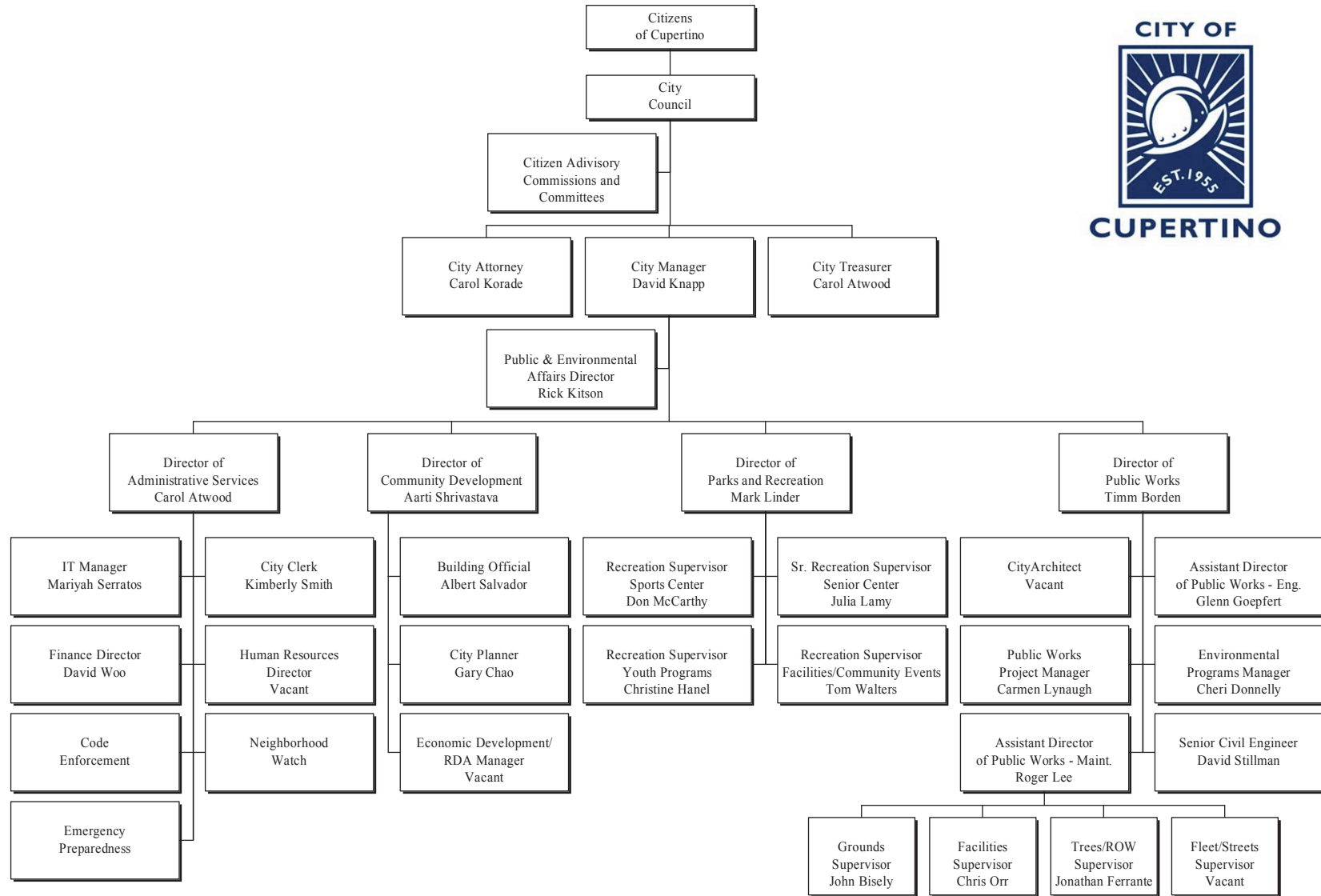
ACKNOWLEDGMENTS

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

Reviewed by,



Carol A. Atwood
Director of Administrative Services



CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2010-11

CITY COUNCIL



Gilbert Wong
Mayor



Mark Santoro
Vice Mayor



Orrin Mahoney
Councilmember



Kris Wang
Councilmember



Barry Chang
Councilmember

DIRECTORY OF CITY OFFICIALS

David W. Knapp - City Manager
Carol Korade – City Attorney

Carol Atwood – Director of Administrative Services
Timm Borden – Director of Public Works
Mark Linder – Director of Parks and Recreation
Aarti Shrivastava - Director of Community Development

CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2010/11

COMMISSIONS AND COMMITTEES

AUDIT COMMITTEE

Myoung Kang
Mark Santoro
Stanley Stemkoski
Garrett Wade
Barry Chang

HOUSING COMMISSION

Harvey Barnett
Jimmy Chien
Radha Kulkarni
Nicole Maroko
Rajeev Raman

FINE ARTS COMMISSION

KC Chandratreya
Jessi Kaur
Russell Leong
Rajeswari Mahaliagan
Marvin Spielman

PUBLIC SAFETY COMMISSION

Nina Daruwalla
Andy Huang
Craig Lee
Daniel Nguyen
Tamara Pow

TEEN COMMISSION

Jacqueline Do	Sanika Puranik
Ashley Ding	Hadar Sachs
Anand Hemmady	Kailash Sundaram
Dana Lujack	Madeline Yip
Greg Pommier	

TECHNOLOGY, INFORMATION & COMMUNICATIONS COMMISSION

Peter Friedland
Wallace Iimura
Jitendra Jadhav
Rod Livingood
Reena Nadkarni

PARKS & RECREATION COMMISSION

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

LIBRARY COMMISSION

Rose Grymes
Adrian Kolb
Ronald Miller
Ann Stevenson
Susanna Tsai

PLANNING COMMISSION

Paul Brophy
Clinton Brownley
Winnie Lee
Marty Miller
Don Sun

BICYCLE PEDESTRIAN COMMISSION

William Chan
Mark Fantozzi
Ashish Kolli
Jill Mitsch
Alan Takahashi

ECONOMIC DEVELOPMENT

Carol Atwood	David Knapp
Paul Brophy	Orrin Mahoney
Timm Borden	Aarti Shrivastava
Paula Davis	Kris Wang
Mike Foulkes	John Zirelli

FISCAL STRATEGIC COMMITTEE

Gilbert Wong	Julia Lamy
Mark Santoro	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, 2010

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

FINANCIAL SECTION

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, 2011, 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, 2011, 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(l) to the basic financial statements, effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in note 9(e) to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory, other supplementary information, statistical, and community profile sections are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is stated in all material respects in relation to the financial statements 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 do not express no opinion or provide any assurance on them.

Macias Gini & Connell LLP

Walnut Creek, California
November 10, 2011

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2011

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.

2010-11 FINANCIAL HIGHLIGHTS

- Governmental activity revenues were \$49,552,000, up significantly from \$46,152,000 in 2009-10.
- Governmental activity expenses were \$48,105,000 in 2010-11, up from \$46,223,000 in the prior year.
- Revenues from business-type activities were \$6,433,000 in current year, down from \$6,575,000 in the prior year.
- Expenses of business-type activities were \$5,728,000 in current year, down slightly from \$5,808,000 in the prior year.
- Governmental net assets increased \$1,447,000 while business-type net assets rose \$705,000.
- General Fund revenues of \$43,195,000 represented a large increase of \$7,617,000 from the prior year; General Fund expenditures increased \$706,000 to \$33,662,000 in 2010-11.
- The General Fund incurred expenditure budget savings of \$3,529,000 with revenues surpassing budget by \$2,542,000.
- Including proceeds from sale of capital assets and transfers, the General Fund balance grew by \$3,876,000 to end the year at \$19,807,000.

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.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2011

- ***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.

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 nonmajor 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 Assets and Liabilities 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.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
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The Notes to Basic Financial Statements provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

CITY-WIDE FINANCIAL ACTIVITIES

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

Governmental Activities

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

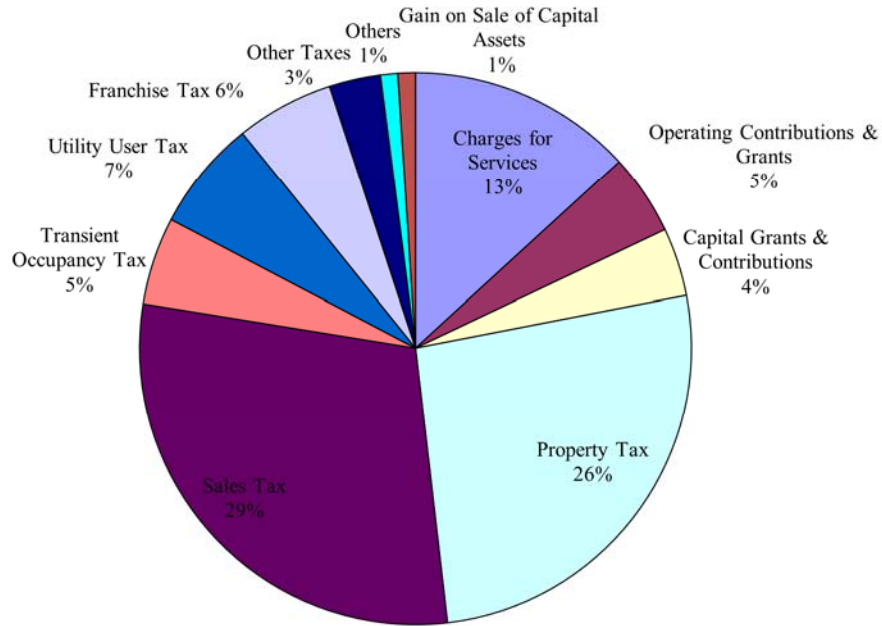
	Governmental Activities	
	2011	2010
Assets:		
Cash and investments	\$ 43,353	\$ 41,700
Other assets	11,685	10,391
Capital assets	164,734	165,915
Total assets	219,772	218,006
Liabilities:		
Long term debt	44,010	45,510
Other liabilities	14,130	12,311
Total liabilities	58,140	57,821
Net assets:		
Invested in capital assets, net of debt	120,724	120,405
Restricted	7,779	8,692
Unrestricted	33,129	31,088
Total net assets	\$ 161,632	\$ 160,185

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

- Tax receipts and proceeds from the sale of the City's equity share in the City Manager's residence, net of capital project spending and retiree health trust contributions, were the primary cause of the cash and investments increase.
- The trust contribution and higher revenue accruals increased other assets. Increase in accounts payable and development permit deposits increased other liabilities.
- Scheduled principal payments on the 2002 certificates of participation lowered long-term debt by \$1,500,000.

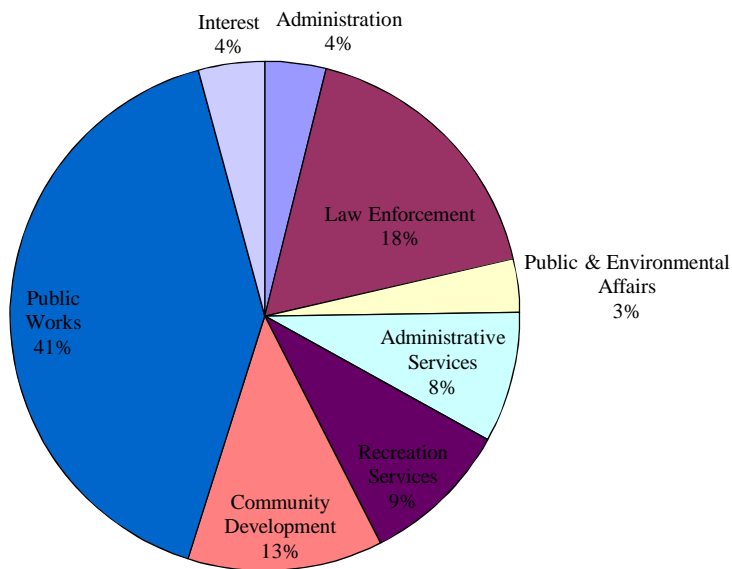
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Sources of Revenues, Governmental Activities 2010-11



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

Functional Expenses, Governmental Activities 2010-11



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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	
	2011	2010
Expenses:		
Administration	\$ 1,860	\$ 1,912
Law enforcement	8,435	8,385
Public and environmental affairs	1,626	1,653
Administrative services	3,994	4,080
Recreation services	4,529	4,445
Community development	5,962	4,351
Public works	19,667	19,320
Interest on long term debt	2,032	2,077
Total expenses	48,105	46,223
Revenues		
Program revenues:		
Charges for services	6,533	5,631
Operating contributions and grants	2,351	2,043
Capital grants and contributions	1,973	5,511
Total program revenues	10,857	13,185
General revenues:		
Taxes:		
Property tax	7,297	7,489
Property tax in lieu of motor vehicle fee	4,405	4,421
Incremental property tax	1,252	1,323
Sales tax	14,539	9,931
Transient occupancy tax	2,537	2,142
Utility user tax	3,228	3,271
Franchise tax	2,841	2,598
Other taxes	1,491	1,212
Intergovernmental, unrestricted		
Motor vehicle license fee	259	166
Investment earnings	259	295
Gain on sale of capital assets	497	-
Miscellaneous	90	119
Total general revenues	38,695	32,967
Total revenues	49,552	46,152
Change in net assets	1,447	(71)
Beginning net assets, as previously reported	160,185	143,293
Prior period adjustment for easements	-	16,963
Beginning net assets, as restated	160,185	160,256
Ending net assets	\$ 161,632	\$ 160,185

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City-wide Governmental Revenues

Table 2 shows that total governmental revenues climbed \$3,400,000 or 7% over of last year, finishing at \$49,552,000.

Sales taxes improved \$4,608,000 or 46% over last year to finish up at \$14,539,000. Quarterly tax collections all exceeded the prior year, with growth in the business-to-business sector, led by Apple, Inc., driving the increase. Business-to-business, historically a volatile sector, comprised 73% of sales taxes, far exceeding San Francisco Bay Area and State averages. The City's sales tax per capita of \$294 tops other County cities. The timing of a sales tax consulting agreement that is payable out of a percentage of revenues also partially effected the variance. Positive revenue growth in the first quarter of this fiscal year was offset by a tax liability increase for the agreement in the last quarter of the prior fiscal year.

All property taxes, including incremental taxes for the Redevelopment Agency, fell \$279,000 or 2% from last year. As allowed by recent State law, the City Council passed an ordinance on September 20, 2011 electing to continue the Agency's existence with payments of \$529,000 to schools and special districts in 2011-12 and approximately \$134,000 per year after that.

Grants and contributions, both operating and capital related, decreased a combined \$3,230,000 or 43% from 2009-10. The current year grants received includes an Energy Efficiency and Conservation Block Grant, a Stevens Creek Corridor Park Roberti-Z'berg Harris grant, Homeland Security Department grant and easement contributions. Last year included Stevens Creek, pavement resurfacing and Don Burnett Bicycle-Pedestrian Bridge (formerly Mary Avenue Bicycle Footbridge) grants from federal, state, and local sources such as the American Recovery and Reinvestment Act, SAFETEA-LU, Proposition 1B bonds, Park Bond Act, and Santa Clara Valley Transportation Authority.

Gain on sale of capital assets of \$497,000 for 2010-11 represents gain from the sale of the City's equity share in the City Manager's residence.

Charges for services increased \$902,000 or 16% reflecting building and development application growth including Apple Inc.'s new corporate headquarters and several tenant improvements.

City-wide Governmental Expenses

City-wide governmental expenses in Table 2 rose \$1,882,000 or 4% above 2009-10. Community Development and Public Works rose. Administration, Law Enforcement, Administrative Services, Public & Environmental Affairs, Recreation Services, Administrative Services, and Interest on Long Term Debt were relatively stable.

Administration decreased \$52,000 or 3% this year. Lower accrued leave, internal service, and depreciation costs offset higher community grant, support and outreach costs.

Administrative Services declined 2% or \$86,000 because of lower internal service costs.

Community Development expenses rose \$1,611,000 or 37% because of new Redevelopment Agency outlays, including a \$1 million contribution to the Santa Clara County Housing Trust, and additional Community Development Block Grants for affordable housing, such as those for Senior Housing Solutions' Price Avenue and for Maitri transitional housing.

Public Works expenses went up \$347,000 or 2% over the prior year reflecting higher depreciation expenses from completed projects and budgeted increases for maintenance, repair and engineering.

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Annual interest on the 2002 certificates of participation decreased \$45,000 or 2% according to its debt service schedule.

Change in Net Assets

City-wide governmental revenues in excess of expenses and accompanying net asset increase of \$1,447,000 significantly outperformed the \$71,000 decrease of last year, mostly due to the revenue rise.

Business Type Activities

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

Business-type net assets totaled \$10,557,000 at June 30, 2011, an increase of \$705,000 from the prior year with unrestricted net assets rising \$715,000 and capital assets decreasing by \$10,000.

Overall revenues of \$6,433,000 this year were \$142,000 or 2% lower than last year with Blackberry Farm and Resources Recovery revenue declines partially offset by Sports Center and Recreation Programs revenue growth.

Expenses for all business-type activities were essentially flat at \$5,728,000. A \$705,000 net asset increase fell below the \$767,000 increase of 2009-10, with lower operating incomes from the Sports Center and Blackberry Farm countered by improved operating margins from the Resources Recovery and Recreation Program enterprises.

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

	Business Type Activities	
	2011	2010
Assets:		
Cash and investments	\$ 10,394	\$ 9,762
Other assets	389	348
Capital assets	778	788
Total assets	11,561	10,898
Other liabilities	1,004	1,046
Total liabilities	1,004	1,046
Net assets:		
Invested in capital assets	778	788
Unrestricted	9,779	9,064
Total net assets	\$ 10,557	\$ 9,852

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

	<u>Business Type Activities</u>	
	<u>2011</u>	<u>2010</u>
Expenses:		
Resources recovery	\$ 1,801	\$ 2,018
Blackberry farm	457	457
Sports center	1,717	1,478
Recreation programs	1,753	1,855
Total expenses	5,728	5,808
Revenues		
Program revenues:		
Charges for services	6,362	6,501
Operating contributions and grants	-	7
Total program revenues	6,362	6,508
General revenues:		
Investment income	71	67
Total revenues	6,433	6,575
Change in net assets	705	767
Beginning net assets	9,852	9,085
Ending assets	\$ 10,557	\$ 9,852

MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund Revenues

General Fund revenues of \$43,195,000 ended up \$2,542,000 or 6% above the final budget and \$2,653,000 above the original budget for the year ended June 30, 2011. This was \$7,617,000 or 21% above last year. Except for utility taxes, fines and forfeitures, and other, all categories exceeded the prior year, with sales taxes and property taxes accounting for \$5,819,000 of the increase. Similarly, sales taxes accounted for \$2,421,000 of the amount exceeding budget. Table 5 displays year-to-year variations, while Table 6 shows budget versus actual differences.

Property taxes ended the year at \$11,650,000, up 12% or \$1,211,000 from last year. However, it fell under the final and original budget by \$426,000. Revenues were up because last year's result includes a deferral of \$1,419,000 in property taxes that was borrowed by the State under Proposition 1A. If that deferral is excluded, then current year receipts were up \$208,000 from last year. Proposition 1A requires that the State repay the taxes to the City by June 30, 2013 with 2% annual interest; accordingly, this loan is carried as a receivable and deferred revenue. Higher tax receipts this year resulted from cost of living and property assessment increases allowed per State statute. Weakness in residential and commercial real estate markets affected these trends, but because of the City's popular local school districts and healthy business occupancy rates, assessed values have been impacted less severely relative to other cities in the County.

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Sales taxes jumped \$4,608,000 or 46% above last year to finish at \$14,539,000. It exceeded the final budget by \$2,421,000 or 20%, with the original budget similar to the final. Quarterly tax collections all exceeded the prior year, with growth in the business-to-business sector, led by Apple, Inc., driving the increase. Business-to-business, historically a volatile sector, comprised 73% of sales taxes, far exceeding San Francisco Bay Area and State averages. The City's sales tax per capita of \$294 tops other County cities. The timing of a sales tax consulting agreement that is payable out of a percentage of revenues also partially effected the variance. Positive revenue growth in the first quarter of this fiscal year was offset by a tax liability increase for the agreement in last quarter of the prior fiscal year. Future revenues will be impacted when Hewlett-Packard, a major sales tax provider, leaves the City in 2012.

The City's four hotels paid \$2,537,000 in transient occupancy taxes this year; \$395,000 or 18% over last year's performance. It was 21% or \$443,000 better than the final and original budget. Average revenue per available room for all four hotels rose from \$85 to \$101 reflecting the pickup in business travel to companies located in the City. The City has placed on the November 2011 election ballot a measure to increase the City's transient occupancy tax rate from 10% to 12% of the room charge.

The City's 2.4% utility user tax on telecommunication, gas, and electric services dropped 1% from last year. This \$3,228,000 in revenues was \$205,000 or 6% under the original and final budget as wireless and energy receipts fell in the second half of the year.

Franchise taxes of \$2,841,000 from electric, gas, water, solid waste, and cable utilities rose 9% from last year and 7% from original and final budget due to new public access cable fees and a new solid waste franchise agreement.

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 sale of the Hewlett-Packard property to Apple, Inc. for the latter's new corporate campus caused other taxes to grow 20% or \$230,000 from 2009-10 figures and 13% or \$157,000 higher than the final and original budget.

Licenses and permits finished at \$2,902,000, rising 12% or \$319,000 from 2009-10. It was 11% or \$292,000 above the final and original budget. Tenant improvement activity picked up in the last quarter of the year for retail projects.

Zoning, planning, and engineering review fees comprise three-quarters of the charges for services category, with non-enterprise recreational programs encompassing the rest. The category improved from \$1,334,000 last year to \$1,945,000 this year, a 46% rise. It finished \$293,000 or 18% over the final and original budget. Initial entitlement fees for Apple's new corporate headquarters were received in June.

Intergovernmental revenues of \$689,000 rose 10% or \$63,000 from last year, exceeding the final budget by 18% or \$107,000. Additional motor vehicle license fees partially offset by lower grant revenues caused the year-to-year fluctuations while higher than expected Association of Bay Area Government grants, State mandated cost reimbursements, and vehicle license fees caused the budget variance. The final budget increased \$29,000 from the original amount because of a new grant to reduce smoking.

General Fund cash is invested as part of the City's pooled investment portfolio. Investment returns of the pool are allocated to the Fund based on the Fund's monthly cash balance. These returns plus the renting of City facilities comprise use of money and property revenues that rose 6% from 2009-10, to finish at \$728,000. However, current results were \$460,000 or 39% under budget expectations. Rent income rose 9% over last year from increased recreational and public facility usage. The continued low interest rate environment and the portfolio's concentration in safe short-term Treasuries because of market turmoil and credit risk, has kept investment returns at a steady, but relatively low amount for the last two years. Since interest rates did not increase as anticipated and purchases of traditional, higher-yielding instruments such

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as Federal agencies and the Local Agency Investment Fund did not occur as proposed, the interest income fell below budget. A further explanation of the investment picture for the year is in Note 2 of the Basic Financial Statements.

Fines and forfeitures fell 5% or \$40,000 off of prior year and \$224,000 or 24% below budget; to complete the year at \$696,000 due to lower fine assessments by courts.

Proceeds from sale of capital assets represents proceeds received from the sale of the City's equity share in the City Manager's residence that is not budgeted for current year.

Transfers into the General Fund dropped 31% from \$487,000 last year to \$337,000 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 was adjusted accordingly depending on project savings realized during the year.

Table 5
Revenue Changes
General Fund, Fiscal 2011 vs. 2010
(in thousands)

Revenue by Source	Fiscal 2011		Increase/(Decrease) From Fiscal 2010	
	Amount	% of Total	Amount	Percent
Taxes:				
Property	\$ 11,650	27%	\$ 1,211	12%
Sales	14,539	34%	4,608	46%
Transient occupancy	2,537	6%	395	18%
Utility user	3,228	7%	(43)	-1%
Franchise	2,841	7%	243	9%
Other	1,381	3%	230	20%
Use of money & property	728	2%	42	6%
Intergovernmental	689	2%	63	10%
Licenses and permits	2,902	7%	319	12%
Charges for services	1,945	5%	611	46%
Fines and forfeitures	696	2%	(40)	-5%
Other	59	0%	(22)	-27%
Total revenues	\$ 43,195	100%	\$ 7,617	21%
Other financing sources:				
Proceeds from sale of capital assets	\$ 1,055	76%	\$ 1,055	100%
Transfers in	337	24%	(150)	-31%
Total other financing sources	\$ 1,392	100%	\$ 905	186%

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Table 6
Revenue Budget and Actual Comparisons
General Fund, 2010-11
(in thousands)

	Budgeted Amounts		Actual	Over/(Under)
	Original	Final		Final
Taxes:				
Property	\$ 12,076	\$ 12,076	\$ 11,650	\$ (426)
Sales	12,036	12,118	14,539	2,421
Transient occupancy	2,094	2,094	2,537	443
Utility user	3,433	3,433	3,228	(205)
Franchise	2,656	2,656	2,841	185
Other	1,224	1,224	1,381	157
Use of money & property	1,188	1,188	728	(460)
Intergovernmental	553	582	689	107
Licenses and permits	2,610	2,610	2,902	292
Charges for services	1,652	1,652	1,945	293
Fines and forfeitures	920	920	696	(224)
Other	100	100	59	(41)
Total revenues	\$ 40,542	\$ 40,653	\$ 43,195	\$ 2,542
Other financing sources				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 1,055	\$ 1,055
Transfers in	265	337	337	-
Total other financing sources	\$ 265	\$ 337	\$ 1,392	\$ 1,055

General Fund Expenditures

Fiscal 2010-11 overall expenditures, at \$33,662,000, were \$706,000 or 2% higher than last year's total of \$32,956,000. However, this result came in 9% or \$3,529,000 under the final budget and \$2,405,000 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 \$1,528,000 rose 4% or \$59,000 over last year while finishing \$83,000 or 5% under final budget. The increase reflected more community grants, support, and outreach over last year.

Law Enforcement sheriff contract costs of \$8,435,000 were under the final budget by \$450,000 or 5%. The budget contains dollars for anticipated service levels and unexpected events or incidences. By the end of the year, the actual rate of general law enforcement, service requests, emergency calls, patrol, and investigations may bring budget savings as it did in 2010-11. Having the Sheriff contract helps the City contain public safety costs as reflected in the steadiness of the expenditures with the previous year. Funds for school traffic safety was carried over from the previous year and added to the original budget.

Public and Environmental Affairs expenditures of \$1,497,000 were flat on a budget and year-to-year basis.

Administrative Services outlays were comparatively unchanged from a year ago and finished 15% or \$640,000 under final budget. Most of the budget savings were realized in finance, city clerk, human resources and insurance. The final budget was \$131,000 higher than the original budget due to the new transient occupancy tax ballot measure, new legislative and grants assistance, and leadership program, litigation, and code enforcement budgets carried over from the prior year.

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Non-enterprise Recreation expenditures ended up \$363,000 or 8% below final budget, but exceeded last year's spending by \$113,000 or 3%. The year-to-year rise was in line with the budgetary increase. Most operational areas realized budget savings but, in particular, the senior travel program and Blackberry Farm comprised 70% of the savings. The travel program's cost of trips sold came in under budget. Blackberry Farm had staff vacancy and contract service cost savings.

Community Development costs of \$3,238,000 were \$612,000 or 16% below the final budget due to personnel savings in current planning and building code enforcement divisions and contract service savings in mid and long-term planning. Costs grew 6% or \$169,000 from last year in order to process more planning and building applications. Increases for municipal code changes, regional housing need studies, and economic development made the final budget 5% higher than the original.

Public Works maintenance, repair, and engineering expenditures of \$11,152,000 rose 3% or \$343,000 over the prior year. It was \$1,381,000 or 11% under final budget due to staff vacancies, lower-than-expected maintenance costs on traffic signals, parks, and City Hall and lower engineering design & traffic study costs. Outstanding purchase and job orders and a school traffic safety budget carried over from last year comprised the \$594,000 increase from original to final budget.

Transfers out of the General Fund dropped from \$9,375,000 in 2009-10 to \$7,049,000 in 2010-11, as finally budgeted, with \$3,533,000 for ongoing debt service, \$1,500,000 for ongoing retiree health obligations, \$750,000 for ongoing road maintenance, \$432,000 for capital project reserves, \$225,000 for ongoing accrued leave payouts, \$474,000 for new information technology and equipment, including a new permitting system, and a \$135,000 subsidy for storm drain improvement. The decrease from 2009-10 resulted primarily from lower capital project and retiree health funding. The transfers budget increased during the fiscal year for the permitting system and capital project reserves.

Table 7
Expenditure Changes from Prior Year
General Fund, Fiscal 2011 vs. 2010
(in thousands)

Service Area	Fiscal 2011		Increase/(Decrease) From Fiscal 2010	
	Amount	% of Total	Amount	Percent
Administration	\$ 1,528	5%	\$ 59	4%
Law enforcement	8,435	25%	51	1%
Public and environmental affairs	1,497	4%	10	1%
Administrative services	3,695	11%	(39)	-1%
Recreation services	4,117	12%	113	3%
Community development	3,238	10%	169	6%
Public works	11,152	33%	343	3%
Total expenditures	<u>\$ 33,662</u>	<u>100%</u>	<u>\$ 706</u>	<u>2%</u>
Transfers out	<u>\$ 7,049</u>	<u>100%</u>	<u>\$ (2,326)</u>	<u>-25%</u>

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Table 8
Expenditure Budget and Actual Comparison
General Fund, 2010-11
 (in thousands)

Service Area	Budgeted Amounts		Actual	Under
	Original	Final		Final
Administration	\$ 1,608	\$ 1,611	\$ 1,528	\$ 83
Law enforcement	8,784	8,885	8,435	450
Public and environmental affairs	1,437	1,497	1,497	-
Administrative services	4,205	4,335	3,695	640
Recreation services	4,427	4,480	4,117	363
Community development	3,667	3,850	3,238	612
Public works	11,939	12,533	11,152	1,381
Total expenditures	<u>\$ 36,067</u>	<u>\$ 37,191</u>	<u>\$ 33,662</u>	<u>\$ 3,529</u>
Transfers out	<u>\$ 6,725</u>	<u>\$ 7,049</u>	<u>\$ 7,049</u>	<u>\$ -</u>

General Fund Balance

At June 30, 2011, the General Fund reported a total ending fund balance of \$19,807,000, up 24% or \$3,876,000 from the prior year. The City assigns \$12,500,000 of this for general economic uncertainty, \$1,400,000 for state budget actions that impact City revenues, \$534,000 for capital projects funded by utility user taxes, and \$306,000 of purchase orders. \$1,024,000 represents non-spendable rehabilitation and employee housing loan receivables and prepaid expenses. \$663,000 is restricted for public access programming. Finally, \$3,380,000 is unassigned as of June 30, 2011, but intended for future budget actions and capital projects.

The fund balance rise resulted from revenues exceeding expenditures by \$9,533,000 and proceeds from sale of capital assets of \$1,055,000 offset by a net transfer out of \$6,712,000. The unassigned fund balance benefitted from most of the increase jumping from \$207,000 a year ago to \$3,380,000 at June 30, 2011. The fund balance growth allowed the City to increase to \$1,400,000 for the amount set-aside for State takeaways of City taxes. The utility user tax balance was drawn down by \$382,000 during the year for capital project use. Loan payoffs reduced loan receivables by \$252,000. Encumbrance decreased by \$130,000 when compared to prior year. Public access programming funds increased \$69,000. Fund balance comparisons reflect the new classifications required by accounting guidance.

Public Facilities Corporation

This fund accounts for the payments of principal and interest on the 2002 certificates of participation, 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 \$3,533,000.

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 Don Burnett Pedestrian-Bicycle Bridge, which is a part of Other Governmental Funds. Outlays for park, facility, traffic, and energy efficiency projects rose from \$1,359,000 in 2009-10 to \$2,609,000 in 2010-11, as streetlight and irrigation energy retrofits, Scenic

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Circle access, Garden Gate Safe Routes to Schools, Community Hall audio visual upgrades, and traffic signal battery backups were new projects worked on this year.

A \$439,000 Federal stimulus grant for the energy retrofits was received this year, more than the \$116,000 in smaller grants earned last year. The General Fund, Stevens Creek Corridor Park, and Recreation Programs provided \$929,000 in funding this year compared to \$2,482,000 the previous year to finance projects that may occur over multiple years. Completed project cost savings of \$537,000 were returned to the General Fund and Recreation Programs compared to \$487,000 last year. As of June 30, 2011, the Capital Improvement Fund has \$3,547,000 assigned to capital projects including \$495,000 in purchase orders, \$1,000,000 for infrastructure reserves, and \$1,354,000 for capital project reserves.

Stevens Creek Corridor Park

This fund contains three capital projects. The \$13,577,000 Stevens Creek Corridor Park 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 \$160,000 during 2010-11 compared to \$923,000 the previous year as this year's work consisted of providing additional improvements to the area facilities. The Corridor Park's Phase Two, with an initial \$200,000 budget for designing a trail extension to Stevens Creek Boulevard, began with \$37,000 in expenditures for 2009-10 and \$88,000 in 2010-11. A third project, the \$685,000 Blackberry Farm infrastructure upgrade, kicked off with \$33,000 spent in 2009-10 and \$78,000 in 2010-11 for design.

The General Fund, the Recreation Programs fund, Park Dedication fund, and State and local grants finance the projects. Reflecting the winding-down of the project, the City recorded fewer Phase One cost-reimbursement grant receipts, with \$349,000 received this year compared to \$2,294,000 the prior year.

To help fund their respective budgets, the infrastructure upgrade project received a \$303,000 transfer from the General Fund and Phase Two received a \$200,000 transfer from the Park Dedication fund last year. With Phase One nearly completed and Blackberry Farm infrastructure design underway, \$172,000 in realized budget savings from both projects were transferred into Capital Improvement Project Fund reserves this year whereupon they will be re-budgeted into 2011-12 Phase Two work. Another \$125,000 from the Blackberry Farm project was temporarily transferred to the Scenic Circle project within the Capital Improvement Project fund, with reserves restoring the money to Blackberry Farm in 2011-12. The transfers out caused much of the 2010-11 assigned project fund balance decrease of \$274,000 and the unrestricted cash decrease of \$312,000.

Other assets and liabilities decreased by \$400,000 from a year ago due to grant revenues recognized from the subsequent receipt of a prior year receivable and due to the release of contract retentions held in escrow.

MAJOR PROPRIETARY FUNDS

Resources Recovery

The City renewed its Recology solid waste franchise agreement for five years commencing in November 2010 with a minor revenue rate increase and a restructuring of how the City and franchisee share revenues and costs. Accordingly, this solid waste enterprise fund experienced a 9% comparative yearly decrease in residential and commercial pickup revenues, offset by 12% lower contract expenses for collection, landfill disposal, and recycling. Operating income improved from \$93,000 last year to \$129,000 this year. With interest earnings, net assets increased by \$172,000, outperforming the \$134,000 growth of last year, to end the year with a \$6,003,000 unrestricted balance.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2011

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 to a higher degree than the previous year, as the older demographics of golf course users continued to negatively impact rounds played and purchases of group packages prior to this year's fee increase impacted early current year sales. Operating revenues of \$448,000 in 2010-11 represented a 21% or \$121,000 fall from the prior year. Expenses were unchanged at \$457,000 this year with minimal staffing levels maintained at the course and water costs kept steady until a capital project can get underway that will look at cost-saving irrigation alternatives. \$400,000 transferred from Recreation Programs during the year will finance the project. With lower revenues, the golf course incurred a \$9,000 operating loss compared to \$112,000 in operating income last year. Offset with the \$406,000 coming from transfers and interest income, net assets increased \$397,000, an improvement over the \$115,000 of last year. At June 30, 2011, unrestricted net assets were \$910,000.

Cupertino Sports Center

Tennis lesson, membership, fitness class and rent revenues of \$1,723,000 rose by \$145,000 or 9% over last year, resulting from more lesson revenues generated by the private tennis program operator. With contract instructor, facility support, and maintenance costs growing by \$239,000 or 16%, operating income fell to \$6,000 in 2010-11, off of the \$100,000 produced in 2009-10. After adding-in interest earnings, the increase in net assets of \$10,000 brought ending unrestricted net assets to \$369,000 by year-end. The Sports Center completed a tennis court resurfacing project during the fiscal year.

Recreation Programs

Cultural events, youth and teen programs, sports, dance and fitness classes generated \$2,260,000 in revenues, which was flat compared to last year, for this enterprise operating out of the Quinlan Community Center, Monta Vista Recreation Center, McClellan Ranch, Creekside Park building, eight school sites, and various parks. Ongoing program expenses, including full-time administrative and programming staff, part-time activity leaders, and class instructors on contract decreased \$102,000 or 5% from 2009-10. The Quinlan Center interior upgrade project began in 2010-11 with \$29,000 in design costs. Operating income improved to \$507,000 compared to \$395,000 a year ago. The fund transferred \$400,000 to the Blackberry Farm fund's golf course irrigation project. A \$200,000 transfer to the Capital Improvement Project fund for an environmental education facility was returned after the project was re-prioritized and wrapped into next year's McClellan Ranch master plan. After adding interest earnings and net transfers out, the fund ended up with an increase in net assets of \$126,000 and an unrestricted net asset balance of \$2,497,000 that is intended for future capital, equipment, insurance, and reserve needs.

CAPITAL ASSETS

At June 30, 2011 the City had \$165,512,000, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in Table 9 and in Note 6 to the Basic Financial Statements. While the City's capital asset total was relatively unchanged, current year major capital additions includes streetlight retrofits, storm water easement, and street and pedestrian projects. The sale of the City's equity share in the City Manager residence and overall depreciation offset the additions.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2011

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

	2011	2010
Governmental Activities:		
Land	\$ 60,471	\$ 60,806
Easements	19,105	17,939
Buildings	23,961	25,589
Improvements other than buildings	17,042	18,173
Machinery and equipment	1,195	1,377
Roads, curbs, gutters, sidewalks, medians and bridges	34,511	34,519
Streetlights	1,777	85
Storm drain structures and mains	5,304	5,981
Traffic signals	1,368	1,446
Total Governmental Activities	164,734	165,915
Business-Type Activities		
Buildings	257	285
Improvements other than buildings	435	387
Machinery and equipment	86	116
Total Business-Type Activities	778	788
Total City	\$ 165,512	\$ 166,703

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 Fremont Older site, 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 \$3,532,000 that are covered by the General Fund. The June 30, 2011 outstanding principal of \$44,010,000 is due to be paid off by 2030. 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.

CITY OF CUPERTINO

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 40,837,507	\$ 10,394,377	\$ 51,231,884
Restricted cash and investments	2,515,072	-	2,515,072
Receivables:			
Accounts	3,195,082	370,865	3,565,947
Interest	68,473	18,074	86,547
Intergovernmental - State Proposition 1A	1,419,497	-	1,419,497
Loans	1,728,904	-	1,728,904
Prepaid items and other assets	92,712	-	92,712
Land held for housing development	615,000	-	615,000
Net OPEB assets	4,565,406	-	4,565,406
Capital assets:			
Nondepreciable	79,576,112	-	79,576,112
Depreciable, net of accumulated depreciation	85,158,093	777,521	85,935,614
Total assets	<u>219,771,858</u>	<u>11,560,837</u>	<u>231,332,695</u>
Liabilities:			
Accounts payable and accruals	6,694,247	315,521	7,009,768
Accrued payroll and benefits	579,244	49,067	628,311
Deposits	1,993,988	-	1,993,988
Unearned revenue	482,571	594,552	1,077,123
Compensated absences:			
Due in one year	34,927	-	34,927
Due in more than one year	2,692,858	45,089	2,737,947
Claims payable:			
Due in one year	388,594	-	388,594
Due in more than one year	1,263,359	-	1,263,359
Long-term debt:			
Due in one year	1,545,000	-	1,545,000
Due in more than one year	42,465,000	-	42,465,000
Total liabilities	<u>58,139,788</u>	<u>1,004,229</u>	<u>59,144,017</u>
Net Assets:			
Invested in capital assets, net of related debt	<u>120,724,205</u>	<u>777,521</u>	<u>121,501,726</u>
Restricted for:			
Special revenue projects	4,046,498	-	4,046,498
Affordable housing	3,010,648	-	3,010,648
Public access television	663,254	-	663,254
Debt service	58,213	-	58,213
Total restricted net assets	<u>7,778,613</u>	<u>-</u>	<u>7,778,613</u>
Unrestricted	<u>33,129,252</u>	<u>9,779,087</u>	<u>42,908,339</u>
Total net assets	<u>\$161,632,070</u>	<u>\$ 10,556,608</u>	<u>\$172,188,678</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Statement of Activities
For the Year Ended June 30, 2011

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	\$ 1,860,451	\$ 15,801	\$ 91,788	\$ -	\$ (1,752,862)	\$ -	\$ (1,752,862)
Law enforcement	8,434,885	797,757	125,090	-	(7,512,038)	-	(7,512,038)
Public and environmental affairs	1,625,876	-	-	-	(1,625,876)	-	(1,625,876)
Administrative services	3,993,654	-	-	-	(3,993,654)	-	(3,993,654)
Recreation services	4,528,968	1,020,159	-	-	(3,508,809)	-	(3,508,809)
Community development	5,961,774	4,149,620	695,929	-	(1,116,225)	-	(1,116,225)
Public works	19,666,598	549,065	1,438,480	1,972,951	(15,706,102)	-	(15,706,102)
Interest on long - term debt	2,032,464	-	-	-	(2,032,464)	-	(2,032,464)
Total governmental activities	<u>48,104,670</u>	<u>6,532,402</u>	<u>2,351,287</u>	<u>1,972,951</u>	<u>(37,248,030)</u>	<u>-</u>	<u>(37,248,030)</u>
Business-type activities:							
Resource recovery	1,801,599	1,931,076	-	-	-	129,477	129,477
Blackberry farm	457,065	447,797	-	-	-	(9,268)	(9,268)
Cupertino sports center	1,716,741	1,722,700	-	-	-	5,959	5,959
Recreation programs	1,753,156	2,260,296	-	-	-	507,140	507,140
Total business-type activities	<u>5,728,561</u>	<u>6,361,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>633,308</u>	<u>633,308</u>
Total	<u>\$ 53,833,231</u>	<u>\$ 12,894,271</u>	<u>\$ 2,351,287</u>	<u>\$ 1,972,951</u>	<u>(37,248,030)</u>	<u>633,308</u>	<u>(36,614,722)</u>
General revenues:							
Taxes:							
Property taxes					7,296,970	-	7,296,970
Property tax in lieu of motor vehicle fee					4,404,795	-	4,404,795
Incremental property tax					1,251,777	-	1,251,777
Sales taxes					14,539,243	-	14,539,243
Transient occupancy tax					2,536,501	-	2,536,501
Utility user tax					3,227,942	-	3,227,942
Franchise tax					2,841,344	-	2,841,344
Other taxes					1,491,316	-	1,491,316
Intergovernmental, unrestricted							
Motor vehicle license fee					259,289	-	259,289
Investment earnings					259,217	71,486	330,703
Gain on sale of capital assets					497,385	-	497,385
Miscellaneous					88,980	-	88,980
Transfers					15	(15)	-
Total general revenues					<u>38,694,774</u>	<u>71,471</u>	<u>38,766,245</u>
Change in net assets					<u>1,446,744</u>	<u>704,779</u>	<u>2,151,523</u>
Net assets, beginning of year					<u>160,185,326</u>	<u>9,851,829</u>	<u>170,037,155</u>
Net assets, end of year					<u>\$ 161,632,070</u>	<u>\$ 10,556,608</u>	<u>\$ 172,188,678</u>

See accompanying notes to basic financial statement:

CITY OF CUPERTINO

Governmental Funds

Balance Sheet

June 30, 2011

	General	Public Facilities Corporation	Capital Improvement Projects	Stevens Creek Corridor Park	Other Governmental Funds	Total
Assets:						
Cash and investments	\$ 23,173,690	\$ 58,213	\$ 3,788,060	\$ 698,010	\$ 5,769,660	\$ 33,487,633
Restricted cash and investments	-	2,515,072	-	-	-	2,515,072
Receivables:						
Accounts	2,604,221	-	233,100	-	348,761	3,186,082
Interest	47,183	-	-	-	8,283	55,466
Intergovernmental - State Proposition 1A	1,419,497	-	-	-	-	1,419,497
Loans	953,070	-	-	-	775,834	1,728,904
Prepaid items	70,880	-	-	-	-	70,880
Land held for housing development	-	-	-	-	615,000	615,000
Other assets	3,884	-	-	-	-	3,884
Total assets	\$ 28,272,425	\$ 2,573,285	\$ 4,021,160	\$ 698,010	\$ 7,517,538	\$ 43,082,418
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accruals	\$ 3,541,911	\$ 2,515,072	\$ 241,374	\$ 7,076	\$ 365,416	\$ 6,670,849
Accrued payroll and benefits	523,084	-	-	-	28,774	551,858
Deposits	1,993,988	-	-	-	-	1,993,988
Advance from other funds	504,497	-	-	-	-	504,497
Unearned revenue	482,571	-	-	-	-	482,571
Deferred revenue	1,419,497	-	233,100	-	186,253	1,838,850
Total liabilities	8,465,548	2,515,072	474,474	7,076	580,443	12,042,613
Fund balances:						
Nonspendable	1,023,950	-	-	-	615,000	1,638,950
Restricted	663,254	58,213	-	-	6,255,893	6,977,360
Assigned	14,739,394	-	3,546,686	690,934	66,202	19,043,216
Unassigned	3,380,279	-	-	-	-	3,380,279
Total fund balances	19,806,877	58,213	3,546,686	690,934	6,937,095	31,039,805
Total liabilities and fund balances	\$ 28,272,425	\$ 2,573,285	\$ 4,021,160	\$ 698,010	\$ 7,517,538	\$ 43,082,418

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, 2011

Total fund balances reported on the governmental funds balance sheet	\$ 31,039,805
<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.	163,801,518
<p>Allocation of internal service funds net assets:</p>	
Internal service funds are used by management to charge the costs of activities such as information technology, insurance, equipment acquisition and maintenance, and certain employees' benefits to governmental funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net assets.	11,604,782
<p>Receivables not available:</p>	
Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	1,838,850
<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	(44,010,000)
Compensated absences	(2,642,885)
	(46,652,885)
Net assets of governmental activities	\$161,632,070

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, 2011

	General	Public Facilities Corporation	Capital Improvement Projects	Stevens Creek Corridor Park	Other Governmental Funds	Total
Revenues:						
Taxes	\$ 36,176,232	\$ -	\$ -	\$ -	\$ 1,406,067	\$ 37,582,299
Use of money and property	727,983	-	-	-	64,052	792,035
Intergovernmental	689,239	-	439,640	349,165	2,065,597	3,543,641
Licenses and permits	2,901,944	-	-	-	-	2,901,944
Charges for services	1,944,609	-	-	-	366,607	2,311,216
Fines and forfeitures	695,666	-	-	-	-	695,666
Other	58,881	-	-	-	15,000	73,881
Total revenues	43,194,554	-	439,640	349,165	3,917,323	47,900,682
Expenditure:						
Current:						
Administration	1,528,070	-	-	-	-	1,528,070
Law enforcement	8,434,885	-	-	-	-	8,434,885
Public and environmental affairs	1,497,263	-	-	-	-	1,497,263
Administrative services	3,695,076	-	-	-	-	3,695,076
Recreation services	4,117,477	-	-	-	-	4,117,477
Community development	3,237,643	-	-	-	2,455,898	5,693,541
Public works	11,152,029	-	-	-	1,082,697	12,234,726
Capital outlay	-	-	2,608,597	326,103	2,347,227	5,281,927
Debt service:						
Principal	-	1,500,000	-	-	-	1,500,000
Interest and fiscal charges	-	2,032,464	-	-	-	2,032,464
Total expenditures	33,662,443	3,532,464	2,608,597	326,103	5,885,822	46,015,429
Excess (deficiency) of revenues over (under) expenditures	9,532,111	(3,532,464)	(2,168,957)	23,062	(1,968,499)	1,885,253
Other financing sources (uses)						
Proceeds from sale of capital assets	1,055,449	-	-	-	-	1,055,449
Transfers in	337,482	3,533,000	929,000	-	885,000	5,684,482
Transfers out	(7,049,283)	-	(537,467)	(297,000)	-	(7,883,750)
Total other financing sources (uses)	(5,656,352)	3,533,000	391,533	(297,000)	885,000	(1,143,819)
Change in fund balances	3,875,759	536	(1,777,424)	(273,938)	(1,083,499)	741,434
Fund balances, beginning of year	15,931,118	57,677	5,324,110	964,872	8,020,594	30,298,371
Fund balances, end of year	\$ 19,806,877	\$ 58,213	\$ 3,546,686	\$ 690,934	\$ 6,937,095	\$ 31,039,805

See accompanying notes to basic financial statements.

CITY OF CUPERTINO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities - Governmental Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ 741,434

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	5,281,927
Public works	326,460
Easement received during the year	1,166,398
Less current year depreciation	(7,325,562)
Net effect of sales/disposal of capital assets	(558,064)

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. 1,500,000

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	(194,746)
Change in deferred revenue	(69,450)

Allocation of internal service funds' activities:

Internal service funds are used by management to charge the costs of activities, such as information technology, 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	578,347
Change in net assets of governmental activities	\$ 1,446,744

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, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
Taxes	\$ 33,519,000	\$ 33,600,875	\$ 36,176,232	\$ 2,575,357
Use of money and property	1,188,000	1,188,000	727,983	(460,017)
Intergovernmental	553,000	582,000	689,239	107,239
Licenses and permits	2,610,000	2,610,000	2,901,944	291,944
Charges for services	1,652,000	1,652,000	1,944,609	292,609
Fines and forfeitures	920,000	920,000	695,666	(224,334)
Other	100,000	100,000	58,881	(41,119)
Amounts available for appropriation	<u>40,542,000</u>	<u>40,652,875</u>	<u>43,194,554</u>	<u>2,541,679</u>
Charges for appropriation (outflows):				
Current:				
Administration	1,608,502	1,611,139	1,528,070	83,069
Law enforcement	8,784,597	8,884,396	8,434,885	449,511
Public and environmental affairs	1,436,734	1,497,263	1,497,263	-
Administrative services	4,204,559	4,335,491	3,695,076	640,415
Recreation services	4,426,903	4,480,147	4,117,477	362,670
Community development	3,666,722	3,850,000	3,237,643	612,357
Public works	11,939,167	12,533,314	11,152,029	1,381,285
Total charges for appropriations	<u>36,067,184</u>	<u>37,191,750</u>	<u>33,662,443</u>	<u>3,529,307</u>
Excess of revenues over expenditures	<u>4,474,816</u>	<u>3,461,125</u>	<u>9,532,111</u>	<u>6,070,986</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	1,055,449	1,055,449
Transfers in	265,000	337,482	337,482	-
Transfers out	<u>(6,725,000)</u>	<u>(7,049,283)</u>	<u>(7,049,283)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6,460,000)</u>	<u>(6,711,801)</u>	<u>(5,656,352)</u>	<u>1,055,449</u>
Change in fund balance	<u>\$ (1,985,184)</u>	<u>\$ (3,250,676)</u>	3,875,759	<u>\$ 7,126,435</u>
Fund balance, beginning of year			<u>15,931,118</u>	
Fund balance, end of year			<u>\$ 19,806,877</u>	

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Proprietary Funds
Statement of Fund Net Assets
June 30, 2011

	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	\$5,861,492	\$ 943,789	\$ 628,819	\$2,960,277	\$10,394,377	\$ 7,349,874
Accounts receivable	257,546	113	67	113,139	370,865	9,000
Interest receivable	10,394	1,672	1,115	4,893	18,074	13,007
Prepaid items	-	-	-	-	-	17,948
Total current assets	6,129,432	945,574	630,001	3,078,309	10,783,316	7,389,829
Noncurrent assets:						
Advances to other funds	-	-	-	-	-	504,497
Net OPEB assets	-	-	-	-	-	4,565,406
Capital assets:						
Depreciable, net of accumulated depreciation	37,186	25,864	113,044	601,427	777,521	932,687
Total noncurrent assets	37,186	25,864	113,044	601,427	777,521	6,002,590
Total assets	6,166,618	971,438	743,045	3,679,736	11,560,837	13,392,419
Liabilities:						
Current liabilities:						
Accounts payable and accruals	117,277	8,470	149,017	40,757	315,521	23,398
Accrued payroll and benefits	6,119	4,282	9,857	28,809	49,067	27,386
Compensated absences	-	-	-	-	-	34,927
Claims payable	-	-	-	-	-	388,594
Unearned revenue	-	-	83,163	511,389	594,552	-
Total current liabilities	123,396	12,752	242,037	580,955	959,140	474,305
Noncurrent liabilities:						
Compensated absences, net of current portion	3,225	23,065	18,799	-	45,089	49,973
Claims payable, net of current portion	-	-	-	-	-	1,263,359
Total liabilities	126,621	35,817	260,836	580,955	1,004,229	1,787,637
Net assets:						
Invested in capital assets	37,186	25,864	113,044	601,427	777,521	932,687
Unrestricted	6,002,811	909,757	369,165	2,497,354	9,779,087	10,672,095
Total net assets	\$6,039,997	\$ 935,621	\$ 482,209	\$3,098,781	\$ 10,556,608	\$ 11,604,782

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, 2011

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Resources Recovery	Blackberry Farm	Cupertino Sports Center	Recreation Programs		
Operating revenues:						
Charges for services	\$ 1,916,054	\$ 432,646	\$ 1,720,521	\$ 2,260,296	\$ 6,329,517	\$ 2,840,201
Other	15,022	15,151	2,179	-	32,352	-
Total operating revenues	<u>1,931,076</u>	<u>447,797</u>	<u>1,722,700</u>	<u>2,260,296</u>	<u>6,361,869</u>	<u>2,840,201</u>
Operating expenses:						
Salaries and benefits	184,756	136,393	314,476	441,414	1,077,039	2,888,894
Materials and supplies	6,547	79,576	208,753	164,957	459,833	387,323
Contractual services	1,606,945	240,158	1,166,505	1,064,539	4,078,147	452,612
Insurance claims and premium	-	-	-	-	-	367,029
Depreciation	3,351	938	27,007	82,246	113,542	421,663
Total operating expenses	<u>1,801,599</u>	<u>457,065</u>	<u>1,716,741</u>	<u>1,753,156</u>	<u>5,728,561</u>	<u>4,517,521</u>
Operating income (loss)	129,477	(9,268)	5,959	507,140	633,308	(1,677,320)
Nonoperating revenues:						
Investment income	42,497	6,164	3,627	19,198	71,486	56,384
Income (loss) before transfers	171,974	(3,104)	9,586	526,338	704,794	(1,620,936)
Transfers in	-	400,000	-	199,985	599,985	2,199,283
Transfers out	-	-	-	(600,000)	(600,000)	-
Change in net assets	171,974	396,896	9,586	126,323	704,779	578,347
Net assets, beginning 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>
Net assets, end of year	<u>\$ 6,039,997</u>	<u>\$ 935,621</u>	<u>\$ 482,209</u>	<u>\$ 3,098,781</u>	<u>\$ 10,556,608</u>	<u>\$ 11,604,782</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Resources Recovery	Blackberry Farm	Cupertino Sports Center	Recreation Programs		
Cash flows from operating activities:						
Cash received from customers	\$ 2,008,231	\$ 447,684	\$ 1,718,854	\$ 2,210,447	\$ 6,385,216	\$ 2,831,201
Cash payments to suppliers for goods and services	(1,654,393)	(327,683)	(1,381,032)	(1,274,833)	(4,637,941)	(869,075)
Cash payments for employees	(184,305)	(132,827)	(309,908)	(438,657)	(1,065,697)	(3,679,046)
Cash payments for judgment and claims	-	-	-	-	-	(351,034)
Net cash provided by (used in) operating activities	<u>169,533</u>	<u>(12,826)</u>	<u>27,914</u>	<u>496,957</u>	<u>681,578</u>	<u>(2,067,954)</u>
Cash flows from noncapital financing activities:						
Transfers in	-	400,000	-	199,985	599,985	2,199,283
Transfers out	-	-	-	(600,000)	(600,000)	-
Cash flows provided by (used in) noncapital financing activities	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>(400,015)</u>	<u>(15)</u>	<u>2,199,283</u>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	-	(22,504)	(13,900)	(66,446)	(102,850)	(349,419)
Cash flows from investing activities:						
Interest received	32,103	4,492	2,512	14,305	53,412	43,377
Net change in cash and cash equivalents	201,636	369,162	16,526	44,801	632,125	(174,713)
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 5,861,492</u>	<u>\$ 943,789</u>	<u>\$ 628,819</u>	<u>\$ 2,960,277</u>	<u>\$ 10,394,377</u>	<u>\$ 7,349,874</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 129,477	\$ (9,268)	\$ 5,959	\$ 507,140	\$ 633,308	\$ (1,677,320)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	3,351	938	27,007	82,246	113,542	421,663
Contributions to an irrevocable trust for current year's annual OPEB cost	-	-	-	-	-	-
Change in assets and liabilities:						
Accounts receivable	77,155	(113)	652	(100,831)	(23,137)	(9,000)
Prepaid items	-	-	-	-	-	1,149
Net OPEB assets	-	-	-	-	-	(818,723)
Accounts payable and accruals	(40,901)	(7,949)	(5,774)	(45,337)	(99,961)	(32,304)
Accrued payroll and benefits	965	624	2,045	2,757	6,391	3,244
Unearned revenue	-	-	(4,498)	50,982	46,484	-
Compensated absences	(514)	2,942	2,523	-	4,951	25,327
Claims payable	-	-	-	-	-	18,010
Net cash provided by (used in) operating activities	<u>\$ 169,533</u>	<u>\$ (12,826)</u>	<u>\$ 27,914</u>	<u>\$ 496,957</u>	<u>\$ 681,578</u>	<u>\$ (2,067,954)</u>

See accompanying notes to basic financial statements.

CITY OF CUPERTINO
Statement of Fiduciary Assets and Liabilities
June 30, 2011

	Agency Fund
Assets:	
Cash and investments	<u>\$ 81,403</u>
Total assets	<u><u>\$ 81,403</u></u>
Liabilities:	
Deposits	<u>\$ 81,403</u>
Total liabilities	<u><u>\$ 81,403</u></u>

See accompanying notes to basic financial statements.

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CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Reporting Entity*

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

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

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

The Cupertino Redevelopment Agency (the Agency) was formed in 2000 under the California Health & Safety Code to assist in the elimination of areas considered to be in a blighted condition. The City Council acts as the Board of Directors of the Corporation and the Agency. The Mayor and Vice Mayor of the City have been elected President and Vice President, respectively, of the Corporation. The City Clerk has been elected Secretary, and the City's Director of Administrative Services has been appointed Treasurer of both entities.

The Corporation does not issue separate financial statements, since it is reported separately in the City's basic financial statements. The 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 Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-wide Statements - The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Expenses include direct and indirect types. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses such as depreciation, information technology, insurance and equipment replacement are included in expenses for individual activities and functions. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital needs of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues. Program revenues and direct expenses related to interfund services are included and indirect expenses funded by interfund transfers are excluded from the Statement of Activities. The Statement of Net Assets eliminates interfund balances between governmental funds and interfund balances between proprietary funds.

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

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

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

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.
- The *Public Facilities Corporation Debt Service Fund* accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of City Hall, Library, Wilson Park, Memorial Park, and other City facilities.
- The *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, disposal, and recycling of solid waste. A private company has been issued an exclusive franchise to perform these services.
- The *Blackberry Farm Fund* accounts for activities related to the municipal golf course.
- The *Cupertino Sports Center Fund* accounts for the operation and maintenance of the Cupertino Sports Center.
- The *Recreation Programs Fund* accounts for activities of the City's community centers and park facilities.

The City also reports the following fund types:

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

Fiduciary Fund. 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.

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fiduciary financial statements 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 consulting payments which are contingent on revenues collected are netted against the related revenues.

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

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

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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.

(e) *Capital Assets*

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Capital Assets (Continued)

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

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

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

(f) Land Held for Redevelopment

Land held for redevelopment of \$615,000 at June 30, 2011 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 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.

(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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *Compensated Absences (Continued)*

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 the Long-Term Disability internal service fund to account for termination payouts.

The changes in compensated absences for the year ended June 30, 2011 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance, beginning of year	\$ 2,507,712	\$ 40,138	\$ 2,547,850
Additions	1,432,761	30,000	1,462,761
Payments	(1,212,688)	(25,049)	(1,237,737)
Balance, end of year	2,727,785	45,089	2,772,874
Less current portion	(34,927)	-	(34,927)
Non-current portion	<u>\$ 2,692,858</u>	<u>\$ 45,089</u>	<u>\$ 2,737,947</u>

(i) *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.

(j) *Interfund Transactions*

Interfund loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, and are subject to elimination upon consolidation of similar fund types, and are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans and unsettled service transactions) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. 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. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *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.

(l) *Effects of New Pronouncements*

During the year ended June 30, 2011, the City implemented the following GASB Statement:

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. The initial distinction in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with prepaid items. This Statement provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The details for the governmental fund balance classifications prescribed under this Statement are separately discussed in Note 8.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 64, *Derivatives Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

(m) *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.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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 financial statements as “cash and investments.”

(a) Policies

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

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. Security instruments owned by the City are held in safekeeping by a third party custodian acting as agent for the City under the terms of a custody agreement.

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

(b) Classification

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

	Primary Government	Agency Funds	Total
Cash and investments	\$ 51,231,884	\$ 81,403	\$ 51,313,287
Restricted cash and investments:			
Held by Fiscal Agent for bond repayments	2,515,072	-	2,515,072
Total cash and investments	\$ 53,746,956	\$ 81,403	\$ 53,828,359

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (Continued)

(c) Authorized Investments by the City

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

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

* Securities issued by agencies of the federal government such as the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (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, 2011

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, 2011

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>	<u>1 to 5 Years</u>	
<i>Pooled investments</i>				
U.S. Treasury Securities	\$ 4,004,680	\$ 19,077,260	\$ 18,080,790	\$ 41,162,730
Local Agency Investment Fund	-	596,237	-	596,237
Money Market Mutual Funds	7,284,339	-	-	7,284,339
Total pooled investments	11,289,019	19,673,497	18,080,790	49,043,306
<i>Investment held by fiscal agent</i>				
Money Market Mutual Funds	2,515,072	-	-	2,515,072
Total investments	<u>\$ 13,804,091</u>	<u>\$ 19,673,497</u>	<u>\$ 18,080,790</u>	51,558,378
Cash in banks and on hand				2,269,981
Total cash and investments				<u>\$ 53,828,359</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, 2011, the total amount recorded by all participating public agencies in LAIF was approximately \$24.0 billion. Of that amount, 94.99% was invested in non-derivative financial products and 5.01% in structured notes and asset backed securities. These investments had weighted average maturity of 237 days.

Money market mutual funds are available for withdrawal on demand. At June 30, 2011, money market mutual funds in the pooled investment and held by fiscal agent had weighted average maturity of approximately 48 days and 19 days, respectively.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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, 2011 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>
Money Market Mutual Funds	Aaam	\$ 9,799,411
Exempt from credit rating disclosure:		
U.S. Treasury Securities	Exempt	41,162,730
Not rated:		
Local Agency Investment Fund	Not rated	<u>596,237</u>
Total investments		<u>\$ 51,558,378</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 at June 30, 2011.

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

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

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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 bi-weekly principal and interest payments. In addition, there is a two percent deferral on the interest rate for the first five years of the loan, at which time the interest rate may be adjusted to the current 11th District Cost of Funds for the remainder of the loan. During the year ended June 30, 2011, one of the loans was repaid and the balance remaining on the outstanding loan was \$464,914 at June 30, 2011.

(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, 2011, 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, 2011, the balance on the loan was \$251,069.

In addition to these loans, the City has \$191,921 in housing and other loans receivable at June 30, 2011. These loans bear interest at 3 to 6 percent and are due by June 30, 2025.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2011 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	\$ 3,533,000 ^(A)
	Capital Improvement Projects Fund	432,000 ^(B)
	Nonmajor governmental funds	885,000 ^(C)
	Internal Service Funds	2,199,283 ^(D)
Capital Improvement Projects Fund	General Fund	337,482 ^(E)
	Recreation Programs Fund	199,985 ^(F)
Stevens Creek Corridor Park Capital Project Fund	Capital Improvement Projects Fund	297,000 ^(B)
Recreation Programs Fund	Capital Improvement Projects Fund	200,000 ^(F)
	Blackberry Farm Fund	400,000 ^(G)
Total interfund transfers		<u>\$ 8,483,750</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.
- (C) To fund operating expenditures of the Environmental Management Special Revenue Fund (\$135,000) and street maintenance expenditures (\$750,000).
- (D) To fund management information systems, equipment, compensated absences, and retiree medical expenses.
- (E) To return capital projects savings back to General Fund.
- (F) To provide and return funds for the environmental education facility project.
- (G) To fund golf course irrigation project.

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

Advance to and advance from other funds

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance, July 1, 2010	Additions	Retirements	Balance, June 30, 2011
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 60,806,081	\$ -	\$ (335,112)	\$ 60,470,969
Easements	17,938,745	1,166,398	-	19,105,143
Total capital assets, not being depreciated	<u>78,744,826</u>	<u>1,166,398</u>	<u>(335,112)</u>	<u>79,576,112</u>
<i>Capital assets, being depreciated:</i>				
Buildings	40,998,928	143,239	(393,870)	40,748,297
Improvements other than buildings	39,684,798	782,866	-	40,467,664
Machinery and equipment	7,576,532	349,419	(57,547)	7,868,404
Roads, curbs, gutters, sidewalks, medians and bridges	121,612,009	2,834,755	-	124,446,764
Streetlights	6,596,456	1,697,633	-	8,294,089
Storm drain structure and mains	31,799,233	117,227	-	31,916,460
Traffic signals	6,034,208	32,667	-	6,066,875
Total capital assets, being depreciated	<u>254,302,164</u>	<u>5,957,806</u>	<u>(451,417)</u>	<u>259,808,553</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(15,410,360)	(1,548,043)	170,918	(16,787,485)
Improvements other than buildings	(21,668,745)	(1,756,695)	-	(23,425,440)
Machinery and equipment	(6,199,057)	(531,448)	57,547	(6,672,958)
Roads, curbs, gutters, sidewalks, medians and bridges	(86,936,007)	(2,999,682)	-	(89,935,689)
Streetlights	(6,511,832)	(4,823)	-	(6,516,655)
Storm drain structure and mains	(25,817,840)	(794,981)	-	(26,612,821)
Traffic signals	(4,587,859)	(111,553)	-	(4,699,412)
Total accumulated depreciation	<u>(167,131,700)</u>	<u>(7,747,225)</u>	<u>228,465</u>	<u>(174,650,460)</u>
Total capital assets, being depreciated, net	<u>87,170,464</u>	<u>(1,789,419)</u>	<u>(222,952)</u>	<u>85,158,093</u>
Governmental activities, capital assets, net	<u>\$ 165,915,290</u>	<u>\$ (623,021)</u>	<u>\$ (558,064)</u>	<u>\$ 164,734,205</u>
Business-type activities				
<i>Capital assets, being depreciated:</i>				
Buildings	\$ 293,372	\$ -	\$ -	\$ 293,372
Improvements other than buildings	389,511	102,850	-	492,361
Machinery and equipment	272,088	-	-	272,088
Total capital assets, being depreciated	<u>954,971</u>	<u>102,850</u>	<u>-</u>	<u>1,057,821</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(8,813)	(27,753)	-	(36,566)
Improvements other than buildings	(2,089)	(55,346)	-	(57,435)
Machinery and equipment	(155,856)	(30,443)	-	(186,299)
Total accumulated depreciation	<u>(166,758)</u>	<u>(113,542)</u>	<u>-</u>	<u>(280,300)</u>
Total capital assets, being depreciated, net	<u>788,213</u>	<u>(10,692)</u>	<u>-</u>	<u>777,521</u>
Business-type activities, capital assets, net	<u>\$ 788,213</u>	<u>\$ (10,692)</u>	<u>\$ -</u>	<u>\$ 777,521</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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	\$ 282,072
Public and environmental affairs	10,829
Administration services	26,551
Recreation service	86,604
Public works	6,919,506
Amount reported in the internal service funds	<u>421,663</u>
Total depreciation expense - governmental activities	<u><u>\$ 7,747,225</u></u>

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

Resources Recovery	\$ 3,351
Blackberry Farm	938
Cupertino Sports Center	27,007
Recreation Programs	<u>82,246</u>
Total depreciation expense - business-type activities	<u><u>\$ 113,542</u></u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 7 - LONG-TERM DEBT

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

	Original Issue Amount	Balance July 1, 2010	Retirements	Balance June 30, 2011	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	\$ 45,510,000	\$ (1,500,000)	\$ 44,010,000	\$ 1,545,000

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. Total debt service payments remaining on the 2002 COPs is \$67,121,456 payable through July 1, 2030. For the year-ended June 30, 2011, principal and interest paid totaled \$1,500,000 and \$2,030,144, respectively, while total Motor Vehicle Licenses Fee revenues received by the City totaled \$4,664,084.

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

For the Year Ending June 30,	Governmental Activities	
	Principal	Interest
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	1,795,000	1,735,331
2017-2021	10,250,000	7,415,456
2022-2026	12,830,000	4,834,444
2027-2030	12,600,000	1,530,688
	<u>\$ 44,010,000</u>	<u>\$ 23,111,456</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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. During the fiscal year ended June 30, 2011, the City paid off the remaining balance of the bonds in the amount of \$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, 2011 was \$798,153.

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, 2011, the government-wide statement of net assets reported restricted assets of \$7,778,613 in governmental activities, of which, \$258,390 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.”

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

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

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: prepaid items, land held for redevelopment and long-term notes receivable.

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

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance). At June 30, 2011, the City did not have fund balance classified as committed.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

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

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

Fund	Amount	Purpose
General Fund:		
Economic Uncertainty I	\$ 12,500,000	For economic downturns and major unforeseen outlays.
Economic Uncertainty II	1,400,000	For state borrowing of local funds under Proposition 1A and other shifts of funds to address state budget deficits.
Utilities Users Tax Revenue	534,000	Contingency for potential revenue lost prior to the 2009 adoption of a modern utility users tax ordinance.
Capital Improvement Projects Fund:		
Capital Improvement	1,354,346	Reserves set aside for future capital projects.
Infrastructure	<u>1,000,000</u>	Funds set aside for citywide infrastructure improvements.
Total Fund Balances Assigned to Reserves	<u><u>\$ 16,788,346</u></u>	

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

Fund balances for all major and nonmajor governmental funds as of June 30, 2011, were classified as follows:

	General	Public Facilities Corporation	Capital Improvement Projects	Stevens Creek Corridor Park	Other Governmental Funds	Total
Nonspendable:						
Loans receivable	\$ 953,070	\$ -	\$ -	\$ -	\$ -	\$ 953,070
Prepaid items	70,880	-	-	-	-	70,880
Land held for development	-	-	-	-	615,000	615,000
Subtotal	<u>1,023,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>615,000</u>	<u>1,638,950</u>
Restricted for:						
Public access television	663,254	-	-	-	-	663,254
Debt service	-	58,213	-	-	-	58,213
Storm drain system	-	-	-	-	869,447	869,447
Parks and open space	-	-	-	-	561,889	561,889
Environmental management	-	-	-	-	258,390	258,390
Streets and road projects	-	-	-	-	1,283,527	1,283,527
Housing programs	-	-	-	-	2,102,131	2,102,131
Redevelopment	-	-	-	-	1,016,594	1,016,594
Low and moderate income housing	-	-	-	-	163,915	163,915
Subtotal	<u>663,254</u>	<u>58,213</u>	<u>-</u>	<u>-</u>	<u>6,255,893</u>	<u>6,977,360</u>
Assigned to:						
General government	14,739,394	-	-	-	-	14,739,394
Capital projects	-	-	3,546,686	690,934	66,202	4,303,822
Subtotal	<u>14,739,394</u>	<u>-</u>	<u>3,546,686</u>	<u>690,934</u>	<u>66,202</u>	<u>19,043,216</u>
Unassigned	<u>3,380,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,380,279</u>
Total	<u>\$19,806,877</u>	<u>\$ 58,213</u>	<u>\$ 3,546,686</u>	<u>\$ 690,934</u>	<u>\$ 6,937,095</u>	<u>\$31,039,805</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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, 2011, have yet to be conducted. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statements.

(b) Encumbrances

The City uses encumbrances to control expenditure commitments for the year. Encumbrances represent commitments related to executed contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to allocate a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities, but as restricted or assigned fund balance. As of June 30, 2011, the City had the following encumbrances outstanding:

Governmental Funds:	
General Fund	\$ 305,394
Capital Improvement Projects Fund	494,816
Stevens Creek Corridor Park Fund	229,514
Other Governmental Funds	<u>1,152,305</u>
Total encumbrances	<u><u>\$ 2,182,029</u></u>

(c) Lease Agreement with County of Santa Clara

The City has an agreement, expiring in 2019, to lease a building to the County of Santa Clara for the purpose of providing library service to the City’s residents. The lease requires a minimum annual payment of \$120,000 adjusted for Cupertino’s portion of book circulation and increase of assessed valuation. This is an operating lease with a renewable option. At June 30, 2011, the cost and carrying value of the building which opened in October 2004, is \$21,935,325 and \$16,668,443 respectively, with \$5,266,882 in accumulated depreciation.

(d) Consulting Agreement for Sales Taxes

The City entered into agreements with two companies to provide services consisting of the assessment and creation of new sales and use tax revenue sources for the City. The City agreed to pay the 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 agreement with one of the companies expired on June 30, 2011 while the agreement with the other company will expire by June 30, 2012.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

(e) *Continuation of the Redevelopment Agency*

In June 2011, the California legislature adopted Assembly Bill 1x 26 (“AB1x 26” or the “Dissolution Bill”) and Assembly Bill 1x 27 (“AB1x 27” or the “Continuation Bill”). The Dissolution Bill immediately suspends all new redevelopment activities and incurrence of indebtedness, and dissolves redevelopment agencies effective October 1, 2011. However, the Continuation Bill allows redevelopment agencies to avoid dissolution by “opting” into an alternative voluntary redevelopment program (“Voluntary Program”), requiring substantial annual contributions to local school and special districts. On September 20, 2011, City Council adopted an ordinance to “opt into the Voluntary Program” and will be required to make a contribution of \$528,802 by January 15, 2012 for fiscal year 2011-12. Ongoing contributions of a lesser magnitude will be required going forward.

On July 18, 2011, the California Redevelopment Association and the League of California Cities, along with certain other petitioners, filed a lawsuit asking the California Supreme Court to overturn AB1x 26 and AB1x 27 as they violate the Constitution of California. The California Supreme Court announced it would hear the lawsuit and issued a partial stay suspending the effectiveness of AB1x 26 and AB1x 27 until it can rule on the constitutionality of these two bills. The Court allowed the Dissolution Bill to remain in effect insofar as it precludes existing redevelopment agencies from incurring new indebtedness, transferring assets, acquiring real property, entering into new contracts or modifying existing contracts, entering into new partnerships, adopting or amending redevelopment plans, etc., but it stayed enforcement of both statutes in all other respects. The Court also states in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012,” which is the date that the Voluntary Program contributions are due. At this time, due to the Court’s involvement, redevelopment operations are effectively placed on hold pending the outcome of the litigation, including whether or not the City will make the contribution required under the Voluntary Program.

(f) *Housing Trust*

Under Health & Safety Code Section 33334.3, the Agency is obligated to expend monies in the Agency’s Low and Moderate Income Housing Fund for the purposes of increasing, improving, and preserving the community supply of housing available at affordable housing cost to low and moderate income households, lower income households, very low income households, and extremely low income household. Under Health & Safety Code Section 33220, The Agency is authorized to enter into agreements to assist the Agency in performing powers and obligations under the California Redevelopment Law.

On February 15, 2011, the City and Agency entered into an Affordable Housing Agreement with the Housing Trust of Santa Clara County, a California nonprofit public benefit corporation (Trust). The City and the Agency agreed to contribute \$1,000,000 to the Trust from the Agency’s Low and Moderate Income Housing Fund for the fiscal year ended June 30, 2011 and an amount not to exceed \$250,000 annually for the next fifteen subsequent years. The Trust shall use the funds received exclusively for eligible costs pursuant to the California Redevelopment Law while the City and the Agency will provide on-going monitoring and complete all required reporting requirements to the State of California. For the fiscal year ended June 30, 2011, the Agency transferred \$1,000,000 into the Trust and the expenditure is recorded as part of community development expenditures in the basic financial statements.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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, 2011, the City paid ABAG PLAN premiums of \$182,583.

(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, 2011, the City paid premiums of \$50,033 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, 2011 and 2010 are as follows:

	2011	2010
Unpaid claims, beginning of year	\$ 1,633,943	\$ 1,568,000
Incurred claims and changes in estimate	244,857	232,696
Claim payments and credits	<u>(226,847)</u>	<u>(166,753)</u>
Unpaid claims, end of year	1,651,953	1,633,943
Less current portion	<u>(388,594)</u>	<u>(376,037)</u>
Non-current portion	<u>\$ 1,263,359</u>	<u>\$ 1,257,906</u>

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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, 2008 actuarial report, the Plan's provisions and benefits in effect at June 30, 2011, are summarized as follows:

Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Eligible retirement age	50 with at least 5 years of credited service
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	16.751%

The City covered 75% of the employees' required payroll contributions for fiscal year 2011. 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.

(c) Annual Pension Cost

The required contribution was determined as part of June 30, 2008 actuarial valuations using the entry age normal method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains or losses each year.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

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
06/30/2009	\$ 1,835,521	100%
06/30/2010	1,841,350	100%
06/30/2011	2,088,898	100%

(d) Funded Status and Funding Progress

The CalPERS' Board of Administration adopted updated actuarial assumptions to be used beginning with the June 30, 2009 valuation. Nearly all of the demographic assumptions have changed, including salary increase assumptions (3.55% to 14.45% depending on Age, Service, and type of employment) and rates for mortality, disability, termination and retirement. As of the June 30, 2009 actuarial valuation, the change in assumptions resulted in a \$3.5 million increase in the unfunded actuarial accrued liability for the City to be amortized over a closed 20-year period.

In June 2009, the CalPERS' Board adopted changes to the asset smoothing method as well as changes to the Board policy on the amortization of gains and losses in order to phase in over a three year period the impact of the 24% investment loss experienced by CalPERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009.
- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market value on June 30, 2010.
- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter.
- Isolate and amortize all gains and losses during fiscal year 2008-2009, 2009-2010, and 2010-2011 over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization).

As of the June 30, 2009 actuarial valuation, the change in "special" investment assumptions resulted in a \$2.7 million increase in the unfunded actuarial accrued liabilities for the City that will be amortized over fixed and declining 30 year periods.

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

(e) Funded Status and Funding Progress (Continued)

The other significant actuarial assumptions used to prepare the City's June 30, 2009 actuarial valuation include the following:

Valuation date:	June 30, 2009
ARC:	Determined for fiscal year 2011/2012
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level percent of payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method:	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.75% (net of administrative expenses)
Projected Salary Increases:	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation:	3.00%
Payroll Growth:	3.25%
Individual Salary Growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

CalPERS' latest available actuarial data and funding progress are set forth below at their actuarial valuation date as of June 30, 2009.

Actuarial accrued liability (AAL)	\$ 74,955,504
Actuarial value of plan assets	<u>57,934,851</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 17,020,653</u>
Funded ratio (actuarial value of plan assets/AAL)	77.3%
Covered payroll (active plan members)	\$ 11,668,964
UAAL as a percentage of covered payroll	145.9%

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, 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, 2011

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

(a) Plan Description

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

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

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

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

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

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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

(b) Funding Policy

The contribution requirements to the OPEB Plan are established through budget adoption and may be amended by the City Council. The cost of the benefits provided by the OPEB Plan is currently being paid by the City on a fully pre-funded basis. The City has expressed intent to fully fund the annual required contribution (ARC) each year. Based on the actuarial valuation date of January 1, 2011, the annual required contribution rate is 14.20% of annual covered payroll. For the year ended June 30, 2011, the City contributed \$2,000,000 to the PARS Trust and paid \$688,723 in healthcare premium payments to fully pre-fund OPEB Plan.

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

Valuation date:	January 1, 2011
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level percent of payroll (assuming 3.25% per year growth in total payroll)
Amortization Period:	Closed initial 20 years period. At January 1, 2011, remaining amortization period is 18 years.
Asset Valuation Method:	Market value
Actuarial Assumptions:	
Investment Rate of Return:	6.00% (net of investment expenses)
Projected Salary Increases:	3.25%
Inflation:	3.00%
Increases in Pay:	Assumed annual rates of future pay increases are based on the current CalPERS age and service based assumptions.

Medical Inflation:	<u>Year</u>	<u>Gross Medical</u>	<u>City Maximum</u>
	2011	10.0%	3.5%
	2012	8.0%	3.5%
	2013	7.0%	3.5%
	2014	6.0%	3.5%
	2015	5.0%	3.5%
	2016+	5.0%	3.5%

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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

(c) Annual OPEB Cost (Continued)

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

The City's annual OPEB cost and actual contributions to the OPEB Plan for the past three years 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)
6/30/2011	1,870,000	2,688,723	144%	(4,565,406)

The City's Net OPEB asset is recorded in the Retiree Medical Internal Service Fund and is calculated as of June 30, 2011 as follows:

Annual required contribution	\$ 1,837,000
Interest on prior year net OPEB asset	(225,000)
Adjustment to annual required contribution	258,000
Annual OPEB Cost	1,870,000
Contribution made	(2,688,723)
Increase in net OPEB asset	(818,723)
Net OPEB obligation (asset) - beginning of year	(3,746,683)
Net OPEB obligation (asset) - end of year	\$ (4,565,406)

(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, 2011.

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

CITY OF CUPERTINO
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

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

(d) *Funded Status and Funding Progress (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 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 – CONCENTRATION RISK

The City has an economic dependency on revenues generated directly or indirectly from one major taxpayer. For the year ended June 30, 2011, more than 10% of the City General Fund's total revenues are derived from one taxpayer. The City's operations would be adversely impacted if there are any significant declines in revenues received from the taxpayer.

NOTE 14 – 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 in the amount of \$615,000 to the developer at no cost for the purpose of developing four single-family detached homes at an affordable price to very low income homebuyers. At September 13, 2011, the City transferred the property to the developer.

(b) *Credit Ratings Downgrade*

On August 5, 2011, Standard & Poor's lowered its long-term credit rating on debt of the United States government from AAA to AA+. That action affected Standard & Poor's view of United States public finance debt instruments that are directly or indirectly backed by the United States government. These credit downgrades impact the credit risk associated with the City's investments in U.S. Treasury securities.

CITY OF CUPERTINO
 Required Supplementary Information (Unaudited)
 Schedules of Funding Progress
 For the Year Ended June 30, 2011

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
6/30/2007	\$ 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%
6/30/2009	57,934,851	74,955,504	17,020,653	77.3%	11,668,964	145.9%

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%
1/1/2011	7,438,341	20,869,058	13,430,717	35.6%	12,724,000	105.6%

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

This section is provided for the presentation of Budget-to-Actual Statements for the Public Facilities Corporation Debt Service Fund. Although the fund is considered to be a major government fund, 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, 2011

	<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	1,500,000	1,500,000	-
Interest and fiscal charges	<u>2,034,964</u>	<u>2,032,464</u>	<u>2,500</u>
Total expenditures	<u>3,534,964</u>	<u>3,532,464</u>	<u>2,500</u>
Excess (deficiency) of revenues over (under) expenditures	(3,532,964)	(3,532,464)	500
Other financing sources:			
Transfers in	<u>3,533,000</u>	<u>3,533,000</u>	-
Change in fund balance	<u>\$ 36</u>	536	<u>\$ 500</u>
Fund balance, beginning of year		<u>57,677</u>	
Fund balance, end of year		<u>\$ 58,213</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 Improvement - Accounts for the construction and maintenance of storm drain facilities including drainage and sanitary sewer facilities. Revenues were collected from developers as a result of connections to the storm drainage sewer system.

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

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

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.

Don Burnett Bicycle-Pedestrian Bridge - Formerly known as the 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, 2011

Special Revenue Funds

	Storm Drain Improvement	Park Dedication	Environment Management/ Clean Creeks	Transportation	Housing Development
Assets:					
Cash and investments	\$ 869,286	\$ 560,894	\$ 265,639	\$ 1,330,713	\$ 1,483,407
Accounts receivable	-	-	-	144,661	204,100
Intergovernmental receivable	1,541	995	472	2,359	2,631
Loans receivable	-	-	-	-	775,834
Land held for housing development	-	-	-	-	615,000
Total assets	\$ 870,827	\$ 561,889	\$ 266,111	\$ 1,477,733	\$ 3,080,972
Liabilities and fund balances:					
Liabilities:					
Accounts payable and accruals	\$ -	\$ -	\$ 2,805	\$ 126,192	\$ 229,120
Accrued payroll and benefits	1,380	-	4,916	11,363	5,119
Deferred revenue	-	-	-	56,651	129,602
Total liabilities	1,380	-	7,721	194,206	363,841
Fund balances:					
Nonspendable	-	-	-	-	615,000
Restricted	869,447	561,889	258,390	1,283,527	2,102,131
Assigned	-	-	-	-	-
Total fund balances	869,447	561,889	258,390	1,283,527	2,717,131
Total liabilities and fund balances	\$ 870,827	\$ 561,889	\$ 266,111	\$ 1,477,733	\$ 3,080,972

<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>	
<u>Redevelopment Agency</u>	<u>Don Burnett Bicycle- Pedestrian Bridge</u>	<u>Total</u>
\$ 1,191,827	\$ 67,894	\$ 5,769,660
-	-	348,761
285	-	8,283
-	-	775,834
-	-	615,000
<u>\$ 1,192,112</u>	<u>\$ 67,894</u>	<u>\$ 7,517,538</u>
\$ 5,607	\$ 1,692	\$ 365,416
5,996	-	28,774
-	-	186,253
<u>11,603</u>	<u>1,692</u>	<u>580,443</u>
-	-	615,000
1,180,509	-	6,255,893
-	66,202	66,202
<u>1,180,509</u>	<u>66,202</u>	<u>6,937,095</u>
<u>\$ 1,192,112</u>	<u>\$ 67,894</u>	<u>\$ 7,517,538</u>

CITY OF CUPERTINO
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011

	Special Revenue Funds				
	Storm Drain Improvement	Park Dedication	Environment Management/ Clean Creeks	Transportation	Housing Development
Revenues:					
Taxes	\$ 20,101	\$ 110,250	\$ -	\$ -	\$ 23,939
Use of money and property	6,350	4,030	738	11,017	28,892
Intergovernmental	-	-	-	1,427,463	638,134
Charges for services	-	2,860	363,747	-	-
Other	-	-	-	-	15,000
Total revenues	<u>26,451</u>	<u>117,140</u>	<u>364,485</u>	<u>1,438,480</u>	<u>705,965</u>
Expenditures:					
Current:					
Community development	-	-	-	-	905,918
Public works	82,142	-	394,680	605,858	-
Capital outlay	35,087	-	-	2,258,515	-
Total expenditures	<u>117,229</u>	<u>-</u>	<u>394,680</u>	<u>2,864,373</u>	<u>905,918</u>
Excess (deficiency) of revenues over (under) expenditures	(90,778)	117,140	(30,195)	(1,425,893)	(199,953)
Other financing sources:					
Transfers in	-	-	135,000	750,000	-
Change in fund balances	(90,778)	117,140	104,805	(675,893)	(199,953)
Fund balances, beginning of year	960,225	444,749	153,585	1,959,420	2,917,084
Fund balances, end of year	<u>\$ 869,447</u>	<u>\$ 561,889</u>	<u>\$ 258,390</u>	<u>\$ 1,283,527</u>	<u>\$ 2,717,131</u>

<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>	
Redevelopment Agency	Don Burnett Bicycle- Pedestrian Bridge	Total
\$ 1,251,777	\$ -	\$ 1,406,067
13,025	-	64,052
-	-	2,065,597
-	-	366,607
-	-	15,000
<u>1,264,802</u>	<u>-</u>	<u>3,917,323</u>
1,549,980	-	2,455,898
-	17	1,082,697
-	53,625	2,347,227
<u>1,549,980</u>	<u>53,642</u>	<u>5,885,822</u>
(285,178)	(53,642)	(1,968,499)
<u>-</u>	<u>-</u>	<u>885,000</u>
(285,178)	(53,642)	(1,083,499)
<u>1,465,687</u>	<u>119,844</u>	<u>8,020,594</u>
<u>\$ 1,180,509</u>	<u>\$ 66,202</u>	<u>\$ 6,937,095</u>

CITY OF CUPERTINO
 Nonmajor Governmental Funds - Special Revenue Funds
 Statements of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended June 30, 2011

	Storm Drain Improvement			Park Dedication		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenues:						
Taxes	\$ 50,000	\$ 20,101	\$ (29,899)	\$ 1,500,000	\$ 110,250	\$ (1,389,750)
Use of money and property	34,000	6,350	(27,650)	20,000	4,030	(15,970)
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	2,860	2,860
Other	-	-	-	-	-	-
Total revenues	84,000	26,451	(57,549)	1,520,000	117,140	(1,402,860)
Expenditures:						
Current:						
Community development	-	-	-	-	-	-
Public works	82,424	82,142	282	-	-	-
Capital outlay	982,701	35,087	947,614	-	-	-
Total expenditures	1,065,125	117,229	947,896	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(981,125)	(90,778)	890,347	1,520,000	117,140	(1,402,860)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Change in fund balances	\$ (981,125)	(90,778)	\$ 890,347	\$ 1,520,000	117,140	\$ (1,402,860)
Fund balances, beginning of year		960,225			444,749	
Fund balances, end of year		\$ 869,447			\$ 561,889	

Environmental Management / Clean Creeks			Transportation			Housing Development		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,000	\$ 23,939	\$ (46,061)
2,000	738	(1,262)	30,000	11,017	(18,983)	120,000	28,892	(91,108)
-	-	-	2,280,000	1,427,463	(852,537)	724,640	638,134	(86,506)
365,000	363,747	(1,253)	-	-	-	-	-	-
-	-	-	-	-	-	-	15,000	15,000
367,000	364,485	(2,515)	2,310,000	1,438,480	(871,520)	914,640	705,965	(208,675)
-	-	-	-	-	-	1,463,281	905,918	557,363
529,115	394,680	134,435	726,808	605,858	120,950	-	-	-
-	-	-	3,696,004	2,258,515	1,437,489	-	-	-
529,115	394,680	134,435	4,422,812	2,864,373	1,558,439	1,463,281	905,918	557,363
(162,115)	(30,195)	131,920	(2,112,812)	(1,425,893)	686,919	(548,641)	(199,953)	348,688
135,000	135,000	-	750,000	750,000	-	-	-	-
-	-	-	-	-	-	-	-	-
135,000	135,000	-	750,000	750,000	-	-	-	-
\$ (27,115)	104,805	\$ 131,920	\$ (1,362,812)	(675,893)	\$ 686,919	\$ (548,641)	(199,953)	\$ 348,688
	153,585			1,959,420			2,917,084	
	\$ 258,390			\$ 1,283,527			\$ 2,717,131	

(Continued)

CITY OF CUPERTINO
 Nonmajor Governmental Funds - Special Revenue Funds
 Statements of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended June 30, 2011

	Redevelopment Agency		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,256,000	\$ 1,251,777	\$ (4,223)
Use of money and property	30,000	13,025	(16,975)
Intergovernmental	-	-	-
Charges for services	-	-	-
Other	-	-	-
Total revenues	<u>1,286,000</u>	<u>1,264,802</u>	<u>(21,198)</u>
Expenditures:			
Current:			
Community development	2,249,849	1,549,980	699,869
Public works	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>2,249,849</u>	<u>1,549,980</u>	<u>699,869</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(963,849)</u>	<u>(285,178)</u>	<u>678,671</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>\$ (963,849)</u>	<u>(285,178)</u>	<u>\$ 678,671</u>
Fund balances, beginning of year		<u>1,465,687</u>	
Fund balances, end of year		<u>\$ 1,180,509</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.

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

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

Equipment - 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, 2011

	Information Technology	Workers' Compensation	Equipment	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Assets:						
Current assets:						
Cash and investments	\$ 2,675,622	\$ 1,941,121	\$ 1,694,075	\$ 198,748	\$ 840,308	\$ 7,349,874
Accounts receivable	-	9,000	-	-	-	9,000
Interest receivable	4,744	3,418	3,004	352	1,489	13,007
Prepaid items	17,948	-	-	-	-	17,948
Total current assets	2,698,314	1,953,539	1,697,079	199,100	841,797	7,389,829
Noncurrent assets:						
Advances to other funds	-	-	504,497	-	-	504,497
Net OPEB assets	-	-	-	-	4,565,406	4,565,406
Capital assets:						
Depreciable, net of accumulated depreciation	297,357	-	635,330	-	-	932,687
Total noncurrent assets	297,357	-	1,139,827	-	4,565,406	6,002,590
Total assets	2,995,671	1,953,539	2,836,906	199,100	5,407,203	13,392,419
Liabilities:						
Current liabilities:						
Accounts payable and accruals	17,893	-	5,505	-	-	23,398
Accrued payroll and benefits	16,888	769	9,729	-	-	27,386
Compensated absences	-	-	-	34,927	-	34,927
Claims payable	-	388,594	-	-	-	388,594
Total current liabilities	34,781	389,363	15,234	34,927	-	474,305
Noncurrent liabilities:						
Compensated absences, net of current portion	37,966	-	12,007	-	-	49,973
Claims payable, net of current portion	-	1,263,359	-	-	-	1,263,359
Total liabilities	72,747	1,652,722	27,241	34,927	-	1,787,637
Net assets:						
Invested in capital assets	297,357	-	635,330	-	-	932,687
Unrestricted	2,625,567	300,817	2,174,335	164,173	5,407,203	10,672,095
Total net assets	\$ 2,922,924	\$ 300,817	\$ 2,809,665	\$ 164,173	\$ 5,407,203	\$ 11,604,782

CITY OF CUPERTINO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2011

	Information Technology	Workers' Compensation	Equipment	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Operating revenues:						
Charges for services	\$ 1,268,800	\$ 412,547	\$ 1,091,000	\$ 67,854	\$ -	\$ 2,840,201
Operating expenses:						
Salaries and related expenses	504,206	23,554	368,328	122,806	1,870,000	2,888,894
Materials and supplies	126,958	-	260,365	-	-	387,323
Contractual services	295,848	2,250	144,514	-	10,000	452,612
Insurance claims and premium	-	294,890	-	72,139	-	367,029
Depreciation	235,267	-	186,396	-	-	421,663
Total operating expenses	1,162,279	320,694	959,603	194,945	1,880,000	4,517,521
Operating income (loss)	106,521	91,853	131,397	(127,091)	(1,880,000)	(1,677,320)
Nonoperating revenues:						
Investment income	17,666	13,444	12,331	1,246	11,697	56,384
Income (loss) before transfers	124,187	105,297	143,728	(125,845)	(1,868,303)	(1,620,936)
Transfers in	474,283	-	-	225,000	1,500,000	2,199,283
Change in net assets	598,470	105,297	143,728	99,155	(368,303)	578,347
Net assets, beginning of year	2,324,454	195,520	2,665,937	65,018	5,775,506	11,026,435
Net assets, end of year	\$ 2,922,924	\$ 300,817	\$ 2,809,665	\$ 164,173	\$ 5,407,203	\$ 11,604,782

CITY OF CUPERTINO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2011

	Information Technology	Workers' Compensation	Equipment	Compensated Absences and Long-Term Disability	Retiree Medical	Total
Cash flows from operating activities:						
Cash received from customers	\$ 1,268,800	\$ 403,547	\$ 1,091,000	\$ 67,854	\$ -	\$ 2,831,201
Cash payments to suppliers for goods and services	(428,778)	(2,250)	(428,047)	-	(10,000)	(869,075)
Cash payments for employees	(495,633)	(23,436)	(366,691)	(104,563)	(2,688,723)	(3,679,046)
Cash payments for judgment and claims	-	(278,895)	-	(72,139)	-	(351,034)
Cash flows provided by (used in) operating activities	<u>344,389</u>	<u>98,966</u>	<u>296,262</u>	<u>(108,848)</u>	<u>(2,698,723)</u>	<u>(2,067,954)</u>
Cash flows from noncapital financing activities:						
Transfers in	474,283	-	-	225,000	1,500,000	2,199,283
Cash flows provided by noncapital financing activities	<u>474,283</u>	<u>-</u>	<u>-</u>	<u>225,000</u>	<u>1,500,000</u>	<u>2,199,283</u>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(161,969)	-	(187,450)	-	-	(349,419)
Cash flows from investing activities:						
Interest received	12,922	10,026	9,327	894	10,208	43,377
Net change in cash and cash equivalents	669,625	108,992	118,139	117,046	(1,188,515)	(174,713)
Cash and cash equivalents, beginning of year	2,005,997	1,832,129	1,575,936	81,702	2,028,823	7,524,587
Cash and cash equivalents, end of year	<u>\$ 2,675,622</u>	<u>\$ 1,941,121</u>	<u>\$ 1,694,075</u>	<u>\$ 198,748</u>	<u>\$ 840,308</u>	<u>\$ 7,349,874</u>
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:						
Operating income (loss)	\$ 106,521	\$ 91,853	\$ 131,397	\$ (127,091)	\$ (1,880,000)	\$ (1,677,320)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	235,267	-	186,396	-	-	421,663
Change in assets and liabilities:						
Accounts receivable	-	(9,000)	-	-	-	(9,000)
Prepaid items	1,149	-	-	-	-	1,149
Net OPEB assets	-	-	-	-	(818,723)	(818,723)
Accounts payable and accruals	(7,121)	(2,015)	(23,168)	-	-	(32,304)
Accrued payroll and benefits	2,644	118	482	-	-	3,244
Compensated absences	5,929	-	1,155	18,243	-	25,327
Claims payable	-	18,010	-	-	-	18,010
Cash flows provided by (used in) operating activities	<u>\$ 344,389</u>	<u>\$ 98,966</u>	<u>\$ 296,262</u>	<u>\$ (108,848)</u>	<u>\$ (2,698,723)</u>	<u>\$ (2,067,954)</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 Proprietary Fund Financial Statements.

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

CITY OF CUPERTINO
Special Assessment District Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Assets:				
Cash and investments	<u>\$ 118,241</u>	<u>\$ -</u>	<u>\$ (36,838)</u>	<u>\$ 81,403</u>
Liabilities:				
Deposits	<u>\$ 118,241</u>	<u>\$ -</u>	<u>\$ (36,838)</u>	<u>\$ 81,403</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 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.

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

Fiscal Year Ended June 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental Activities									
Invested in capital assets, net of related debt	\$ 79,705,041	\$ 85,425,753	\$ 86,530,017	\$ 83,064,879	\$ 80,343,053	\$ 85,173,998	\$ 103,341,905	\$ 120,405,290	\$ 120,724,205
Restricted	9,081,791	7,416,930	7,291,925	8,329,671	9,265,565	9,926,770	6,661,074	8,692,175	7,778,613
Unrestricted	24,472,451	18,541,954	21,202,795	26,916,679	39,243,717	43,242,639	33,290,050	31,087,861	33,129,252
Total governmental activities net assets	<u>113,259,283</u>	<u>111,384,637</u>	<u>115,024,737</u>	<u>118,311,229</u>	<u>128,852,335</u>	<u>138,343,407</u>	<u>143,293,029</u>	<u>160,185,326</u>	<u>161,632,070</u>
Business-Type Activities									
Invested in capital assets, net of related debt	688,331	645,290	578,962	497,681	467,416	84,126	136,127	788,213	777,521
Unrestricted	6,573,514	7,314,068	6,028,989	6,291,439	6,977,436	7,849,147	8,949,142	9,063,616	9,779,087
Total business-type activities net assets	<u>7,261,845</u>	<u>7,959,358</u>	<u>6,607,951</u>	<u>6,789,120</u>	<u>7,444,852</u>	<u>7,933,273</u>	<u>9,085,269</u>	<u>9,851,829</u>	<u>10,556,608</u>
Primary Government									
Invested in capital assets, net of related debt	80,393,372	86,071,043	87,108,979	83,562,560	80,810,469	85,258,124	103,478,032	121,193,503	121,501,726
Restricted	9,081,791	7,416,930	7,291,925	8,329,671	9,265,565	9,926,770	6,661,074	8,692,175	7,778,613
Unrestricted	31,045,965	25,856,022	27,231,784	33,208,118	46,221,153	51,091,786	42,239,192	40,151,477	42,908,339
Total primary government net assets	<u>\$ 120,521,128</u>	<u>\$ 119,343,995</u>	<u>\$ 121,632,688</u>	<u>\$ 125,100,349</u>	<u>\$ 136,297,187</u>	<u>\$ 146,276,680</u>	<u>\$ 152,378,298</u>	<u>\$ 170,037,155</u>	<u>\$ 172,188,678</u>

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

Fiscal Year Ended June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
Administration	\$ 1,635,846	\$ 1,430,523	\$ 1,280,339	\$ 1,354,543	\$ 1,675,443	\$ 1,636,284	\$ 1,769,500	\$ 1,911,665	\$ 1,860,451
Law enforcement	6,041,831	6,090,038	6,179,326	6,577,199	7,148,187	7,679,467	8,804,195	8,385,476	8,434,885
Public and environmental affairs	763,254	710,754	824,317	914,024	1,186,929	1,216,164	1,624,210	1,653,034	1,625,876
Administrative services	3,556,129	3,923,377	3,750,174	4,208,389	3,874,003	3,923,217	4,001,738	4,080,134	3,993,654
Recreation services	2,156,972	2,234,509	2,173,936	2,359,966	2,517,725	3,845,873	4,206,343	4,444,536	4,528,968
Community development	3,234,456	2,678,109	3,269,475	4,541,965	4,090,959	4,059,740	6,177,879	4,351,975	5,961,774
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	19,666,598
Interest on long-term debt	3,796,472	2,317,837	2,289,526	2,262,913	2,239,657	2,183,403	2,118,714	2,076,264	2,032,464
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	48,104,670
Business-type activities:									
Resource recovery	1,897,425	1,793,083	2,927,060	2,101,198	2,122,805	2,056,061	1,998,184	2,018,147	1,801,599
Blackberry farm	1,497,420	1,353,362	1,341,712	1,302,855	975,064	450,206	495,845	457,169	457,065
Cupertino sports center	1,130,077	1,352,509	1,452,957	1,448,048	1,623,839	1,547,402	1,594,325	1,478,143	1,716,741
Recreation programs	1,554,834	1,590,302	1,689,436	1,729,194	1,830,401	1,853,217	1,739,892	1,854,648	1,753,156
Senior center	570,412	493,244	438,440	588,818	771,570	-	-	-	-
Total business-type activities expense	6,650,168	6,582,500	7,849,605	7,170,113	7,323,679	5,906,886	5,828,246	5,808,107	5,728,561
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	53,833,231
Program Revenues									
Governmental activities:									
Charges for services:									
Administration	-	-	-	23,201	3,618	10,711	2,240	21,873	15,801
Law enforcement	468,110	838,457	694,952	722,164	1,031,736	799,350	869,295	811,676	797,757
Administrative services	294,577	16,650	-	-	-	-	-	-	-
Recreation services	161,969	148,337	163,462	240,074	193,752	847,424	801,280	930,773	1,020,159
Community development	1,624,181	1,903,277	4,164,792	5,286,336	4,768,026	3,551,478	3,586,993	3,310,355	4,149,620
Public works	348,905	325,959	286,280	201,250	200,969	135,942	157,311	556,636	549,065
Operating grants and contributions	2,388,199	2,496,689	593,657	3,403,762	3,048,512	2,392,987	4,014,036	2,042,557	2,351,287
Capital grants and contributions	965,211	3,612,102	2,164,907	522,950	3,496,095	5,696,124	4,759,485	5,511,359	1,972,951
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	10,856,640
Business-type activities:									
Charges for services:									
Resource recovery	2,397,439	2,398,819	2,395,282	2,203,127	2,254,416	2,254,790	2,100,704	2,104,299	1,931,076
Blackberry farm	1,479,312	1,301,092	1,218,958	1,155,986	1,101,564	640,771	596,944	568,770	447,797
Cupertino sports center	1,109,799	1,184,860	1,385,837	1,419,672	1,655,169	1,605,545	1,732,282	1,578,330	1,722,700
Recreation programs	1,872,004	1,910,599	2,167,705	2,331,409	2,396,720	2,493,214	2,364,037	2,249,191	2,260,296
Senior center	484,530	456,211	473,787	704,390	690,603	-	-	-	-
Operating grants and contributions	61,441	84,660	28,860	135,539	14,343	14,309	14,471	6,895	-
Total business-type activities program revenue	7,404,525	7,336,241	7,670,429	7,950,123	8,112,815	7,008,629	6,808,438	6,507,485	6,361,869
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	17,218,509

(Continued)

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

	Fiscal Year Ended June 30								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (Expense) Revenue:									
Governmental activities	(32,467,936)	(25,590,137)	(26,284,275)	(28,203,288)	(26,220,469)	(27,679,442)	(32,616,588)	(33,038,006)	(37,248,030)
Business-type activities	754,357	753,741	(179,176)	780,010	789,136	1,101,743	980,192	699,378	633,308
Total primary government net expense	<u>(31,713,579)</u>	<u>(24,836,396)</u>	<u>(26,463,451)</u>	<u>(27,423,278)</u>	<u>(25,431,333)</u>	<u>(26,577,699)</u>	<u>(31,636,396)</u>	<u>(32,338,628)</u>	<u>(36,614,722)</u>
General Revenues and Transfers									
Governmental activities:									
Taxes:									
Property taxes	4,100,856	3,944,459	4,296,940	4,728,811	6,529,772	6,941,910	7,491,965	7,488,701	7,296,970
Property tax in lieu of motor vehicle fee (1)	-	-	2,930,000	3,569,300	3,652,509	3,894,502	4,299,902	4,420,912	4,404,795
Incremental property tax	25,831	76,570	15,974	185,676	187,276	220,267	1,211,128	1,322,925	1,251,777
Sales taxes	8,843,792	8,654,185	9,224,661	10,671,642	11,252,341	13,154,749	14,139,190	9,930,530	14,539,243
Transient occupancy tax	1,679,225	1,632,514	1,790,917	2,054,904	2,511,184	2,711,590	2,140,274	2,142,137	2,536,501
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	3,227,942
Franchise tax	2,175,913	2,194,651	2,217,313	2,353,575	2,537,018	2,547,439	2,618,125	2,597,930	2,841,344
Other taxes	1,110,545	1,248,437	3,146,516	2,534,393	2,661,449	1,709,892	1,317,767	1,211,899	1,491,316
Intergovernmental (2)	3,215,866	2,460,137	978,059	(300,039)	364,261	266,789	171,621	166,440	259,289
Investment earnings	1,207,017	526,560	684,952	669,820	1,752,177	1,451,973	889,823	295,059	259,217
Gain on sale of capital assets	-	-	-	1,222,849	1,510,410	-	-	-	497,385
Miscellaneous	79,280	166,714	545,155	189,262	291,423	103,529	81,342	119,393	88,980
Transfers	225,000	175,000	1,388,000	800,000	500,000	992,150	-	-	15
Total Government Activities	<u>25,229,590</u>	<u>23,715,491</u>	<u>29,924,375</u>	<u>31,489,780</u>	<u>36,761,575</u>	<u>37,170,514</u>	<u>37,566,210</u>	<u>32,967,378</u>	<u>38,694,774</u>
Business-type activities:									
Investment earnings	211,093	95,127	215,769	201,159	366,596	378,828	171,804	67,182	71,486
Transfers	(225,000)	(175,000)	(1,388,000)	(800,000)	(500,000)	(992,150)	-	-	(15)
Total business-type activities	<u>106,496</u>	<u>(56,228)</u>	<u>(1,172,231)</u>	<u>(598,841)</u>	<u>(133,404)</u>	<u>(613,322)</u>	<u>171,804</u>	<u>67,182</u>	<u>71,471</u>
Total primary government	<u>25,336,086</u>	<u>23,659,263</u>	<u>28,752,144</u>	<u>30,890,939</u>	<u>36,628,171</u>	<u>36,557,192</u>	<u>37,738,014</u>	<u>33,034,560</u>	<u>38,766,245</u>
Change in Net Assets									
Government activities	(7,238,346)	(1,874,646)	3,640,100	3,286,492	10,541,106	9,491,072	4,949,622	(70,628)	1,446,744
Business-type activities	860,853	697,513	(1,351,407)	181,169	655,732	488,421	1,151,996	766,560	704,779
Total primary government	<u>\$ (6,377,493)</u>	<u>\$ (1,177,133)</u>	<u>\$ 2,288,693</u>	<u>\$ 3,467,661</u>	<u>\$ 11,196,838</u>	<u>\$ 9,979,493</u>	<u>\$ 6,101,618</u>	<u>\$ 695,932</u>	<u>\$ 2,151,523</u>

(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 Nine Fiscal Years
(Accrual basis of accounting)
(Unaudited)

Fiscal Year Ended June 30

	<u>2003</u> ⁽¹⁾	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
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	<u>13,099,033</u>	<u>12,632,286</u>	<u>18,313,846</u>	<u>23,866,568</u>	<u>23,634,874</u>	<u>16,997,569</u>	<u>19,871,574</u>	<u>13,622,828</u>
Total General Fund	<u>16,881,722</u>	<u>16,529,556</u>	<u>22,178,815</u>	<u>26,797,614</u>	<u>26,346,460</u>	<u>19,666,483</u>	<u>22,196,857</u>	<u>15,931,118</u>
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	<u>6,576,208</u>	<u>2,236,730</u>	<u>1,663,033</u>	<u>(1,208,341)</u>	<u>(472,405)</u>	<u>7,631,866</u>	<u>968,077</u>	<u>3,788,810</u>
Total All Other Governmental Funds	<u>31,444,381</u>	<u>15,757,821</u>	<u>7,982,914</u>	<u>9,966,563</u>	<u>14,927,269</u>	<u>26,143,048</u>	<u>8,840,747</u>	<u>14,367,253</u>
Total Governmental Funds	<u>\$ 48,326,103</u>	<u>\$ 32,287,377</u>	<u>\$ 30,161,729</u>	<u>\$ 36,764,177</u>	<u>\$ 41,273,729</u>	<u>\$ 45,809,531</u>	<u>\$ 31,037,604</u>	<u>\$ 30,298,371</u>
	<u>2011</u> ⁽²⁾							
General Fund								
Nonspendable	\$ 1,023,950							
Restricted	663,254							
Assigned	14,739,394							
Unassigned	<u>3,380,279</u>							
Total General Fund	<u>19,806,877</u>							
All Other Governmental Funds								
Nonspendable	615,000							
Restricted	6,314,106							
Assigned	<u>4,303,822</u>							
Total All Other Governmental Funds	<u>11,232,928</u>							
Total Governmental Funds	<u>\$ 31,039,805</u>							

(1) The City implemented GASB Statement No. 34 in fiscal year 2003 and has elected to show the above information from that date.

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

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

Fiscal Year Ended June 30

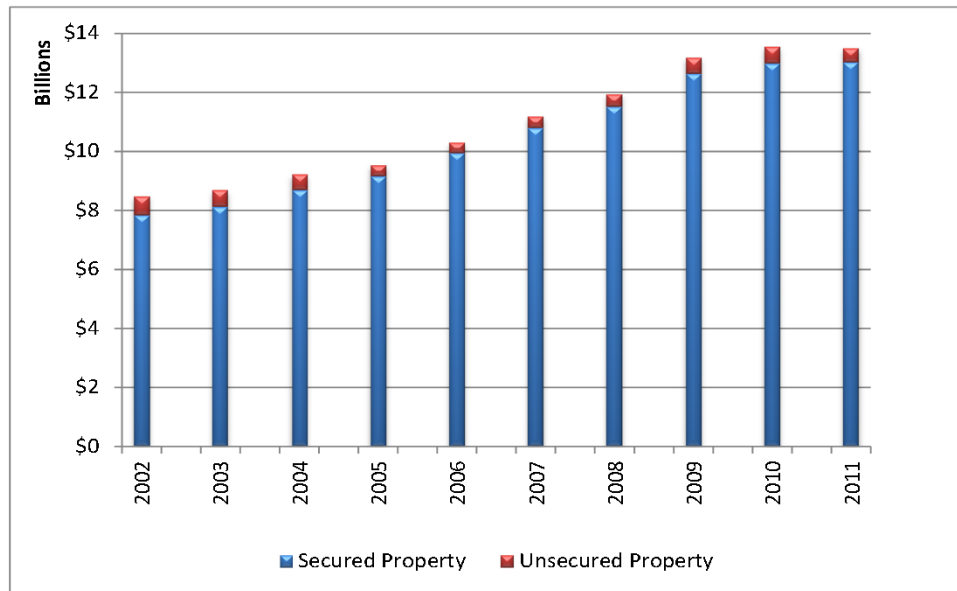
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues									
Taxes	\$ 20,200,250	\$ 21,004,405	\$ 23,614,623	\$ 25,616,553	\$ 28,903,993	\$ 34,589,139	\$ 36,395,950	\$ 30,994,583	\$ 37,582,299
Use of money and property	1,910,503	940,963	1,119,399	1,607,837	2,169,977	2,490,444	1,300,508	774,219	792,035
Intergovernmental	6,318,523	7,236,955	5,567,266	5,896,167	8,200,519	8,285,280	6,896,394	7,539,835	3,543,641
Licenses and permits	1,410,572	1,540,760	2,896,000	3,614,953	3,325,844	2,656,017	2,740,463	2,583,131	2,901,944
Charges for services	855,844	930,050	1,568,935	2,143,729	2,062,067	1,728,099	1,707,533	1,701,157	2,311,216
Fines and forfeitures	550,377	723,748	559,791	629,586	926,310	722,087	761,320	736,239	695,666
Other	59,219	1,009,260	1,792,795	245,176	154,235	95,388	80,835	689,941	73,881
Total revenues	31,305,288	33,386,141	37,118,809	39,754,001	45,742,945	50,566,454	49,883,003	45,019,105	47,900,682
Expenditures									
Current:									
Administration	1,474,924	1,222,581	1,162,096	1,236,390	1,287,101	1,351,273	1,336,921	1,469,004	1,528,070
Law enforcement	6,015,036	5,950,849	6,144,695	6,499,911	6,975,517	7,456,661	8,133,168	8,384,310	8,434,885
Public and environmental affairs	703,431	686,798	758,314	853,484	1,121,437	1,169,247	1,486,443	1,487,265	1,497,263
Administrative services	3,475,991	3,758,806	3,671,303	4,103,497	3,715,994	3,797,156	3,634,043	3,733,414	3,695,076
Recreation services	2,104,167	2,141,431	2,121,366	2,302,995	2,403,296	3,745,244	3,789,260	4,003,764	4,117,477
Community development	3,177,406	2,563,242	3,156,908	4,467,655	3,969,837	3,931,055	5,841,428	4,125,739	5,693,541
Public works	10,440,335	9,322,086	9,637,314	10,386,055	10,477,727	11,137,935	11,914,584	11,961,218	12,234,726
Capital outlay	6,812,856	20,246,237	10,025,935	2,771,502	4,292,169	8,334,093	22,262,369	4,710,360	5,281,927
Debt service:									
Principal repayment	6,925,948	1,220,000	1,245,000	1,270,000	1,295,000	1,355,000	1,415,000	1,460,000	1,500,000
Interest and fiscal charges	2,939,757	2,317,837	2,289,526	2,262,913	2,239,657	2,183,403	2,118,714	2,076,264	2,032,464
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	46,015,429
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	1,885,253
Other Financing Sources (Uses)									
Bond proceeds	57,677,519	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	2,422,849	1,663,842	-	-	-	1,055,449
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	5,684,482
Transfers out	(25,840,538)	(4,760,307)	(6,936,763)	(7,784,084)	(14,777,500)	(20,705,750)	(7,758,925)	(10,135,417)	(7,883,750)
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)	(1,143,819)
Change in fund balances	\$ 5,639,670	\$ (16,038,726)	\$ (2,125,648)	\$ 6,602,448	\$ 4,509,552	\$ 4,535,802	\$ (14,771,927)	\$ (739,233)	\$ 741,434
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%	8.7%

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 assets

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

Fiscal Year	Total Secured (1)	Unsecured (1)	SBE NonUnitary	Secured Exemptions	Total Assessed & Est. Full Market Valuation (1)	Direct Tax Rate
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%
2011	13,017,910,372	476,332,025	1,390,000	96,704,811	13,495,632,397	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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Basic Levy	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
County Bond 2008 Hospital Facility	-	-	-	-	-	-	-	-	0.0122	0.0095
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	0.0364	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388	0.0388
Cupertino Elementary	0.0457	0.0329	0.0357	0.0360	0.0350	0.0289	0.0337	0.0306	0.0312	0.0308
El Camino Hopital 2003	-	-	-	-	-	0.0129	0.0129	0.0129	0.0129	0.0129
Foothill/DeAnza College 1999	0.0115	0.0108	0.0110	0.0129	0.0119	0.0346	0.0113	0.0123	0.0322	0.0326
Fremont High	0.0204	0.0246	0.0249	0.0268	0.0260	0.0243	0.0241	0.0339	0.0306	0.0365
Los Gatos/Saratoga High 1998	0.0224	0.0530	0.0417	0.0409	0.0371	0.0351	0.0345	0.0330	0.0352	0.0377
Santa Clara Unified	0.0366	0.0252	0.0263	0.0344	0.0861	0.0797	0.0271	0.0743	0.0701	0.0519
Santa Clara Valley Water District	0.0062	0.0072	0.0087	0.0092	0.0078	0.0072	0.0071	0.0061	0.0074	0.0072
Saratoga Elementary	0.0285	0.0387	0.0385	0.0361	0.0356	0.0351	0.0363	0.0363	0.0388	0.0437
West Valley College 2004	-	-	-	-	0.0140	0.0126	0.0118	0.0032	0.0140	0.0139
Total Direct & Overlapping Rates	1.2101	1.2336	1.2280	1.2375	1.2947	1.3116	1.2400	1.2838	1.3258	1.3179
City's Share of 1% Levy	0.02236	0.02236	0.02234	0.02234	0.04343	0.05725	0.05706	0.05661	0.05641	0.05644
Redevelopment Rate	1.04500	1.04840	1.04990	1.05040	1.04900	1.04840	1.04830	1.04730	1.04860	1.04840
Total Direct Rate	0.02293	0.01687	0.01726	0.01664	0.04374	0.05742	0.05870	0.06263	0.06510	0.06507

Source: HdL, Coren & Cone

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

Taxpayer	2011 Assessed Valuation	Percentage of Total Assessed Valuation	2002 Assessed Valuation	Percentage of Total Assessed Valuation
Apple Inc.	\$ 807,920,115	5.99%	\$ 82,161,923	0.97%
Campus Holdings Inc.	396,651,458	2.94%	-	-
Hewlett Packard	-	-	386,145,926	4.56%
Tandem Computers Inc.	-	-	285,218,476	3.37%
Cupertino Gateway Partners	-	-	135,359,062	1.60%
Cupertino Property LP	-	-	85,540,000	1.01%
Cupertino City Center Buildings	-	-	73,122,085	0.86%
Teachers Insurance & Annuity	-	-	64,503,727	0.76%
DNS Trust	94,453,581	0.70%	-	-
Vallco Shopping Mall LLC	85,475,396	0.63%	-	-
WW DASC Owner LLC	84,034,907	0.62%	-	-
500 Forbes LLC	72,294,452	0.54%	-	-
Irvine Company LLC	70,715,658	0.52%	61,658,232	0.73%
Seagate Technology LLC	67,238,438	0.50%	-	-
ECI Two Results LLC	64,351,920	0.48%	-	-
RWC LLC	-	-	61,628,310	0.73%
Ridgeview Court Associates	-	-	54,573,444	0.64%
Villa Serra Apartments	62,263,801	0.46%	-	-
Total	\$ 1,805,399,726	13.38%	\$ 1,289,911,185	15.23%

Source: HdL, Coren & Cone

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected (1)	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
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%
2011	8,497,119	8,497,119	100.00%	-	8,497,119	100.00%

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

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
2002	\$ 42,370,000	0.49%	832	1.91%
2003	54,770,000	0.63%	1,055	2.40%
2004	53,550,000	0.58%	1,033	2.26%
2005	52,305,000	0.55%	995	2.01%
2006	51,035,000	0.50%	963	1.82%
2007	49,740,000	0.45%	929	1.60%
2008	48,385,000	0.41%	886	1.44%
2009	46,970,000	0.36%	853	1.36%
2010	45,510,000	0.34%	815	1.36%
2011	44,010,000	0.33%	755	1.70%

CITY OF CUPERTINO
Direct and Overlapping Bonded Debt
June 30, 2011
(Unaudited)

2010-11 Assessed Valuation	\$ 13,495,632,397
Less: Redevelopment Incremental Valuation	(119,068,401)
Adjusted Assessed Valuation	\$ 13,376,563,996

<u>Overlapping Tax and Assessment Debt:</u>	Total Debt 6/30/2011	%	City's Share of Debt 6/30/11
		Applicable (1)	
Santa Clara County	\$ 334,900,000	5.042%	\$ 16,885,658
Santa Clara Valley Water District, Zone W-1	405,000	5.272%	21,352
Foothill-DeAnza Community College District	650,224,288	13.812%	89,808,979
West Valley Community College District	213,049,346	0.644%	1,372,038
Santa Clara Unified School District	252,260,000	2.060%	5,196,556
Fremont Union High School District	265,975,108	29.730%	79,074,400
Cupertino Union School District	122,899,991	48.968%	60,181,668
El Camino Hospital District	143,805,000	1.392%	2,001,766
Santa Clara Valley Water District Benefit Assessment	143,160,000	5.042%	7,218,127
	2,126,678,733		261,760,544

Ratios to 2010-11 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.94%

Direct and Overlapping General Fund Debt

Overlapping Debt:

Santa Clara County General Fund Obligations	786,980,000	5.042%	39,679,532
Santa Clara County Pension Obligations	386,024,822	5.042%	19,463,372
Santa Clara County Board of Education COP	12,580,000	5.042%	634,284
Foothill-De Anza Community College District COP	21,215,000	13.812%	2,930,216
West Valley-Mission Community College District General Fund Obligations	56,120,000	0.644%	361,413
Santa Clara Unified School District COP	12,980,000	2.060%	267,388
Santa Clara County Vector Control District COP	3,800,000	5.042%	191,596
Midpeninsula Regional Open Space Park District COP	131,003,031	7.743%	10,143,565
	1,410,702,853		73,671,366

Direct Debt: City of Cupertino Certificates of Participation

	44,010,000	100.000%	44,010,000
Total Direct and Overlapping General Fund Debt	1,454,712,853		117,681,366
Combined Total Debt	\$ 3,581,391,586		\$ 379,441,910 (2)

Ratios to Adjusted Assessed Valuation:

Total Direct Debt (\$44,010,000) 0.33%
 Combined Total Debt 2.84%

State School Building Aid Repayable as of 6/30/11:

\$ -

- (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 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
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	-
2011	488,171,639	-	488,171,639	-

Debt Limit:	
Secured property assessed value, net of exempt real property	\$ 13,017,910,372
Adjusted valuation - 25% of assessed valuation	<u>3,254,477,593</u>
Debt limit - 15% of adjusted valuation	<u>488,171,639</u>
Amount of Debt Subject to Limit:	
Total bonded debt	44,010,000
Less: Certificates of Participation not subject to debt limit	<u>(44,010,000)</u>
Amount of debt subject to limit	<u>-</u>
Legal Debt Margin	<u><u>\$ 488,171,639</u></u>

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

Source: City of Cupertino

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

Fiscal Year	Population	Assessed Value	General Bonded Debt	Bonded Debt Per Capita	Ratio of General Bonded Debt to Assessed Value
2002	50,913	\$ 8,562,981,335	\$ -	\$ -	\$ -
2003	51,910	8,685,515,766	-	-	-
2004	51,858	9,219,879,996	-	-	-
2005	52,590	9,526,841,379	-	-	-
2006	53,012	10,292,965,413	-	-	-
2007	53,549	11,176,513,115	-	-	-
2008	54,584	11,930,514,178	-	-	-
2009	55,045	13,172,425,287	-	-	-
2010	55,838	13,545,013,769	-	-	-
2011	58,302	13,495,632,397	-	-	-

Sources: HdL, Coren & Cone
City of Cupertino

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

Fiscal Year	City Population	County Population	City Population % of County	City Personal Income	Per Capita Personal Income	School Enrollment Grades 9-12	Unemployment Rate	Median Age (1)	% of Population Over 25 with High School Degree (1)	% of Population Over 25 with Bachelor's Degree (1)
2002	50,913	1,668,309	3.05%	\$ 2,221,262,000	\$ 43,629	9,063	3.2%	-	-	-
2003	51,910	1,675,915	3.10%	2,278,527,000	43,894	9,108	5.4%	-	-	-
2004	51,858	1,656,128	3.13%	2,368,206,000	45,667	9,147	5.4%	-	-	-
2005	52,590	1,759,585	2.99%	2,595,892,000	49,361	9,138	4.1%	-	-	-
2006	53,012	1,773,258	2.99%	2,805,559,000	52,923	9,875	3.4%	-	-	-
2007	53,549	1,794,522	2.98%	3,117,408,000	58,216	9,823	2.8%	-	-	-
2008	54,584	1,748,976	3.12%	3,369,668,000	61,734	10,300	3.0%	-	-	-
2009	55,045	1,857,621	2.96%	3,442,884,000	62,547	10,300	3.8%	-	-	-
2010	55,838	1,800,876	3.10%	3,350,250,000	59,999	10,350	7.2%	40.5	96.5%	69.3%
2011	58,302	1,781,642	3.27%	2,586,120,000	44,357	10,365	7.3%	39.1	96.3%	72.6%

(1) New statistic available starting in fiscal year 2010.

Sources: HdL, Coren & Cone
Fremont Union High School District
U.S. Census Bureau

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

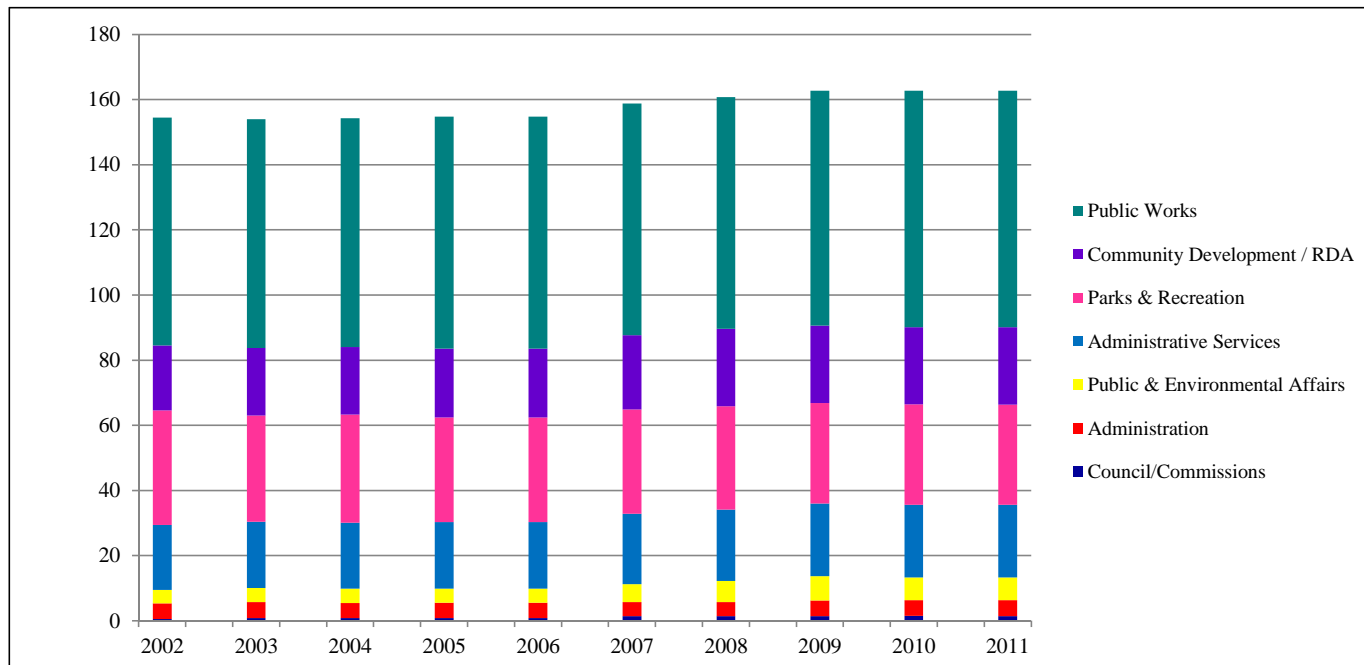
Employer	Fiscal Year 2011		Fiscal Year 2002	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Apple, Inc.	12,000	12.0%	6,000	9.7%
Hewlett-Packard	3,000	3.0%	4,682	7.6%
Compaq	-	-	2,500	4.1%
Cupertino Union School District	1,490	1.5%	1,500	2.4%
Foothill/DeAnza Community College District	1,290	1.3%	1,341	2.2%
Fremont Union High School District	837	0.8%	735	1.2%
Arc Sight Inc.	512	0.5%	-	-
Oracle	500	0.5%	-	-
Chordiant Software	285	0.3%	-	-
Trend Micro Inc.	250	0.3%	-	-
Target Stores	220	0.2%	270	0.4%
Sears	150	0.2%	294	0.5%
Symantec	-	-	400	0.6%
Honeywell-Measurex	-	-	220	0.4%

Sources: InfoUSA.com

- Cupertino Union School District
- Fremont Union High School District
- Foothill/DeAnza Community College District
- CA Employment Development Department Labor Market Information
- US Census Bureau

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

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Council/Commissions	0.50	0.80	0.80	0.80	0.80	1.40	1.40	1.40	1.47	1.46
Administration	4.85	4.90	4.65	4.70	4.70	4.30	4.30	4.85	4.90	4.85
Public & Environmental Affairs	4.15	4.40	4.40	4.40	4.40	5.55	6.50	7.45	6.95	6.95
Administrative Services	19.90	20.30	20.30	20.35	20.35	21.63	21.88	22.33	22.33	22.34
Parks & Recreation	35.15	32.63	33.13	32.13	32.13	31.96	31.76	30.77	30.78	30.78
Community Development / RDA	19.95	20.75	20.75	21.15	21.15	22.78	23.78	23.78	23.73	23.78
Public Works	70.00	70.22	70.22	71.22	71.22	71.13	71.13	72.17	72.59	72.59
Total	154.50	154.00	154.25	154.75	154.75	158.75	160.75	162.75	162.75	162.75



Source: City of Cupertino Budget

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

Function/Program	2005 (a)	2006	2007	2008	2009	2010	2011
Public Information							
Access Cupertino Response	3 Days	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.	4.49 Min.
Priority Two	8.61 Min.	8.09 Min.	7.15 Min.	7.95 Min.	5.94 Min.	5.90 Min.	5.76 Min.
Priority Three	18.92 Min.	16.74 Min.	15.82 Min.	15.73 Min.	9.40 Min.	9.77 Min.	9.79 Min.
Public Works							
Street Sweeping	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles	696 Curb Miles
Street Maintenance	24 Hrs of Call	24 Hrs of Call	24 Hrs of Call	24 Hrs of Call	24 Hrs of Call	24 Hrs of Call	24-48 Hrs of Call
Culture & Recreation (b)							
Senior Center Memberships	2,000	3,100	1,935	2,110	2,243	2,287	2,387
Local Resident Rentals at Blackberry Farm	-	-	-	-	28	91	120
Quinlan Community Center Rental Revenue	-	-	-	-	\$80,000	\$71,000	\$95,090
Community Development							
Approved Building Plan Sets	Within 5 Days	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	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	Within 10 Days
Administrative Services							
Accounts Payable Processing	5 Days	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	3 Days
Duplication Requests	1 Day	1 Day	1 Day	1 Day	1 Day	1 Day	By Request Date

(a) First year of available information
(b) With change of operating indicators.

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

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	16	16
City Park Acreage	150.8	150.8	150.8	150.8	150.8	150.8	150.8	150.8	151.4	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	1	1	1	1	1	1	1
Senior Center	1	1	1	1	1	1	1	1	1	1
Sports Center	1	1	1	1	1	1	1	1	1	1
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Tennis Courts	17	17	17	17	17	17	17	17	17	17
Sports Fields	1	1	1	1	1	1	1	1	1	1
City Library	1	1	1	1	1	1	1	1	1	1

Source: City of Cupertino

COMMUNITY PROFILE

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.

2011 Community Economic Profile

Cupertino, with a population of 58,302 and city limits stretching across 13 square miles, is considered to be one of the San Francisco Bay Area's most prestigious cities in which to live and work.

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

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



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

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

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

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

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

2011 City Profile

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

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

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

Housing

The average sales price of an existing single-family home is \$1,000,324 as of 2011.

Community Health Care Facilities

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

Utilities

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

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

Cable – Comcast, 800- 945-2288.

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

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

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

Tax Rates and Government Services

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

Retail Sales Tax: Santa Clara County: 1.25%; City: 1%; State General Fund: 5%; State Local Public Safety Fund: 0.50%; State Local Revenue Fund: 0.25%; County Transportation Fund: 0.25%. Total: 8.25%.

Assessed Valuation: (Secured and Unsecured)

Cupertino: \$13,747,541,573 (7/1/11)

County: \$299,096,733,565 (7/1/11)

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.

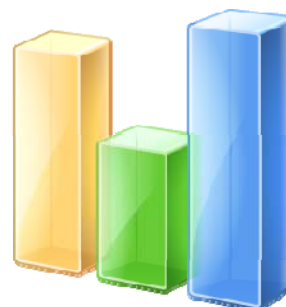
Bus – Santa Clara Valley Transportation Authority.

Highways – Interstate Route 280, State Route 85.

Community Statistics

Facts and Figures

Population in City Limits	58,302
Median Household Income	\$131,517
Median Age	39
Sales Tax Rate	8.25%
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 First Quarter 2011 (In Alphabetical Order)

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



Demographic Information

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

Community and Recreation Services

Blackberry Farm

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

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



The Quinlan Community Center

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

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

Cupertino Sports Center

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

Cupertino Senior Center

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

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

Civic Center and Library

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

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

McClellan Ranch Park

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

Education

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

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



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

The Fremont Union High School District serves 10,000 students in a 42 square mile area covering all of Cupertino, most of Sunnyvale and portions of San Jose, Los Altos, Saratoga, and Santa Clara. The five high schools of the district have garnered many awards and recognition based on both the achievement of students and the programs designed to support student achievement. 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 two local institutions of higher education: DeAnza College and the University of San Francisco. In addition to these schools, Cupertino's location offers easy access to Stanford University, Santa Clara University and San Jose State University.

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

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

assistance, and/or recruitment and retention services.

Things to do and See

Euphrat Museum of Art

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