

BALANCE • CONNECTION • QUALITY OF LIFE



2016-2017

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2017



CUPERTINO

City of Cupertino, California
www.cupertino.org

**CITY OF CUPERTINO, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

Prepared by the City of Cupertino Administrative Services Department
Finance Division

CITY OF CUPERTINO, CALIFORNIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the year ended June 30, 2017

CONTENTS

INTRODUCTORY SECTION

TABLE OF CONTENTS	i
LETTER OF TRANSMITTAL	iii
ORGANIZATION CHART	viii
CITY COUNCIL AND DIRECTORY OF CITY OFFICIALS	ix
COMMISSIONS AND COMMITTEES	x
CERTIFICATE OF AWARD FOR EXCELLENCE IN FINANCIAL REPORTING	xi

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	22
STATEMENT OF ACTIVITIES	23
FUND FINANCIAL STATEMENTS:	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	25
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET POSITION	26
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	27
RECONCILIATION OF THE NET CHANGE IN FUND BALANCES — TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES	28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE — BUDGET TO ACTUAL — GENERAL FUND	29
BUDGET TO ACTUAL — TRANSPORTATION SPECIAL REVENUE FUND	30
BUDGET TO ACTUAL — HOUSING DEVELOPMENT SPECIAL REVENUE FUND	31
PROPRIETARY FUNDS:	
STATEMENT OF NET POSITION	33
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION	34
STATEMENT OF CASH FLOWS	35
FIDUCIARY FUND:	
STATEMENT OF FIDUCIARY NET POSITION	37
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	38
NOTES TO THE BASIC FINANCIAL STATEMENTS	39
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):	
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS	74
SCHEDULE OF CONTRIBUTIONS — MISCELLANEOUS PLAN	75
SCHEDULE OF FUNDING PROGRESS — DEFINED BENEFIT OTHER POST-EMPLOYMENT BENEFITS PLAN	76
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS	77
SCHEDULE OF CONTRIBUTIONS — OPEB	78
SCHEDULE OF INVESTMENT RETURNS — OPEB	79

CITY OF CUPERTINO, CALIFORNIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the year ended June 30, 2017

CONTENTS (Continued)

OTHER SUPPLEMENTARY INFORMATION:

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL - PUBLIC FACILITIES CORPORATION DEBT SERVICE FUND.....	81
NONMAJOR GOVERNMENTAL FUNDS:	
COMBINING BALANCE SHEET	83
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	84
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL	85
NONMAJOR ENTERPRISE FUNDS:	
COMBINING STATEMENT OF NET POSITION	87
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION.....	88
COMBINING STATEMENT OF CASH FLOWS	89
INTERNAL SERVICE FUNDS:	
COMBINING STATEMENT OF NET POSITION	91
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION.....	92
COMBINING STATEMENT OF CASH FLOWS	93

STATISTICAL SECTION

FINANCIAL TRENDS:

NET POSITION/ASSETS BY COMPONENT — LAST TEN FISCAL YEARS.....	95
CHANGES IN NET POSITION/ASSETS — LAST TEN FISCAL YEARS.....	96
FUND BALANCES OF GOVERNMENTAL FUNDS — LAST TEN FISCAL YEARS.....	98
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS — LAST TEN FISCAL YEARS.....	99

REVENUE CAPACITY:

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY — LAST TEN FISCAL YEARS	100
DIRECT AND OVERLAPPING PROPERTY TAX RATES — LAST TEN FISCAL YEARS.....	101
PRINCIPAL PROPERTY TAXPAYERS — CURRENT YEAR AND FIVE YEARS AGO.....	102
PROPERTY TAX LEVIES AND COLLECTIONS — LAST TEN FISCAL YEARS	103

DEBT CAPACITY:

RATIOS OF OUTSTANDING DEBT BY TYPE — LAST TEN FISCAL YEARS	104
DIRECT AND OVERLAPPING BONDED DEBT.....	105
LEGAL DEBT MARGIN INFORMATION — LAST TEN FISCAL YEARS.....	106
RATIO OF GENERAL BONDED DEBT — LAST TEN FISCAL YEARS	107

DEMOGRAPHIC AND ECONOMIC INFORMATION:

DEMOGRAPHIC AND ECONOMIC STATISTICS — LAST TEN FISCAL YEARS	108
2017 EMPLOYER RANKING	109

OPERATING INFORMATION:

FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION/PROGRAM — LAST TEN FISCAL YEARS.....	110
OPERATING INDICATORS BY FUNCTION/PROGRAM — LAST TEN FISCAL YEARS	111
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM — LAST TEN FISCAL YEARS.....	112

COMMUNITY PROFILE



CITY OF CUPERTINO

CITY HALL

10300 TORRE AVENUE • CUPERTINO, CA 95014-3202

(408) 777-CITY • WWW.CUPERTINO.ORG

March 1, 2018

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, 2017. 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. Enterprise funds account for recreation and solid waste operations supported by user fees. This financial report incorporates data for the City of Cupertino and its component unit, the Cupertino Public Facilities Corporation.

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 64,698 (based on 2017 Claritas estimated data).

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, as well as best cities in which to live.

Cupertino is the corporate headquarters of several notable companies including Apple Inc., CRC Health, DURECT, Mirapath, Seagate Technology, Bromium, and SugarCRM Inc., and home to many other well-known firms, such as Altia Systems, Cinarra, Pepperdata, Panasonic Ventures, and Ducati North America. 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.

Based on CoStar data as of the second quarter 2017, almost 7.7 million square feet of office, research, and development space existed in the City with one of the lowest vacancy rates in Silicon Valley at 1.6% for office and 0.2% for industrial. Leasing activity of office space has increased steadily from 2016-2017. As of July 2017, the City's unemployment rate was 3.1%, having slightly increased from the previous year and below the statewide rate of 5.4%.

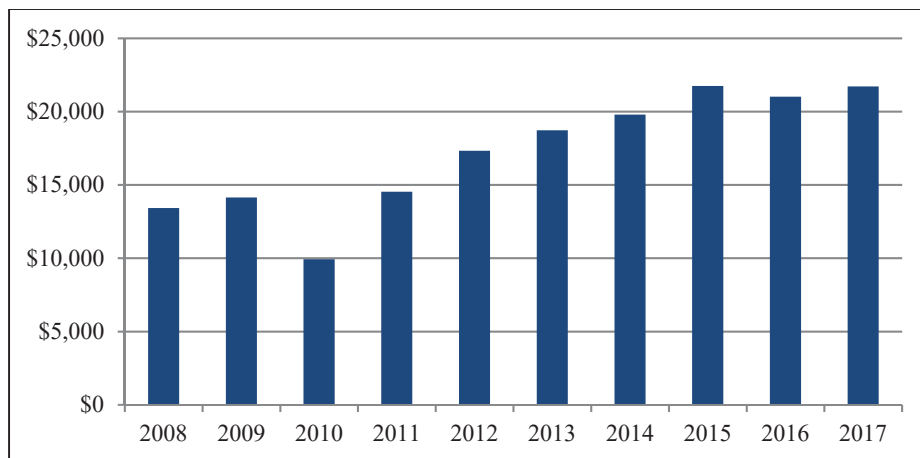
The City features thirteen retail centers and over one hundred eighty eating establishments. The city's newest mixed-use projects, include Nineteen800 (formerly known as the Rosebowl), Main Street, and The Biltmore Adjacent Project, all have retail/restaurant tenants including Steins Beer Garden, Doppio Zero, The Kebab Shop, Kula Sushi, Icool In2 ice cream, Vitality Bowls, Alexander's Patisserie, Lazy Dog, Philz Coffee, Pressed Juicery, Eureka!, Oren's Hummus, Chef Hung, 85 Degrees Bakery, Meet Fresh, Target Express, Pieology, Capezio, Howards Shoes, The Counter, and Round Table Pizza. The Saich Way Project, located on Stevens Creek Boulevard next to Panera Bread and Peet's Coffee, is fully leased and includes The Vitamin Shoppe, The Melt, Coder School, H&R Block, T-Mobile, Site for Sore Eyes, Ubreakifix, and Blast & Brew. The successful redevelopment of Homestead Square features a 24-hour Safeway as its anchor and other tenants including Ulta, SteinMart, Ross, a variety of quick-casual dining options, and Pet Club opening soon in a 10,000SF space. The Cupertino Village Shopping Center, located on N. Wolfe Road near Pruneridge Avenue, has completed its two-level parking structure and construction of additional retail buildings (Phases I and II) as part of its overall redevelopment of the center. Phase III is currently underway to renovate the existing four-building shopping center with a contemporary architectural design, as well as the reconfiguration of the pedestrian courtyard landscape and hardscape. On August 1, 2017 City Council authorized the Cupertino Village Boutique Hotel to submit formal applications for project and environmental review as part of the City's General Plan Amendment Authorization Process.

In the 2017-2018 Assessor's Annual Report for Santa Clara County, Cupertino's net assessment roll growth increased from \$21.35 to \$23.14 billion from the previous year. That equated to an increase of 8.39%, which exceeds the county-wide average of 7.37% growth. A large portion of the increase resulted from partial value from the new Apple campus of \$822 million in new construction. The value of Apple's business personal property also contributed to the increase which includes investments in computers,

machinery, equipment, fixtures and furniture. The total construction value of the campus so far, totaling \$5.2 billion, represents only a portion of the anticipated full market value when the campus is completed.

Based on second quarter 2017 data, Cupertino experienced an 8.9% increase in business activity, quarter over quarter. The increase reflects continued growth in the local and regional economy and is also a product of continuing to experience the third longest growth economic expansion in US history. The City is not as diversified into retail, food products, and transportation compared to the state. It continues to receive over 80% of sales tax revenues from the business-to-business sector. The following chart shows City sales tax variations over the past ten years, reflecting moderate impact from the recession and trending growth from business-to-business activity despite high single-company concentration.

Sales Tax Trend



With the economic recovery and easing of credit, commercial development activity picked up considerably in 2012-13 and 2013-14 led by plan reviews of the new Apple Campus 2. Plans for the redevelopment of the Marina shopping center into a mixed-use project, Marina Plaza, was approved in 2016. This project will include 23,000 SF of retail and restaurant use, a 122-room boutique hotel, and 188 residential units including 16 below market rate units. Construction of a five story, 148-room Hyatt House hotel is underway and will include a full-service restaurant and meeting rooms. Construction of a Residence Inn by Marriott is nearly complete at the Main Street Cupertino mixed-use project. This hotel will offer 180 rooms.

Through the City's new General Plan Amendment (GPA) Authorization Process applications for two development projects were authorized by City Council in August 2017: Cupertino Hotel and Cupertino Village Boutique Hotel. Proposed room counts are 156 and 185 respectively.

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 its long-term liability for pensions. Cupertino's pension actuarial valuation report of June 30, 2016 reported a pension unfunded liability of \$40.6 million with annual payments to CalPERS of 29.4% and 26.9% of payroll for 2019-20 and 2018-19, respectively, with ongoing increases after that because of actuarial assumption changes. To address long-term rising costs, Cupertino and state law has reduced pension benefits for new hires and increased employee contributions. As of the January 1, 2017 health cost actuarial valuation report, the City has a retiree medical unfunded liability of \$2.5 million with annual payments to a retiree health plan trust at 7.11% of payroll.

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 that benefit both the City and employees. A build-up of operating reserves from strong revenue years, such as 2013-14, along with a traditional under-spending of budgets, enables the City to withstand weak revenue years that occur periodically, such as in 2009-10.

ECONOMIC INITIATIVES

Apple continues to grow and construction is nearing completion on its new ApplePark campus, bounded by Interstate 280, Homestead Road, Wolfe Road and Tantau Avenue. The new campus will include a flagship Apple store, café, and Visitors Center. With the expanded Apple presence, the City's revenue base will remain concentrated among its top companies and top economic sector, the volatile business-to-business area. Past recessions and the historic departure of a major tax provider, Hewlett-Packard, demonstrates the need for diversification of the City's revenue base and a long-term balance of revenues and expenditures. The City desires 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.

Legislation raising the City's property tax share, the update of the utility user tax, the increase in the transient occupancy tax, and refinancing of the City's debt are past successes to help diversify and balance revenues and expenditures. The City Council work program underway in 2016-2017 describes economic development and administrative initiatives to further increase the City's property tax share; streamline City web content and permitting for new businesses; continue sponsoring seminars and workshops for new small businesses; increase coordination with the Chamber of Commerce and other regional business organizations; strengthen shop local habits of residents and daytime visitors; and enhance business access to City services.

The City's Economic Development Division has begun work on implementing strategies included in the Economic Development Strategic Plan (EDSP) approved by City Council in October 2016. The EDSP is a three to five year plan with strategies and goals in which to strengthen Cupertino's business vitality and diversity. Key strategies include growing the incubator/accelerator and co-working entrepreneurial sectors by identifying suitable commercial space and the possible creation of an innovation district.

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 and fund balance 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. Crowe Horwath 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, 2016. 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.

Respectfully submitted,



Zach Korach
Finance Manager

ACKNOWLEDGMENTS

I would like to express my appreciation to City employees, department heads, the City Manager, and members of City Council for their interest in conducting the financial operations of the City in a responsible manner. Special thanks go to Yulia Rumalean, Giang Dinh, Tina Mao, Amber Chang, and Zeng Wang of the Finance staff for their continued support and dedication. Special recognition goes to Beth Viajar, Richard Wong, Thomas Leung, and Mary Redwine for their efforts in the preparation and production of this report.

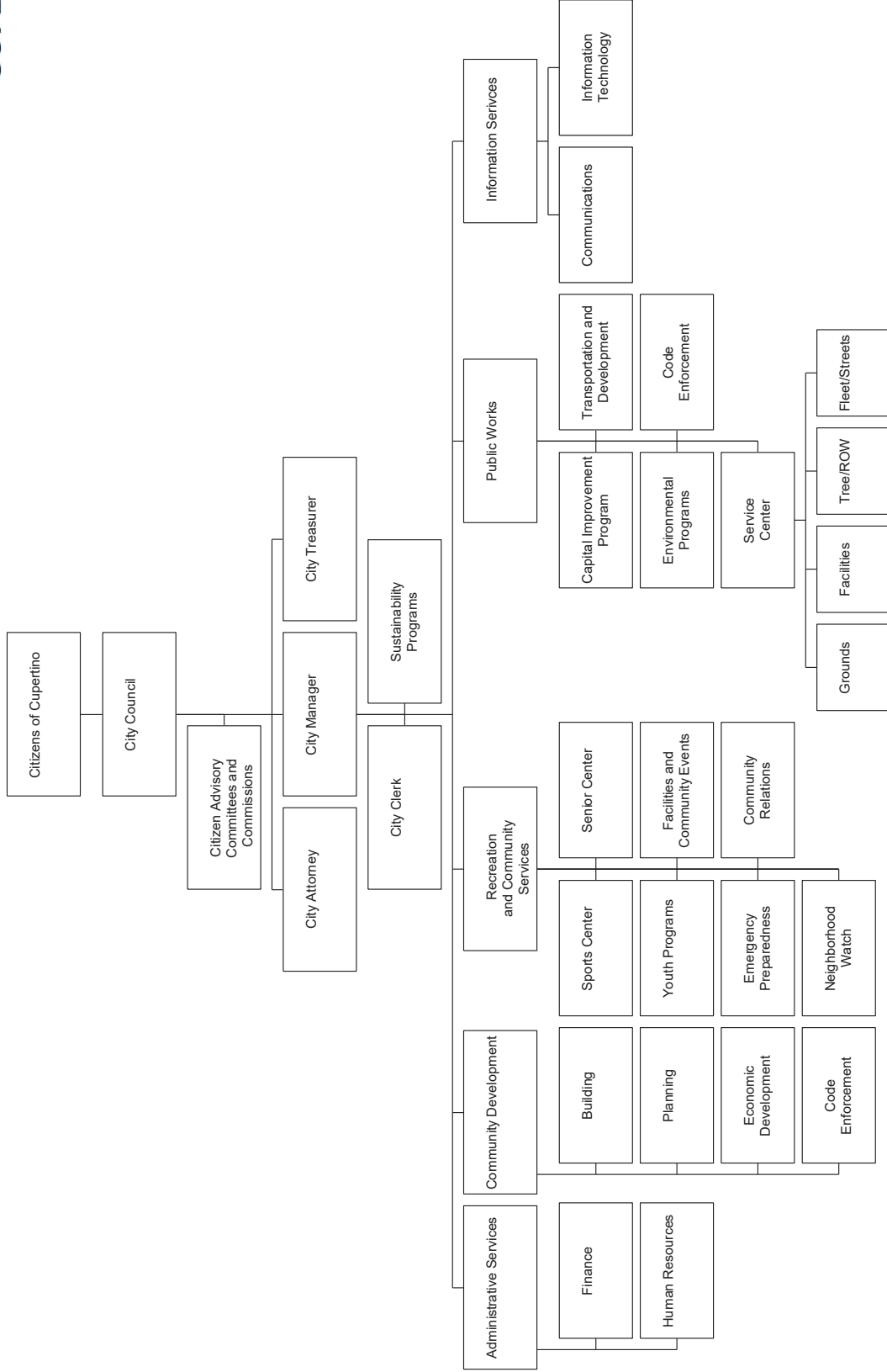
Reviewed by,



Kristina Alfaro
Director of Administrative Services



CUPERTINO



CITY OF CUPERTINO, CALIFORNIA

Fiscal Year 2016-17

CITY COUNCIL



Savita Vaidhyanathan
Mayor



Darcy Paul
Vice Mayor



Rod Sinks
Councilmember



Barry Chang
Councilmember



Steven Scharf
Councilmember

DIRECTORY OF CITY OFFICIALS

David Brandt – City Manager

Randolf Stevenson Hom – City Attorney

Timm Borden – Director of Public Works

Kristina Alfaro – Director of Administrative Services

Jeff Milkes – Director of Recreation and Community Services

Aarti Shrivastava – Assistant City Manager/Director of Community Development

CITY OF CUPERTINO, CALIFORNIA
Fiscal Year 2016-17
COMMISSIONS AND COMMITTEES

AUDIT COMMITTEE

Peter Shin
Eno Schmidt
Darcy Paul
Rod Sinks
Mark Zavislak

HOUSING COMMISSION

Harvey Barnett
Shirley Chu
Nina Daruwalla
Rajeev Raman
Krista Wilson

FINE ARTS COMMISSION

Janki Chokshi
Russell Leong
Rajeswari Mahaliagan
Diana Matley
Michael Sanchez

PUBLIC SAFETY COMMISSION

Neha Sahai
Bob Cascone
Robert McCoy
Gerald Tallinger
Andy Huang

SUSTAINABILITY COMMISSION

Angela Chen Meera Ramanathan
Gary Latshaw Anna Weber
Vignesh Swminathan

FISCAL STRATEGIC COMMITTEE

Kristina Alfaro Aarti Shrivastava
Rod Sinks Darcy Paul
Timm Borden Lisa Taitano

RECREATION AND COMMUNITY SERVICES COMMISSION

David Fung Helene Davis
Carol Stanek Neesha Tambe
Judy Wilson

LIBRARY COMMISSION

Rose Grymes
Annie Ho
Gopal Kumarappan
Jerry Liu
Ann Stevenson

PLANNING COMMISSION

Geoffrey Paulsen
Margaret Gong
Winnie Lee
Don Sun
Alan Takahashi

BICYCLE PEDESTRIAN COMMISSION

Vidula Aiyer
Gary Jones
Peter Heller
Sean Lyn
Erik Lindskog

TEEN COMMISSION

Andrew Fung Varsha Swamy
Harshitha Sriraman Annabelle Chan
Meesha Reisisieh Steve Yang
Anooj Vadodkar
Rishit Gundu

ECONOMIC DEVELOPMENT

Geoffrey Paulsen Angela Tsui
Timm Borden Rich Abdalah
Savita Vaidhyanathan David Brandt
Aarti Shrivastava Anjali Kausar
Kevin McClelland
Jason Lundegaard
Barry Chang
Mike Rohde

TECHNOLOGY, INFORMATION & COMMUNICATIONS COMMISSION

Shishir Chavan Rod Livingood
Keita Broadwater Arnold de Leon
Vaishali Deshpande



Government Finance Officers Association

**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, 2016

Christopher P. Morill

Executive Director/CEO

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cupertino, California (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Transportation Special Revenue Fund, and the Housing Development Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 15 to the basic financial statements, the July 1, 2016 net position of the City has been restated to correct misstatements. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the basic financial statements, the City is presenting the City's Other-Post Employment Benefits (OPEB) Trust fund in the basic financial statements of the City due to a change in the reporting entity considerations. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required supplementary information section on pages 4-20 and 67-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information section, statistical section and community profile are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, statistical section and community profile has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, professional style.

Crowe Horwath LLP

Costa Mesa, California
March 1, 2018

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

This section describes the City of Cupertino's financial performance for the year. Readers are encouraged to consider the following information in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

2016-17 FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2017 by \$258.7 million (net position). Of this amount, \$68 million represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- City revenues have increased in 2016-17 with base governmental revenues showing a \$18.1 million increase, or 23.2%, over 2015-16. The primary contributing factors include the recognition of revenue related to payments made by Apple Inc. to satisfy outstanding amounts due from 2015-16 related to the development agreement between Apple Inc. and the City of Cupertino. In addition, the City experienced a net taxable value increase of 8.4% for the 2017/2018 tax roll, which resulted in an increase of \$2.0 million in property taxes received. Furthermore, the City experienced a continued upward trend in local business growth as well as a close-out payment for the triple flip resulting in an increase of \$5.6 million in sales taxes received. In March 2004, California voters approved Proposition 57, the California Economic Recovery Bond Act, which authorized the issuance of up to \$15 billion in bonds to close the State's budget deficit. To guarantee bond repayment, the state promulgated Revenue and Taxation Code Section 6201.5 which established an excise tax equal to one-quarter percent of the sales price of property. The quarter-percent reduction in local sales tax was recovered through a series of revenue swapping procedures commonly referred to as the "triple flip."
- The City continued to make substantial investment into capital projects dedicated to street and transportation improvements, storm drain improvements, and maintenance of and improvements to City facilities, resulting in an increase in net capital assets of \$2.7 million, after depreciation.
- The City's change in net position was \$13.4 million for governmental activities and \$15.4 million in total, reflecting the stabilization of revenues and continued large investment in capital projects.
- The City's net pension liability for June 30, 2017, was \$36.7 million, up \$6.2 million from June 30, 2016, or 20.4%. The funding ratio for the City's pension plan with CalPERS went from 70.1% to 65.8%. Additionally, the City identified and corrected an error pertaining to an incorrect allocation of pension-related liabilities, deferred outflows of resources and deferred inflows of resources between the opinion units. As a result, net position was restated in the Information Technology Internal Service Fund in the amount of \$1,184,643.
- Business-type activities contributed \$8.2 million to citywide revenues totaling \$104.4 million, while, the same activities contributed over \$8.1 million to citywide expenses of \$89 million.
- A fund closing transfer was recorded in 2016-2017 for the consolidation of the City Channel/Web Internal Service Fund to the General Fund in the amount of \$532,385.
- The City implemented the provisions of GASB Statement No. 74, Financing Reporting for Postemployment Benefit Plans Other Than Pension Plans, during the current year. The impact of this pronouncement on the City's financial statements can be found in Note 11 to the Financing Statements and Required Supplementary Information (RSI).

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The Basic Financial Statements are comprised of the City-wide Financial Statements, the Fund Financial Statements, and the notes to the Basic Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and positions.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

The City-Wide Financial Statements provide a long-term view of the City's activities as a whole, and comprise the Statement of Net Position 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 Position 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 expenses, with the emphasis on measuring net revenues and expenses for each of the City's programs. The Statement of Activities explains in detail the change in net position for the year. Over time, increases or decreases in net position 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 Position 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 Public Facilities Corporation (the "Corporation"), because the City is considered to be financially accountable for the Corporation. The City leases its major facilities from the Corporation, which then uses the lease payments to pay principal and interest on the Corporation's long-term debt.

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

The Fund Financial Statements report the City's operations in more detail than the City-wide Financial 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, liabilities, and deferred inflows and outflows of resources; they exclude long-term assets and liabilities. Because these statements focus on the near-term inflows and outflows of spendable resources, such information may be useful in evaluating near-term financing requirements.

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

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. They present essentially the same functions reported as governmental activities in the city-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

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

governmental activity statements to allow a better understanding of the long-term impact of the government's near-term financial decisions.

Comparisons of budget and actual financial information are included in the Basic Financial Statements for the General Fund and other major Special Revenue Funds. For other nonmajor funds, budgetary comparison schedules for these funds are included in this document as supplemental information only. **Enterprise and Internal Service Fund** financial statements are prepared on the full accrual basis and include current and long-term assets and liabilities and deferred outflows and inflows of resources. Enterprise funds are used to report the same functions presented as business-type activities in the City-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 position 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 City-wide Financial Statements.

Fiduciary Fund financial statements are prepared on the full accrual basis and include current and long-term assets and liabilities and deferred outflows and inflows of resources. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its own operations.

The City maintains an OPEB Pension Trust Fund that is used to account for the assets and liabilities held in trust for the retirees' post-employment health benefits.

The Notes to Basic Financial Statements provide important additional detail that is essential to a full understanding of the data reported in the City-wide and Fund Financial Statements.

CITY-WIDE FINANCIAL ACTIVITIES

This analysis focuses on the net position and changes in net position of the City's Governmental Activities (Tables 1 and 2) and Business-Type Activities (Tables 3 and 4) as presented in the City-wide Statement of Net Position and the Statement of Activities.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Governmental Activities

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

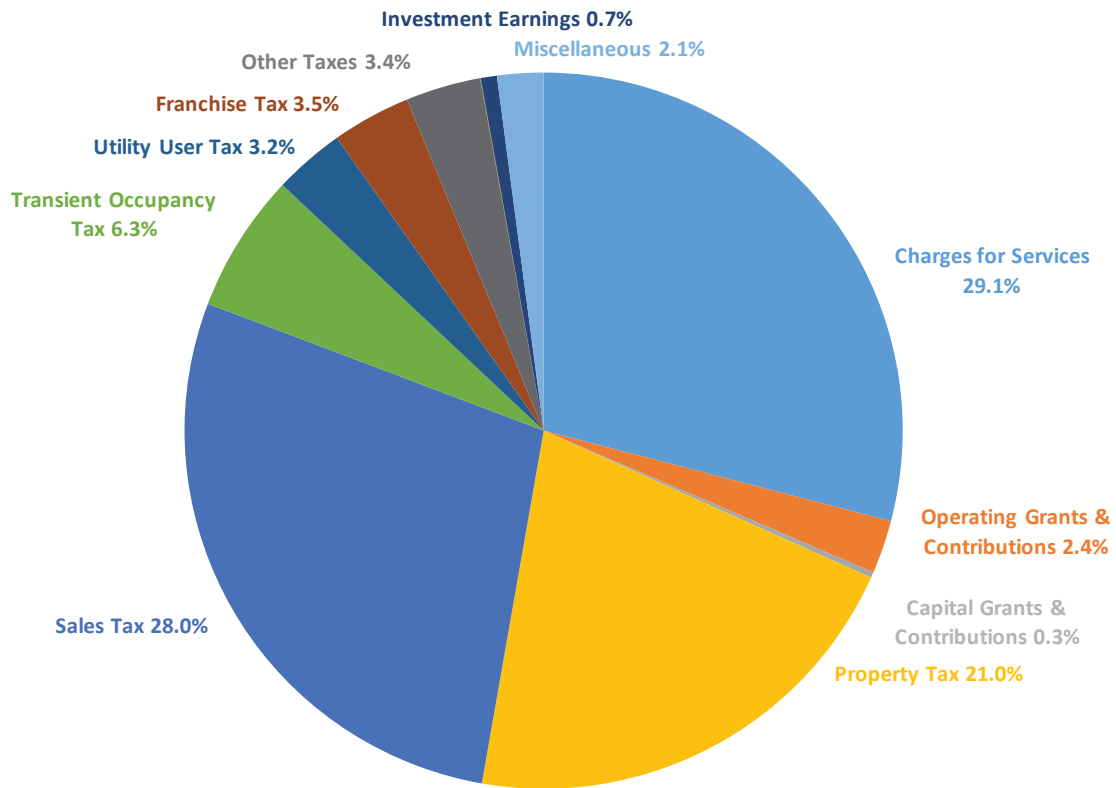
	Governmental Activities	
	2017	2016
Assets:		
Cash and investments	\$ 133,342	\$ 115,916
Other assets	14,937	23,374
Capital assets	182,688	179,783
Total assets	330,967	319,073
Deferred Outflows of Resources:		
Related to Pension (Note 10)	8,480	3,664
Liabilities:		
Long term debt	33,700	35,835
Other liabilities	57,434	50,882
Total liabilities	91,134	86,717
Deferred Inflows of Resources:		
Related to Pension (Note 10)	696	1,826
Net Position:		
Net Investment in capital assets	153,253	148,168
Restricted	34,992	34,862
Unrestricted	59,372	51,164
Total net position	\$ 247,617	\$ 234,194

The City's change in net position from governmental activities was \$13,422,591. The following significant changes within assets, liability, and net position categories occurred:

- Capital assets increased more than \$2.9 million, as a result of substantial investment into capital projects dedicated to street and transportation improvements, storm drain improvements, and maintenance of and improvements to City facilities.
- Cash and investments increased approximately \$17.4 million reflecting an increase in property and sales taxes of \$2 million and \$5.6 million, respectively. Additionally, the City received significant payments from Apple Inc. pertaining to the agreements and requirements of the development agreement between Apple Inc. and the City.
- Other assets decreased \$8.4 million as a result of the collection of a prior year accounts receivable in the General Fund. The receivable was primarily derived from an invoice to Apple Inc. for funds needed on-hand prior to the City executing consultant agreements with for inspection services. The agreements are requirements of the development agreement between Apple Inc. and the City.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

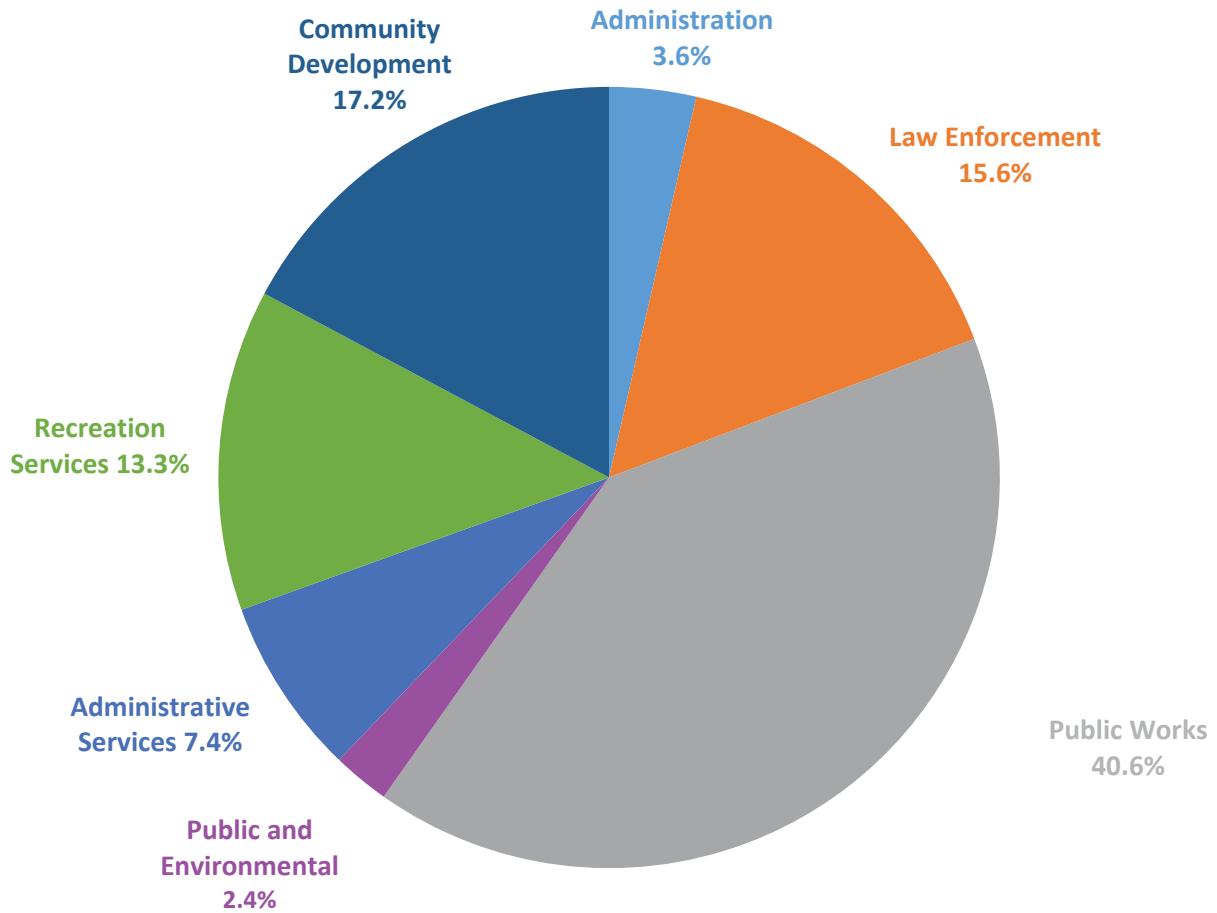
**Sources of Revenue, Governmental Activities
2016-17**



In 2016-17, the City experienced continued trends toward a return to normalcy. Revenues increased \$18.1 million or 23.2% from the prior year, primarily due to an increase in property tax, sales tax, and recorded revenues related to developer agreements between Apple Inc. and the City. According to the 2017-2018 Assessor's Annual Report for Santa Clara County, Cupertino's net assessment roll growth increased \$1.79 million, or 8.39%, from the prior year. Sales tax experienced an increase due to continued growth in the business sector as a result of an upward trending economy as well as the final payment of the triple flip sales tax.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

**Functional Expenses, Governmental Activities
2016-17**



The Statement of Activities presents program revenues, expenses, general revenues, and the resulting change in net position as summarized in the next table.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Table 2
Condensed Statement of Activities for the Year Ended June 30
(in thousands)

Expenses	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Administration	\$ 2,874	\$ 3,710
Law enforcement	12,528	11,316
Public and environmental affairs	1,884	575
Administrative services	5,898	2,995
Recreation services	10,652	5,758
Community development	13,776	6,260
Public works	32,491	31,313
Interest on long-term debt	1,036	1,078
Total expenses	81,139	63,005
Revenues		
Program revenues:		
Charges for services	27,954	19,749
Operating grants and contributions	2,314	1,851
Capital grants and contributions	245	362
Total program revenues	30,513	21,962
General revenues:		
Taxes:		
Property tax	13,252	11,864
Property tax in-lieu of motor vehicle fee	6,967	6,330
Sales tax	26,932	21,350
Transient occupancy tax	6,024	5,852
Utility user tax	3,082	3,371
Franchise tax	3,410	3,478
Other taxes	3,258	2,818
Intergovernmental, unrestricted:		
Motor vehicle license fee	26	24
Investment earnings	695	807
Gain on sale of capital assets	-	1
Miscellaneous	2,005	219
Total general revenues	65,651	56,115
Total revenues	96,164	78,077
Excess of revenues over expenses		
before transfers	15,025	15,072
Transfers	(1,874)	(1,635)
Transfers in – fund closing	272	-
Change in net position	13,423	13,437
Beginning net position, as restated	234,194	220,757
Ending net position	\$ 247,617	\$ 234,194

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

City-wide Governmental Activities Revenues

Table 2 shows that revenues from governmental activities increased \$18.1 million or 23% from last year, finishing at \$96.2 million. Primary contributing factors include property tax, sales tax, and additional payments received related to developer agreement between Apple Inc. and the City as further discussed below.

For general revenues, the City experienced a net taxable value increase of 8.4% for the 2017/2018 tax roll. The assessed value increase between 2016/2017 and 2017/2018 was \$1.8 billion. The change attributed to the 2% Proposition 13 inflation adjustment was \$330 million, which accounted for 18% of all growth experienced in the City. In addition, sales tax increased \$5.6 million over 2015/2016 resulting from continued local business and economy growth as well as a close-out triple flip payment received.

Program revenues showed an increase of \$8.6 million or 39%. There was a mix of changes in that charges for services revenues and operating grants and contributions increased by \$8.2 million and \$0.5 million, respectively, while capital grants and contributions declined by \$0.12 million. The increase of \$8.2 million in charges for services primarily resulted from payments made by Apple Inc. to satisfy outstanding amounts due from 2015-16 related to the development agreement between Apple Inc. and the City of Cupertino.

The operating and capital grants and contributions remained relatively flat with a total increase of \$346,000.

City-wide Governmental Activities Expenses

City-wide governmental activities increased expenses by \$18.1 million or 30%. The primary cause for this increase is related to a significant increase in employee compensation and benefits. The City created eight new position in 2016/2017 represented by an increase of \$3.2 million. Increases in employee benefits and inter-position step increases also contributing to this increase in governmental activity expense. Additionally, contract services with the Santa Clara County Sheriff's Office increased \$1 million and consistent with historical increases.

Change in Net Position

The City-wide governmental net position increase of \$13.4 million was very similar to the increase of \$13.4 million in 2015-16.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

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 costs of providing services and facilities to the general public on a continuing basis be financed or recovered primarily through user fees. The major proprietary funds section of this report provides more information on business-type results.

As shown in Table 3, the business-type net position totaled \$11.1 million at June 30, 2017, an increase of \$2 million from the prior year with unrestricted net position increasing \$1,718,000 and the net investment in capital assets increasing by \$264,000. Business-type activities received transfer ins of \$1.87 million from the General Fund which contributed to the increase in cash and cash investments of \$1.3 million over 2015-2016. There are no additional substantial changes in assets, liabilities, and net position of business-type activities.

In Table 4, revenues for all business-type activities increased \$420,000 and operating expenses decreased by \$582,000. In addition, the City identified and corrected one error related to capital assets which resulted in a prior period restatement of \$327,730 (See Note 15 in the footnotes to the financial statements for additional information). As a result, the net position for 2016-2017 increased \$2 million or 21.7% from 2015-2016.

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

	Business Type Activities	
	2017	2016
Assets:		
Cash and investments	\$ 12,051	\$ 10,712
Other assets	74	309
Capital assets	1,972	1,708
Total assets	14,097	12,729
Deferred Outflows of Resources:		
Related to pension	566	255
Other Liabilities:		
	3,566	3,792
Total liabilities	3,566	3,792
Deferred Inflows of Resources:		
Related to pension	46	109
Net Position:		
Net investment in capital assets	1,972	1,708
Unrestricted	9,079	7,375
Total net position	\$ 11,051	\$ 9,084

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Table 4
Condensed Statement of Activities for the Year Ended June 30
(in thousands)

Expenses	<u>Business Type Activities</u>	
	<u>2017</u>	<u>2016</u>
Resource recovery	\$ 2,991	\$ 2,997
Blackberry farm	597	576
Sports center	2,159	2,299
Recreation programs	2,352	3,136
Total expenses	8,099	9,009
Revenues		
Program revenues:		
Charges for services	8,133	7,690
General revenues:		
Investment earnings	59	83
Total revenues	8,192	7,773
Excess of revenues over expenses before transfers	93	(1,236)
Transfers	1,874	1,365
Change in net position	1,967	399
Beginning net position	9,084	8,684
Ending net position	\$ 11,051	\$ 9,084

MAJOR GOVERNMENTAL FUNDS

General Fund

General Fund Revenues

General Fund actual revenues of \$92.8 million ended \$13.8 million, or 17.5%, above the original budget and \$12.8 million, or 12.1%, below the final budget. Actual revenues were up \$15 million or 19.2% when compared to 2015-16 actuals. Table 5 displays the variations in actual revenues, while Table 6 shows budgeted revenues compared to actuals.

Charges for services contributed the most to the increase in actual general fund revenues with an increase of \$6.8 million or 41% above last year. The largest contributors were payments made by Apple Inc. to satisfy outstanding amounts due from 2015-2016. These payments were deposit requirements outlined in the development agreement between Apple Inc. and the City of Cupertino.

Property tax revenues went from \$18.2 million in 2015-16 to \$20.2 million in 2016-17, representing a \$2.0 million dollar increase. The increase is mostly due to higher property taxes resulting from incremental assessed value of \$822.3 million from the new construction at the Apple Campus 2 development. The value of Apple's business personal property also contributed to the increase which includes investments in computers, machinery, equipment, fixtures and furniture.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Sales tax revenues increased from \$21.3 million in 2015-2016 to \$26.9 million in 2016-2017, representing a \$5.8 million increase. The increase was primarily due to an upward trend in the local business sector and economy as well as the close-out triple flip payment. The remaining tax revenues for the General Fund (Transient Occupancy, Utility User, Franchise, and Other) collectively contributed \$256,000 to the year-over-year increase.

Revenues from use of money and property decreased by \$189,000 due to a decrease in investment earnings. Intergovernmental revenues decreased just over \$99,000 mostly due to a continued decline in state grants received year over year. Licenses and permits included fees for reviewing building plans, building inspections, construction, tenant improvements, and commercial/residential installations. License and permit fees were decreased from 2015-16 with a 17% decline, or \$536,000. Fines and forfeitures experienced an upward trend from 2015-16 with a 6% increase, or \$34,000. Other revenues went from \$800,000 in 2015-16 to \$1.8 million in 2016-17. The incremental revenues were the administrative charges applied to inspection service contractual expenses related to the Apple Campus 2 project as outlined in the development agreement between Apple Inc. and the City of Cupertino.

Table 5
Revenue Changes
General Fund, Fiscal 2017 vs. 2016
(in thousands)

Revenue by Source	Fiscal 2017		Increase/(Decrease) From Fiscal 2016	
	Amount	% of Total	Amount	Percent
Taxes:				
Property	\$ 20,219	22%	\$ 2,025	11%
Sales	26,932	29%	5,582	26%
Transient occupancy	6,024	6%	172	3%
Utility user	3,082	3%	(289)	-9%
Franchise	3,410	4%	(68)	-2%
Other	2,982	3%	441	17%
Use of money & property	1,173	1%	(189)	-14%
Intergovernmental	330	0%	(99)	-23%
Licenses and permits	2,537	3%	(536)	-17%
Charges for services	23,708	26%	6,860	41%
Fines and forfeitures	593	1%	34	6%
Other	1,823	2%	1,023	128%
Total revenues	\$ 92,813	100%	\$ 14,956	19%
Other financing sources:				
Proceeds from sale of land	\$ -	0%	\$ (1)	-100%
Transfers in	5	0%	(31)	-86%
Transfers in – fund closing	260	0%	260	100%
Total other financing sources	\$ 265	0%	\$ 228	616%

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Table 6
Revenue, Budget and Actual Comparisons
General Fund 2016-17
(in thousands)

	Budgeted Amounts			Variance with Final Positive/ (Negative)
	Original	Final	Actual	
Taxes:				
Property	\$ 18,741	\$ 20,741	\$ 20,219	\$ (522)
Sales	22,440	25,940	26,932	992
Transient occupancy	6,708	6,708	6,024	(684)
Utility user	3,122	3,122	3,082	(40)
Franchise	2,900	2,900	3,410	510
Other	1,600	2,200	2,982	782
Use of money & property	777	897	1,173	276
Intergovernmental	231	231	330	99
Licenses and permits	2,499	2,499	2,537	38
Charges for services	19,250	36,801	23,708	(13,093)
Fines and forfeitures	600	600	593	(7)
Other	136	3,000	1,823	(1,177)
	\$ 79,004	\$ 105,639	\$ 92,813	\$ (12,826)
Transfers in	\$ -	\$ -	\$ 5	\$ 5
Transfers in – fund closeout	-	-	260	260
Total other financing sources	\$ -	\$ -	\$ 265	\$ 265

General Fund Expenditures

Fiscal 2016-17 overall expenditures, at \$65.1 million, were \$13.2 million or 25% higher than last year. However, this result came in 10% or \$7.1 million under the final budget. Year-over-year and budget-versus-actual results for General Fund programs are described below and in Tables 7 and 8. One of the primary contributors to this increase was related to Council-approved revised cost allocation plan (CAP). The CAP accounts for the full cost of providing specific services to the community by determining indirect (overhead) costs associated with operations. These overhead costs are used to calculate fees and also charged internally to user departments in the budget and credited as revenue to programs that provide these indirect service. This new methodology increases the CAP from \$3.1 million to \$12.2 million in revenues and corresponding expenditures, a 294% increase. In addition to the CAP revision, the following factors contributed to the increase in General Fund expenditures:

Administration increased \$1.9 million from 2015-16. In addition to employee compensation increases, law enforcement was higher by \$1 million, which was the automatic increase in the existing contract with the Santa Clara County Sheriff's Office triggered by increases in the lease and PERS costs.

Public and environmental affairs (IT) experienced an increase in expenditures from 2015-16 to 2016-17 of \$1.3 million or 242%. This primarily consisted of employee compensation and benefits collectively increasing by \$274,000, the CAP revision resulting in an increase of \$293,000, and special projects increasing \$362,000.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Administrative services' increase of \$2.2 million or 80% was primarily attributable to the hiring of several positions that had been vacant in the prior year.

Recreation services General Fund expenditures experienced a 23% increase or \$3.9 million across its programs. The majority of the expenditures increased in the salaries, benefits and contractual services categories.

Community development expenditures in the General Fund increased \$1.2 million or 23% due to salary and benefit increases as well as from higher contractual expenditures in the Building division for inspection services related to Apple Campus 2 inspections.

Public Works expenditures increased \$3.4 million or 26%. This is primarily represented by a \$300,000 increase in benefits and a \$2 million increase in the CAP.

Transfers out of the General Fund increased from \$13.2 million in 2015-16 to \$26.6 million, with \$3.3 million for capital projects in the Transportation Fund, \$3.2 million for annual debt service, \$15 million for capital projects in the Capital Improvements Projects Fund, \$2.1 million to subsidize a state-mandated enforcement program, \$1.9 million in operating subsidies to the City's Enterprise funds, and \$1.1 million to internal service funds.

Table 7
Expenditure Changes
General Fund, Fiscal 2017 vs. 2016
(in thousands)

Function/Program	Fiscal 2017		Increase/(Decrease) From Fiscal 2016	
	Amount	% of Total	Amount	Percent
Administration	\$ 5,936	9%	\$ 1,884	46%
Law enforcement	11,939	18%	950	9%
Public and environmental affairs (IT)	1,865	3%	1,320	242%
Administrative services	5,055	8%	2,244	80%
Recreation services	9,362	14%	3,921	72%
Community development	6,433	10%	1,184	23%
Public works	16,485	25%	3,370	26%
Capital outlay	8,000	12%	(1,657)	-17%
Total expenditures	\$ 65,075	100%	\$ 13,216	25%
Transfers out	\$ 26,609	191%	\$ 13,445	102%

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Table 8
Expenditure Changes
General Fund 2016-17
(in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u>
				<u>Positive/ (Negative)</u>
Administration	\$ 6,445	\$ 6,896	\$ 5,936	\$ 960
Law enforcement	11,884	11,938	11,939	(1)
Public and environmental affairs	924	73	1,865	(1,792)
Administrative services	4,682	5,109	5,055	54
Recreation services	10,478	10,676	9,362	1,314
Community development	6,917	8,398	6,433	1,965
Public works	17,606	18,282	16,485	1,797
Capital outlay	5,325	10,873	8,000	2,873
Total expenditures	<u>\$ 64,261</u>	<u>\$ 72,245</u>	<u>\$ 65,075</u>	<u>\$ 7,170</u>
Transfers out	<u>\$ 12,961</u>	<u>\$ 28,694</u>	<u>\$ 26,609</u>	<u>\$ (2,085)</u>

General Fund - Fund Balance

The General Fund carried a June 30, 2017, ending fund balance of \$53,589,690, up 2.7% or \$1.4 million from beginning of the fiscal year. Loan receivables and prepaid expenses totaled \$876,939 of non-spendable fund balance. The City committed \$19.0 million for general economic uncertainty and assigned \$100,000 for PERS liability and \$4.5 million for encumbrances. The City also restricted \$1,016,771 Public access television purposes.

Transportation

The Transportation Special Revenue Fund carried a June 30, 2017, ending fund balance of \$8,379,940, down 16.9% or \$1.7 million from beginning of the fiscal year. The City committed \$1.4 million for streets and roads projects and the remaining \$7 million restricted for street and road purposes including related engineering and administrative expenditures.

Housing Development

The Housing Development Special Revenue Fund carried a June 30, 2017, ending fund balance of \$12.5 million, down 2.8%, or \$356,000 from beginning of the fiscal year. The activities in this fund remained relatively flat in comparison with 2015-16.

Capital Improvement Projects

The Capital Improvement Projects Capital Projects Fund carried a June 30, 2017, ending fund balance of \$25,069,160, up 66.3%, or \$10 million from beginning of the fiscal year. During fiscal year 2016-2017, this Fund received a \$15 million transfer in from the General Fund for purposes of fund capital-related projects.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Public Facilities Corporation

A transfer of \$3,177,286 was made from the General Fund to the Public Facilities Corporation Debt Service Fund to cover principal and interest on the 2012 Certificates of Participation lease payments. See Notes 4 and 6 to the Basic Financial Statements and the Debt Administration section of this analysis for more information.

MAJOR PROPRIETARY FUNDS

Resource Recovery

The City has a solid waste franchise agreement with Recology that shares collection, landfill disposal, and recycling revenues and costs. This fund receives 17% of Recology revenues with the funds going toward landfill costs, regulatory fees, and staffing costs that the City incurs to manage its solid waste, recycling, and household hazardous waste programs. Due to a Council approved commercial customer rate increase of 5.28%, effective July 1, 2016 and an annual customer rate increase of 2.68% to reflect consumer price index increased both residential and commercial revenues. Total operating revenue rose from \$2.66 million last year to \$2.79 million this year, while expenses decreased by \$6,000. Net position decreased by \$112,363. The fund ended the year with a \$5,341,647 net position.

Recreation Programs

This enterprise operates the Quinlan Community Center, Monta Vista Recreation Center, McClellan Ranch, Creekside Park building, eight school sites, and various parks. The improved economy and enhanced marketing helped cultural events, youth and teen programs, sports, dance and fitness classes generate \$2,779,000 in revenues that were 4.1% higher than last year. Ongoing program expenses of \$2,679,000 included full-time administrative and programming staff, part-time activity leaders, and class instructors on contract. This resulted in a net operating income of \$99,000 as compared to operating income of \$670,000 a year ago. This year a transfer in from the General Fund was made for \$457,000. After the transfer, the fund ended up with an increase in net position of \$569,499. The City also identified and corrected an error in reporting of capital assets in prior years and adjusted the beginning net position by \$328,000. The fund ended the year with a net position of \$3,067,418.

NONMAJOR PROPRIETARY FUNDS

Blackberry Farm

City employees, with a teaching professional contractor, staff the City-owned Blackberry Farm golf course and pro shop. Operating revenues decreased 3% in 2016-2017 from \$335,000 to \$325,000. Operating expenses increased by \$21,000 to \$597,000 this year due to increased contract services costs and capital investment in the golf course turf. Altogether, the golf course's operating loss increased from \$242,000 last year to \$272,000 this year. After a transfer in from the General Fund of \$333,000 (increase of \$71,000), net position increased \$65,000. As of June 30, 2017, this fund's net position was \$637,556.

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

Cupertino Sports Center

Tennis lesson, membership, fitness class and rent revenues of \$2,238,000 increased by \$14,000 or 0.6% over last year, resulting from moderate increases across the Sport Center's major revenue sources. In addition, expenses decreased by \$140,000 or 6%, resulting in a net operating income of \$79,000. In 2015-16, net operating loss was \$67,000. This operating loss improved by \$146,000 from 2015-16. Additionally, \$1,031,000 was transferred in from the General Fund. As of June 30, 2017, this fund's net position was \$2,004,836.

CAPITAL ASSETS

At June 30, 2017, the City had \$184.7 million, 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 5 to the Basic Financial Statements. This reflects the City's continued investment into capital projects dedicated to street and transportation improvements, storm drain improvements, and maintenance of and improvements to City facilities, resulting in an increase in net capital assets of \$2.8 million, after depreciation.

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

	<u>2017</u>	<u>2016</u>
Governmental Activities:		
Land	\$ 62,046	\$ 62,046
Easements	19,492	19,492
Construction in Progress	774	760
Buildings	18,442	19,770
Improvements other than buildings	15,657	16,974
Machinery and equipment	3,718	2,761
Roads, curbs, gutters, sidewalks, medians and bridges	56,040	50,245
Streetlights	1,503	1,613
Storm drain structures and mains	3,949	5,174
Traffic signals	1,067	948
Total Governmental Activities	<u>182,688</u>	<u>179,783</u>
Business-Type Activities		
Construction in progress	13	608
Buildings	755	501
Improvements other than buildings	1,109	906
Machinery and equipment	95	21
Total Business-Type Activities	<u>1,972</u>	<u>2,036</u>
Total City	<u>\$ 184,660</u>	<u>\$ 181,819</u>

CITY OF CUPERTINO
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

DEBT ADMINISTRATION

The City's only long-term debt liability at June 30, 2017, comes from \$43,940,000 in Certificates of Participation (COPs) issued in May 2012 by the Cupertino Public Facilities Corporation. The certificates refunded previously issued COPs that financed Wilson Park, Blackberry Farm, and Creekside Park purchases, the Memorial Park expansion, the Quinlan Community Center construction, the City Hall remodel, and the new library opened in 2004. The serial fixed rate debt ranging from 0.35% to 3.125% requires annual debt payments of approximately \$3,168,000 that are covered by the General Fund. The June 30, 2017, outstanding principal of \$33,700,000 is due to be paid off by 2030. More information can be found in Note 6 to the Basic Financial Statements and in the Public Facilities Corporation discussion earlier in this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide a general overview of the City's finances. Further information can be provided by the City of Cupertino Finance Department, 10300 Torre Avenue, Cupertino CA 95014, phone (408) 777-3280, or by the City website at www.cupertino.org.

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

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

The Statement of Net Position reports the difference between the City's total assets and deferred outflows and the City's total liabilities and deferred inflows, including all the City's capital assets and all its long term debt.

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

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

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

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

Both these Statements include the financial activities of the City and the Cupertino Public Facilities Corporation, which is a legally separate component unit of the City because it is controlled by and financially accountable to the City.

CITY OF CUPERTINO, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash investments (Note 2)	\$ 129,090,145	\$ 12,050,592	\$ 141,140,737
Restricted cash and investments (Note 2)	4,251,603	-	4,251,603
Receivables			
Accounts	3,018,830	74,930	3,093,760
Interest	94,152	-	94,152
Loans (Note 3)	1,449,008	-	1,449,008
Prepaid expenses and other assets	29,109	-	29,109
Net OPEB asset (Note 11)	10,344,876	-	10,344,876
Capital assets (Note 5):			
Non-depreciable	82,311,493	13,296	82,324,789
Depreciable, net of accumulated depreciation	<u>100,376,438</u>	<u>1,958,873</u>	<u>102,335,311</u>
Total assets	<u>330,965,654</u>	<u>14,097,691</u>	<u>345,063,345</u>
Deferred outflows of resources			
Related to pension (Note 10)	<u>8,480,196</u>	<u>565,797</u>	<u>9,045,993</u>
LIABILITIES			
Accounts payable and accruals	7,105,735	528,010	7,633,745
Accrued payroll and benefits	224,418	289	224,707
Deposits	10,663,048	-	10,663,048
Unearned revenue	109,789	553,511	663,300
Compensated absences (Note 1):			-
Due in one year	502,760	78,882	581,642
Due in more than one year	2,703,288	106,966	2,810,254
Claims payable (Note 9):			
Due in one year	521,998	-	521,998
Due in more than one year	1,160,653	-	1,160,653
Long-term debt (Note 6):			
Due in one year	2,180,000	-	2,180,000
Due in more than one year	31,520,000	-	31,520,000
Net pension liability (Note 10)	<u>34,442,001</u>	<u>2,297,961</u>	<u>36,739,962</u>
Total Liabilities	<u>91,133,690</u>	<u>3,565,619</u>	<u>94,699,309</u>
Deferred inflows of resources			
Related to pension (Note 10)	<u>695,625</u>	<u>46,412</u>	<u>742,037</u>
Net position (Note 7)			
Net investment in capital assets	<u>153,239,534</u>	<u>1,972,169</u>	<u>155,211,703</u>
Restricted for:			
Special revenue projects	20,910,289	-	20,910,289
Affordable housing	12,484,169	-	12,484,169
Debt service	<u>1,597,234</u>	-	<u>1,597,234</u>
Total restricted net position	<u>34,991,692</u>	-	<u>34,991,692</u>
Unrestricted	<u>59,385,309</u>	<u>9,079,288</u>	<u>68,464,597</u>
Total Net Position	<u>\$ 247,616,535</u>	<u>\$ 11,051,457</u>	<u>\$ 258,667,992</u>

CITY OF CUPERTINO, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Administration	\$ 2,873,744	\$ 3,992,716	\$ -	\$ -	\$ 1,118,972	\$ 1,118,972
Law enforcement	12,528,328	603,194	129,324	-	(11,795,810)	(11,795,810)
Public and environmental affairs	1,884,165	-	-	-	(1,884,165)	(1,884,165)
Administrative services	5,898,479	3,565,627	-	-	(2,332,852)	(2,332,852)
Recreation services	10,651,557	2,016,159	-	-	(8,635,398)	(8,635,398)
Community development	13,775,591	10,902,822	513,970	-	(2,358,799)	(2,358,799)
Public works	32,491,244	6,873,487	1,670,338	245,288	(23,702,131)	(23,702,131)
Interest on long - term debt	1,035,738	-	-	-	(1,035,738)	(1,035,738)
Total governmental activities	81,138,846	27,954,005	2,313,632	245,288	(50,625,921)	(50,625,921)
Business-type activities:						
Resource recovery	2,991,177	2,792,190	-	-	-	(198,987)
Blackberry farm	597,406	325,224	-	-	-	(272,182)
Cupertino sports center	2,159,243	2,238,023	-	-	-	78,780
Recreation programs	2,351,501	2,778,588	-	-	-	427,087
Total business-type activities	8,099,327	8,134,025	-	-	-	34,698
Total	\$ 89,238,173	\$ 36,088,030	\$ 2,313,632	\$ 245,288	(50,625,921)	(50,591,223)
General revenues:						
Taxes:						
Property taxes					13,251,840	13,251,840
Property tax in lieu of motor vehicle fee					-	-
Sales taxes					6,967,237	6,967,237
Transient occupancy tax					26,932,012	26,932,012
Utility user tax					6,023,681	6,023,681
Franchise tax					3,082,407	3,082,407
Other taxes					3,409,572	3,409,572
Intergovernmental, unrestricted:					3,258,118	3,258,118
Motor vehicle license fee					26,118	26,118
Investment earnings					694,730	753,742
Miscellaneous					2,004,906	2,004,906
Transfers (Note 4)					(1,874,120)	-
Transfers in - fund closing (Note 14)					272,011	272,011
Total general revenues and transfers					64,048,512	65,981,644
Change in Net Position					13,422,591	15,390,421
Net Position, beginning of year					234,193,944	243,277,571
Net Position, end of year					\$ 247,616,535	\$ 258,667,992

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

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

The funds described below were determined to be Major Funds by the City for fiscal 2016-17. Individual non-major funds may be found in the Supplementary section.

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

Transportation Special Revenue Fund: Accounts for the City's gas tax, vehicle registration fees 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 Special Revenue Fund: 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.

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

Capital Improvement Projects Capital Projects Fund: This fund accounts for activities related to the acquisition or construction of major capital facilities.

CITY OF CUPERTINO, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General	Special Revenue Funds		Public Facilities Corporation Debt Service Fund	Capital Improvement Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
		Transportation	Housing Development				
ASSETS							
Cash and investments (Note 2)	\$ 62,119,171	\$ 9,608,401	\$ 11,981,314	\$ -	\$ 25,198,731	\$ 13,153,524	\$ 122,061,141
Restricted cash and investments (Note 2)	-	-	-	4,251,603	-	-	4,251,603
Receivables:							
Accounts	2,953,906	-	61,101	-	-	3,823	3,018,830
Interest	94,152	-	-	-	-	-	94,152
Loans (Note 3)	851,714	-	597,294	-	-	-	1,449,008
Due from other funds (Note 4)	1,400,000	-	-	-	-	-	1,400,000
Prepaid items	25,225	-	-	-	-	-	25,225
Other assets	3,884	-	-	-	-	-	3,884
Total assets	\$ 67,448,052	\$ 9,608,401	\$ 12,639,709	\$ 4,251,603	\$ 25,198,731	\$ 13,157,347	\$ 132,303,843
LIABILITIES							
Accounts payable and accruals	\$ 2,861,179	\$ 1,228,461	\$ 115,420	\$ 2,654,369	\$ 129,571	\$ 8,290	\$ 6,997,290
Accrued payroll and benefits	224,346	-	-	-	-	-	224,346
Deposits	10,663,048	-	-	-	-	-	10,663,048
Unearned revenue	109,789	-	-	-	-	-	109,789
Total liabilities	13,858,362	1,228,461	115,420	2,654,369	129,571	8,290	17,994,473
Deferred inflows of resources							
Unavailable revenue - loans	-	-	40,120	-	-	-	40,120
Total deferred inflows of resources	-	-	40,120	-	-	-	40,120
Fund Balances (Note 7):							
Nonspendable	876,939	-	-	-	-	-	876,939
Restricted	1,016,771	6,981,275	12,484,169	1,597,234	-	12,912,243	34,991,692
Committed	19,000,000	1,398,665	-	-	-	-	20,398,665
Assigned	4,638,181	-	-	-	25,069,160	236,814	29,944,155
Unassigned	28,057,799	-	-	-	-	-	28,057,799
Total fund balances	53,589,690	8,379,940	12,484,169	1,597,234	25,069,160	13,149,057	114,269,250
Total liabilities, deferred inflows of resources and fund balances	\$ 67,448,052	\$ 9,608,401	\$ 12,639,709	\$ 4,251,603	\$ 25,198,731	\$ 13,157,347	\$ 132,303,843

See accompanying notes to financial statements

CITY OF CUPERTINO, CALIFORNIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances reported on the governmental funds balance sheet \$ 114,269,250

Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds because of the following:

Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds. 179,968,683

Internal service funds are used by management to charge the costs of activities such as information technology, insurance, equipment acquisition and maintenance, and certain employee benefits to governmental funds. The assets and liabilities of the internal service funds are therefore included in the governmental activities of the statement of net position. 15,068,647

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds. 40,120

The liabilities, deferred inflows of resources and deferred outflows of resources are not related to the current period and therefore are not reported in the governmental funds:

Long-term debt	(33,700,000)
Net pension liability	(32,252,686)
Pension-related deferred outflows of resources	7,941,150
Pension-related deferred inflows of resources	(651,408)
Compensated absences	<u>(3,067,221)</u>

Net position for governmental activities \$ 247,616,535

CITY OF CUPERTINO, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds		Public Facilities Corporation Debt Service Fund	Capital Improvement Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	Transportation	Housing Development				
Revenues						
Taxes	\$ 62,648,633	\$ 39,000	\$ -	\$ -	\$ 237,234	\$ 62,924,867
Use of money and property	1,173,095	47,373	-	-	63,253	1,425,629
Intergovernmental	330,108	1,798,004	-	-	-	2,585,038
Licenses and permits	2,536,925	-	-	-	-	2,536,925
Charges for services	23,708,304	22,279	-	-	372,584	24,103,167
Fines and forfeitures	593,123	-	-	-	10,071	603,194
Other revenue	1,822,766	174,498	-	-	7,640	2,004,904
Total revenues	92,812,954	2,042,154	637,834	-	690,782	96,183,724
Expenditures						
Current:						
Administration	5,936,337	-	6,296	-	-	5,942,633
Law enforcement	11,939,095	-	-	-	-	11,939,095
Public and environmental affairs	1,864,746	-	-	-	-	1,864,746
Administrative services	5,054,539	-	-	-	-	5,054,539
Recreation services	9,361,934	-	-	-	-	9,361,934
Community development	6,433,422	997,870	-	-	-	7,431,292
Public works	16,484,844	1,530,761	-	-	607,980	18,623,585
Capital outlay	7,999,577	8,365,189	-	2,208,040	158,359	18,731,165
Debt service:						
Principal	-	-	2,135,000	-	-	2,135,000
Interest and fiscal charges	-	-	1,035,738	-	-	1,035,738
Total expenditures	65,074,494	9,895,950	3,177,034	2,208,040	766,339	82,119,727
Excess (deficiency) of revenues over expenditures	27,738,460	(7,853,796)	(3,177,034)	(2,208,040)	(75,557)	14,063,997
Other financing sources (uses)						
Transfers in (Note 4)	5,374	3,614	3,177,286	15,000,000	2,106,834	26,446,090
Transfer in - fund closing (Note 14)	260,374	-	-	-	-	260,374
Transfers (out) (Note 4)	(26,609,358)	-	-	(2,797,608)	(5,374)	(29,412,340)
Total other financing sources (uses)	(26,343,610)	3,614	3,177,286	12,202,392	2,101,460	(2,705,876)
Net change in fund balances	1,394,850	(1,700,814)	252	9,994,352	2,025,903	11,358,121
Beginning fund balances	52,194,840	10,080,754	1,596,982	15,074,808	11,123,154	102,911,129
Ending fund balances	\$ 53,589,690	\$ 8,379,940	\$ 1,597,234	\$ 25,069,160	\$ 13,149,057	\$ 114,269,250

See accompanying notes to financial statements

CITY OF CUPERTINO, CALIFORNIA
RECONCILIATION OF NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

The schedule below reconciles the net changes in fund balances reported on the governmental funds statement of revenues, expenditures and changes in fund balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the change in net position of governmental activities reported in the statement of activities, which is prepared on the full accrual basis.

Total net changes in fund balances reported on the governmental funds balance sheet \$ 11,358,121

Amounts reported for governmental activities in the statement of activities are different from those reported in the governmental funds because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives, which is reported as depreciation expense. Expenditures for capital assets reported as:

Capital outlay	9,873,146
Depreciation expense	(7,354,802)
Net retirements	(635,609)

Long term debt principal payments are reported as expenditures in the governmental funds but are not reported as expenses in the statement of activities.

2,135,000

The changes in the amounts below do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds:

Accounts receivable	(52,454)
Compensated absences	(370,530)
Net pension liability	(3,631,533)
Pension-related deferred outflows of resources	4,277,057
Pension-related deferred inflows of resources	1,174,282

The item reported in the governmental funds as a transfer in - fund closing is not reported as such in the statement of activities, as the internal service fund that was closed into the General Fund was reported as part of governmental activities in prior years.

(260,374)

The City's Information Technology Internal Service Fund had a restatement of beginning net position due to an error in the allocation of pension related items in prior years which was determined not to be material at the government-wide level.

(1,184,643)

Internal service funds are used by management to charge the costs of activities such as information technology, insurance, equipment acquisition and maintenance, and certain employee benefits to governmental funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities because they service those activities.

(1,905,070)

Change in net position of governmental activities

\$ 13,422,591

CITY OF CUPERTINO, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 55,511,000	\$ 61,611,000	\$ 62,648,633	\$ 1,037,633
Use of money and property	776,980	896,980	1,173,095	276,115
Intergovernmental	230,500	230,500	330,108	99,608
Licenses and permits	2,499,000	2,499,000	2,536,925	37,925
Charges for services	19,250,524	36,801,152	23,708,304	(13,092,848)
Fines and forfeitures	600,000	600,000	593,123	(6,877)
Other revenue	136,000	3,000,366	1,822,766	(1,177,600)
Amounts available for appropriation	<u>79,004,004</u>	<u>105,638,998</u>	<u>92,812,954</u>	<u>(12,826,044)</u>
Charges for appropriation (outflows):				
Current				
Administration	6,444,972	6,895,796	5,936,337	959,459
Law enforcement	11,884,384	11,938,210	11,939,095	(885)
Public and environmental affairs	924,006	73,364	1,864,746	(1,791,382)
Administrative services	4,681,655	5,108,952	5,054,539	54,413
Recreation services	10,478,073	10,676,077	9,361,934	1,314,143
Community development	6,917,023	8,398,392	6,433,422	1,964,970
Public works	17,605,553	18,282,113	16,484,844	1,797,269
Capital outlay	5,325,414	10,872,659	7,999,577	2,873,082
Total charges for appropriations	<u>64,261,080</u>	<u>72,245,563</u>	<u>65,074,494</u>	<u>7,171,069</u>
Excess of revenues over expenditures	<u>14,742,924</u>	<u>33,393,435</u>	<u>27,738,460</u>	<u>(5,654,975)</u>
Other financing sources (uses)				
Transfers in	-	-	5,374	5,374
Transfer in - fund closing (Note 14)	-	-	260,374	260,374
Transfers (out)	(12,961,373)	(28,693,806)	(26,609,358)	2,084,448
Total other financing sources (uses)	<u>(12,961,373)</u>	<u>(28,693,806)</u>	<u>(26,343,610)</u>	<u>2,350,196</u>
Net change in fund balance	<u>\$ 1,781,551</u>	<u>\$ 4,699,629</u>	1,394,850	<u>\$ (3,304,779)</u>
Beginning fund balance			<u>52,194,840</u>	
Ending fund balance			<u>\$ 53,589,690</u>	

CITY OF CUPERTINO, CALIFORNIA
TRANSPORTATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	\$ 10,000	\$ 10,000	\$ 47,373	\$ 37,373
Intergovernmental	2,780,151	3,025,439	1,798,004	(1,227,435)
Charges for services	-	-	22,279	22,279
Other revenue	-	25,859	174,498	148,639
Amounts available for appropriation	<u>2,790,151</u>	<u>3,061,298</u>	<u>2,042,154</u>	<u>(1,019,144)</u>
Charges for appropriation (outflows):				
Current				
Public works	1,589,458	1,626,880	1,530,761	96,119
Capital outlay	8,188,000	8,377,590	8,365,189	12,401
Total charges for appropriations	<u>9,777,458</u>	<u>10,004,470</u>	<u>9,895,950</u>	<u>108,520</u>
Excess of revenues over expenditures	<u>(6,987,307)</u>	<u>(6,943,172)</u>	<u>(7,853,796)</u>	<u>(910,624)</u>
Other financing sources (uses)				
Transfers in	<u>6,103,000</u>	<u>6,152,982</u>	<u>6,152,982</u>	<u>-</u>
Total other financing sources (uses)	<u>6,103,000</u>	<u>6,152,982</u>	<u>6,152,982</u>	<u>-</u>
Net change in fund balance	<u>\$ (884,307)</u>	<u>\$ (790,190)</u>	(1,700,814)	<u>\$ (910,624)</u>
Beginning fund balance			<u>10,080,754</u>	
Ending fund balance			<u>\$ 8,379,940</u>	

CITY OF CUPERTINO, CALIFORNIA
HOUSING DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 15,113,279	\$ 15,113,279	\$ 39,000	\$ (15,074,279)
Use of money and property	-	-	141,908	141,908
Intergovernmental	251,672	251,672	456,926	205,254
Licenses and permits	62,918	62,918	-	(62,918)
Amounts available for appropriation	<u>15,427,869</u>	<u>15,427,869</u>	<u>637,834</u>	<u>(14,790,035)</u>
Charges for appropriation (outflows):				
Current				
Community development	1,007,023	1,254,921	997,870	257,051
Capital outlay	3,500,000	-	-	-
Total charges for appropriations	<u>4,507,023</u>	<u>1,254,921</u>	<u>997,870</u>	<u>257,051</u>
Excess of revenues over expenditures	<u>10,920,846</u>	<u>14,172,948</u>	<u>(360,036)</u>	<u>(14,532,984)</u>
Other financing sources (uses)				
Transfers in	-	3,614	3,614	-
Total other financing sources (uses)	<u>-</u>	<u>3,614</u>	<u>3,614</u>	<u>-</u>
Net change in fund balance	<u>\$ 10,920,846</u>	<u>\$ 14,176,562</u>	(356,422)	<u>\$ (14,532,984)</u>
Beginning fund balance			<u>12,840,591</u>	
Ending fund balance			<u>\$ 12,484,169</u>	

MAJOR PROPRIETARY FUNDS

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

The City has identified the funds below as major proprietary funds for fiscal 2016 - 17.

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

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

CITY OF CUPERTINO, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Resources Recovery	Recreation Programs	Nonmajor Enterprise Funds	Totals	
ASSETS					
Current assets					
Cash and cash investments (Note 2)	\$ 6,293,827	\$ 2,731,078	\$ 3,025,687	\$ 12,050,592	\$ 7,029,004
Accounts receivable	-	74,930	-	74,930	-
Total current assets	<u>6,293,827</u>	<u>2,806,008</u>	<u>3,025,687</u>	<u>12,125,522</u>	<u>7,029,004</u>
Noncurrent assets					
Net OPEB asset (Note 11)	-	-	-	-	10,344,876
Capital assets (Note 5):					
Nondepreciable	-	13,296	-	13,296	-
Depreciable, net of accumulated depreciation	17,120	1,385,498	556,255	1,958,873	2,719,248
Total non current assets	<u>17,120</u>	<u>1,398,794</u>	<u>556,255</u>	<u>1,972,169</u>	<u>13,064,124</u>
Total assets	<u>6,310,947</u>	<u>4,204,802</u>	<u>3,581,942</u>	<u>14,097,691</u>	<u>20,093,128</u>
Deferred outflows of resources					
Related to pension (Note 10)	<u>214,119</u>	<u>172,736</u>	<u>178,942</u>	<u>565,797</u>	<u>539,046</u>
LIABILITIES					
Current liabilities					
Accounts payable and accruals	198,898	131,905	197,207	528,010	108,445
Accrued payroll and benefits	289	-	-	289	72
Due to other funds (Note 4)	-	-	-	-	1,400,000
Compensated absences (Note 1):	41,185	10,092	27,605	78,882	23,325
Claims payable (Note 9)	-	-	-	-	521,998
Unearned revenue	-	438,710	114,801	553,511	-
Total current liabilities	<u>240,372</u>	<u>580,707</u>	<u>339,613</u>	<u>1,160,692</u>	<u>2,053,840</u>
Noncurrent liabilities					
Compensated absences (Note 1)	55,848	13,685	37,433	106,966	115,502
Claims payable (Note 9)	-	-	-	-	1,160,653
Net pension liability (Note 10)	<u>869,635</u>	<u>701,559</u>	<u>726,767</u>	<u>2,297,961</u>	<u>2,189,315</u>
Total liabilities	<u>1,165,855</u>	<u>1,295,951</u>	<u>1,103,813</u>	<u>3,565,619</u>	<u>5,519,310</u>
Deferred inflows of resources					
Related to pension (Note 10)	<u>17,564</u>	<u>14,169</u>	<u>14,679</u>	<u>46,412</u>	<u>44,217</u>
Net position (Note 7)					
Net investment in capital assets	17,120	1,398,794	556,255	1,972,169	2,719,248
Unrestricted	<u>5,324,527</u>	<u>1,668,624</u>	<u>2,086,137</u>	<u>9,079,288</u>	<u>12,349,399</u>
Total Net Position	<u>\$ 5,341,647</u>	<u>\$ 3,067,418</u>	<u>\$ 2,642,392</u>	<u>\$ 11,051,457</u>	<u>\$ 15,068,647</u>

CITY OF CUPERTINO, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Resources Recovery	Recreation Programs	Nonmajor Enterprise Funds	Totals	
Operating revenues					
Charges for services	\$ 2,717,524	\$ 2,223,960	\$ 2,543,458	\$ 7,484,942	\$ 3,742,404
Other	<u>74,666</u>	<u>554,628</u>	<u>19,789</u>	<u>649,083</u>	<u>1,529</u>
Total operating revenue	<u>2,792,190</u>	<u>2,778,588</u>	<u>2,563,247</u>	<u>8,134,025</u>	<u>3,743,933</u>
Operating expenses					
Salaries and benefits	724,582	635,600	683,833	2,044,015	3,248,202
Materials and supplies	175,422	419,066	338,386	932,874	2,124,450
Contractual services	2,087,822	1,358,087	1,672,422	5,118,331	481,120
Insurance and claims and premium	-	-	-	-	788,824
Depreciation (Note 5)	<u>3,351</u>	<u>266,478</u>	<u>62,008</u>	<u>331,837</u>	<u>212,908</u>
Total operating expenses	<u>2,991,177</u>	<u>2,679,231</u>	<u>2,756,649</u>	<u>8,427,057</u>	<u>6,855,504</u>
Operating income (loss)	<u>(198,987)</u>	<u>99,357</u>	<u>(193,402)</u>	<u>(293,032)</u>	<u>(3,111,571)</u>
Nonoperating revenues					
Investment Income	33,409	12,830	12,773	59,012	32,276
Gain on sale of capital assets	-	-	-	-	82,095
Total nonoperating revenues	<u>33,409</u>	<u>12,830</u>	<u>12,773</u>	<u>59,012</u>	<u>114,371</u>
Income (loss) before transfers	(165,578)	112,187	(180,629)	(234,020)	(2,997,200)
Transfers in (Note 4)	53,215	457,312	1,363,593	1,874,120	1,092,130
Transfers (out) - fund closing (Note 14)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(532,385)</u>
Changes in net position	<u>(112,363)</u>	<u>569,499</u>	<u>1,182,964</u>	<u>1,640,100</u>	<u>(2,437,455)</u>
Net position - beginning of year as restated (Note 15)	<u>5,454,010</u>	<u>2,497,919</u>	<u>1,459,428</u>	<u>9,411,357</u>	<u>17,506,102</u>
Net position - end of year	<u>\$ 5,341,647</u>	<u>\$ 3,067,418</u>	<u>\$ 2,642,392</u>	<u>\$ 11,051,457</u>	<u>\$ 15,068,647</u>

Reconciliation of proprietary fund statement of revenues, expenses and changes in net position to the statement of activities:

Beginning net position above	\$ 9,411,357
The City's Recreation Programs Fund had a restatement of beginning net position due to an error in the reporting of capital assets in prior years which was determined not to be material at the government-wide level.	<u>(327,730)</u>
Beginning net position reported in the statement of activities:	<u>\$ 9,083,627</u>
Change in net position above	\$ 1,640,100
The City's Recreation Programs Fund had a restatement of beginning net position due to an error in the reporting of capital assets in prior years which was determined not to be material at the government-wide level.	<u>327,730</u>
Change in net position reported in the statement of activities:	<u>\$ 1,967,830</u>

CITY OF CUPERTINO, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Resources Recovery	Recreation Programs	Nonmajor Enterprise Funds	Totals	
Cash flows from operating activities					
Cash received from customers	\$ 3,094,334	\$ 2,682,977	\$ 2,575,147	\$ 8,352,458	\$ 3,756,878
Cash payments to suppliers for goods and services	(2,722,323)	(1,860,659)	(2,051,060)	(6,634,042)	(2,570,021)
Cash payments to employees for salaries and benefits	(596,237)	(775,766)	(672,936)	(2,044,939)	(2,561,366)
Cash payments for judgment and claims	-	-	-	-	(587,271)
Net cash provided (used) by operating activities	<u>(224,226)</u>	<u>46,552</u>	<u>(148,849)</u>	<u>(326,523)</u>	<u>(1,961,780)</u>
Cash flows from noncapital financing activities					
Transfers in	53,215	457,312	1,363,593	1,874,120	2,041,910
Transfers (out) - fund closing	-	-	-	-	(337,571)
Cash flows from noncapital financing activities	<u>53,215</u>	<u>457,312</u>	<u>1,363,593</u>	<u>1,874,120</u>	<u>1,704,339</u>
Cash flows from capital and related financing activities					
Acquisition of capital assets	<u>(2,484)</u>	<u>(13,298)</u>	<u>(252,310)</u>	<u>(268,092)</u>	<u>(1,105,218)</u>
Cash flows from capital and related financing activities	<u>(2,484)</u>	<u>(13,298)</u>	<u>(252,310)</u>	<u>(268,092)</u>	<u>(1,105,218)</u>
Cash Flows from Investing Activities					
Interest received	<u>33,409</u>	<u>12,830</u>	<u>12,773</u>	<u>59,012</u>	<u>32,276</u>
Cash flows from investing activities	<u>33,409</u>	<u>12,830</u>	<u>12,773</u>	<u>59,012</u>	<u>32,276</u>
Net cash flows	<u>(140,086)</u>	<u>503,396</u>	<u>975,207</u>	<u>1,338,517</u>	<u>(1,330,383)</u>
Cash and investments at beginning of year	<u>6,433,913</u>	<u>2,227,682</u>	<u>2,050,480</u>	<u>10,712,075</u>	<u>8,359,387</u>
Cash and investments at end of year	<u>\$ 6,293,827</u>	<u>\$ 2,731,078</u>	<u>\$ 3,025,687</u>	<u>\$ 12,050,592</u>	<u>\$ 7,029,004</u>
Reconciliation of operating income (loss) to to net cash provided by operating activities:					
Operating income (loss)	\$ (198,987)	\$ 99,357	\$ (193,402)	\$ (293,032)	\$ (3,111,571)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,351	266,478	62,008	331,837	\$ 212,908
Change in assets and liabilities					
Accounts receivable	302,144	(74,930)	7,243	234,457	12,945
Prepaid expense	-	-	-	-	25,210
Net OPEB asset	-	-	-	-	147,661
Due to retirement system	106,371	(76,754)	3,749	33,366	509,843
Accounts payable and accruals	(459,079)	(83,506)	(40,252)	(582,837)	10,339
Unearned revenue	-	(20,681)	4,657	(16,024)	-
Compensated absences	21,974	(63,412)	7,148	(34,290)	29,332
Claims payable	-	-	-	-	201,553
Net cash provided (used) by operating activities	<u>\$ (224,226)</u>	<u>\$ 46,552</u>	<u>\$ (148,849)</u>	<u>\$ (326,523)</u>	<u>\$ (1,961,780)</u>
Noncash capital and related financing					
Transfer of capital assets	\$ -	\$ -	\$ -	\$ -	\$ 512,648
Transfer of debt	-	-	-	-	(240,637)

FIDUCIARY FUND

Fiduciary funds account for activities where the City holds related resources in trust for specific purposes but cannot claim the resources with those that belong to the City.

Other Post-Employment Benefits Trust Fund: This fund accounts for activity related the City's OPEB plan administered through a qualified trust.

CITY OF CUPERTINO, CALIFORNIA
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	<u>Other Post-Employment Benefits Trust Fund</u>
ASSETS	
Cash and equivalents	\$ 283,196
Investments:	
Mutual funds:	
Fixed income	7,028,405
Equity	16,811,534
Real estate	1,390,234
Commodities	<u>231,706</u>
 Total assets	 <u>25,745,075</u>
 LIABILITIES	 <u>-</u>
 NET POSITION	
Restricted for post-employment benefits other than pensions	 <u>\$ 25,745,075</u>

See accompanying notes to financial statements.

CITY OF CUPERTINO, CALIFORNIA
 FIDUCIARY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	Other Post-Employment Benefits Trust Fund
ADDITIONS	
Employer contributions	\$ 1,332,975
Investment income:	
Net increase in fair value of investments	2,563,281
Interest and dividends	451,950
Less investment expense	(55,617)
Total additions	4,292,589
DEDUCTIONS	
Benefit payments	1,332,975
Administrative expense	48,629
Total deductions	1,381,604
Change in net position	2,910,985
Net position - beginning of year	22,834,090
Net position - end of year	\$ 25,745,075

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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 unit entity 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 Unit: 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 solely 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 Corporation does not issue separate financial statements, since it is reported separately in the City's basic financial statements.

Fiduciary Component Unit/Change in Reporting Entity: 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 functions for the benefit of the employees. The City funds all PARS Trust costs based on actuarial valuations for its specific portion of the PARS Trust as opposed to the PARS Trust as a whole.

Effective July 1, 2016, the City reported in its fiduciary fund financial statements the PARS Trust that pertains to the City as well as any non-Trust elements of the Plan that are required to be recognized under applicable standards due to a change in the reporting entity. With the implementation of GASB Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the City reviewed the PARS Trust separately issued financial statements and determined that inclusion of the City OPEB Plan component unit financial statements and related disclosures as a City trust fund were necessary as omission would have been misleading. As a result, a cumulative effect adjustment of \$22,834,090 has been reported to present the beginning net position of the fund.

Measurement Focus, Basis of Accounting and Basis of Presentation: The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Government-wide Statements: The Statement of Net Position 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 and distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position 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 (plus deferred outflows), liabilities (plus deferred inflows), revenues or expenditures in excess of ten percent of their fund-type total and five percent of the aggregate total for both governmental funds and enterprise funds. The General Fund is always a major fund. The City may select other funds it believes should be presented as major funds.

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

- *The General Fund* is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.
- *The Transportation Special Revenue Fund* accounts for the City's gas tax, vehicle registration fees 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 expenses.
- *The Housing Development Special Revenue Fund* 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following 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 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; allot" which are provided to other departments on a cost-reimbursement basis.

Fiduciary Fund. The City's **Other Post-Employment Benefits (OPEB) Trust fund** is established in accordance with GASB Statement No. 74 for the defined benefit OPEB plan administered through trusts that meet the specified criteria.

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

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

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

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a deferred inflow 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.

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

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

During the fiscal year, expenditures exceeded appropriations as follows:

<u>Fund/Department</u>	Excess of Expenditures <u>Over</u>
Public Facilities Corporation Debt Service Fund	\$ 9,496

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, except for money market mutual funds which are reported at amortized cost.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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.

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

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 Position.

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes in compensated absences for the year ended June 30, 2017 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Beginning balance	\$ 2,806,186	\$ 220,138	\$ 3,026,324
Additions	905,273	-	905,273
Reductions	<u>(505,411)</u>	<u>(34,290)</u>	<u>(539,701)</u>
Ending balance	<u>\$ 3,206,048</u>	<u>\$ 185,848</u>	<u>\$ 3,391,896</u>
Current portion	<u>\$ 502,760</u>	<u>\$ 78,882</u>	<u>\$ 581,642</u>
Non-current portion	<u>\$ 2,703,288</u>	<u>\$ 106,966</u>	<u>\$ 2,810,254</u>

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports differences between expected and actual experience, changes in pension assumptions, loss on pension investments, and contributions made subsequent to the measurement date as well. Differences between expected and actual experience and changes in pension plan assumptions are deferred and amortized over the average of the expected remaining service lives of employees who are provided with benefits through the pension plan. Loss on pension investments are deferred and amortized over five years. Employer contributions made subsequent to the measurement date and change in proportionate share are deferred and recognized as a reduction of the net pension liability in the subsequent reporting year.

In addition to liabilities, the statement of financial position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Under the accrual basis of accounting differences between expected and actual experience are deferred and amortized over the average of the expected remaining service lives of all employees who are provided with benefits through the pension plan.

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 percent 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.

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements: Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2017.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The implementation of this statement is reflected in the Fiduciary Fund financial statements, Note 11 of the City's Notes to Basic Financial Statements, and in the Required Supplementary Information.

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This Statement is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement did not have an effect on the financial statements of the City.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employees through a cost –sharing multiple-employer defined benefit pension plan that is not a state or local governmental pension plan, is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and has no predominant state or local governmental employer(either individually or collectively with other state or local governmental employers that provide pension through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement did not have a material effect on the financial statements of the City.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement did not have a material effect on the financial statements of the City.

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements 67, 68 and 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a material effect on the financial statements of the City.

Fair Value Measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs — other than quoted prices included within level 1 — that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – CASH AND INVESTMENTS

Primary Government

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

Policies: California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150 percent 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.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 with the exception of money market mutual funds, which are carried at amortized cost. 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.

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

	<u>Primary Government</u>
Cash and investments	\$ 141,140,737
Restricted cash and investments:	
Held by fiscal agent for bond repayments	4,251,603
Total cash and investments	\$ 145,392,340

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 \$65 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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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

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

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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>
Cash or obligations of the U.S. including U.S. Treasury obligations	N/A	N/A	None
Federal agencies obligations which represent full faith and credit of the U.S.	N/A	N/A	None
Direct federal agencies obligations which are not fully guaranteed by the full faith and credit of the U.S.	N/A	N/A	None
U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks	360 days	P-1, A-1+, A-1	None
Commercial Paper	270 days	P-1, A-1	None
Money market funds	N/A	Aaam or AAAM-G	None
Pre-refunded municipal obligations that are not callable prior to maturity or as to which irrevocable instructions have been given to call on the date specified in the notice	N/A	Highest rating category	None
Municipal obligations or General obligations of states	N/A	Aaa, AAA, A2, A	None
California Local Agency Investment Fund (LAIF)	N/A	N/A	Up to \$65 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

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:

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

<u>Investment Type</u>	12 Months or less	13 to 24 Months	More than 24 Months	Total
U.S. Treasury Securities	\$ 7,984,570	\$ 5,961,540	\$ 8,913,380	\$ 22,859,490
U.S. Agency Notes				
Federal Home Loan Mortgage Corporation	4,995,120	5,972,070	9,899,310	20,866,500
Federal National Mortgage Association	1,995,870	1,002,810	4,917,570	7,916,250
Federal Home Loan Banks	4,993,170	4,990,470	9,126,070	19,109,710
Federal Farm Credit Banks	10,988,670	5,980,800	1,979,480	18,948,950
Local Agency Investment Fund	40,885,119	-	-	40,885,119
Money Market Mutual Funds	10,633,719	-	-	10,633,719
Total Investments	<u>\$82,476,238</u>	<u>\$23,907,690</u>	<u>\$34,835,810</u>	<u>141,219,738</u>
Cash in banks and on hand				4,172,602
Total Cash and Investments				<u>\$ 145,392,340</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are U.S. Treasuries, Federal Agency obligations, time deposits, negotiable certificates of deposits, commercial paper, corporate bonds, and security loans. These investments had weighted average maturity of 167 days.

Money market mutual funds are available for withdrawal on demand. At June 30, 2017, money market mutual funds, used for pooled investment and held by fiscal agent purposes, had a weighted average maturity of 40 days or less.

Fair Value Hierarchy: The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2017:

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments by Fair Value Level:	Level 1	Level 2	Total
U.S. Treasury Securities	\$22,859,490	\$ -	\$ 22,859,490
U.S. Agency Notes			
Federal Home Loan Mortgage Corporation	-	20,866,500	20,866,500
Federal National Mortgage Association	-	7,916,250	7,916,250
Federal Home Loan Banks	-	19,109,710	19,109,710
Federal Farm Credit Banks	-	18,948,950	18,948,950
Total Investments	\$22,859,490	\$ 66,841,410	89,700,900

Investments Measured at Amortized Cost:

Money Market Mutual Funds 10,633,719

Investments Exempt from Fair Value Hierarchy:

Local Agency Investment Fund 40,885,119

Cash in banks and on hand 4,172,602

Total Cash and Investments \$ 145,392,340

Investments classified in Level 1 of the fair value hierarchy include U.S. Treasury Notes valued using quoted prices in active markets. Federal Agency Securities, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank. The California Local Agency Investment Fund (LAIF) is valued using factors provided in the Pooled Money Investment Account (PMIA) Performance Report by the State Treasurer's Office. Money market funds are exempt from fair value measurement and are reported at amortized cost.

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, 2017 for each investment type, including those with fiscal agents, as provided by Moody's ratings:

Investment Type	Ratings	Total
Money Market Mutual Funds	AAA	\$ 10,633,719
U.S. Agency Notes		
Federal Home Loan Mortgage Corporation	AAA	20,866,500
Federal National Mortgage Association	AAA	7,916,250
Federal Home Loan Banks	AAA	19,109,710
Federal Farm Credit Banks	AAA	18,948,950
U.S. Treasury Securities	AAA	22,859,490
Not Rated:		
Local Agency Investment Fund	Not Rated	40,885,119
Total Investments		\$ 141,219,738

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 had the following investments that represent 5% or more of total City-wide investments:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation (FHLMC)	U.S. Agency Notes	\$20,866,500
Federal National Mortgage Association (FNMA)	U.S. Agency Notes	7,916,250
Federal Home Loan Banks (FHLB)	U.S. Agency Notes	19,109,710
Federal Farm Credit Banks (FFCB)	U.S. Agency Notes	18,948,950

OPEB Trust:

The OPEB Trust's pooled idle funds are invested pursuant to investment policy guidelines adopted by the Plan. 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 Plan maintains a cash and investment pool that is available for use only by the plan and not any other City funds.

Policies: California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the Plan's cash on deposit, or first trust deed mortgage notes with a market value of 150 percent 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 Plans name and places the Plan ahead of general creditors of the institution.

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

The Plan's investments are carried at fair value with the exception of money market mutual funds which are carried at amortized cost. The Plan 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.

Classification: The Plan's total cash and investments, at fair value, are presented on the fiduciary fund financial statements.

(Continued)

NOTE 2 – CASH AND INVESTMENTS (Continued)

Authorized Investments: The Plan's Investment Policy and the California Government Code allow the Plan 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. Specifics of the policy are:

Fixed Income Assets: The fixed income investments are to maintain intermediate-term average weighted duration, between three-seven years. At the time of purchase, no single fixed income issuer shall exceed 2% of the total market value of the Portfolio, with the exception of U.S. Treasury or Agency obligations. The direct high-yield portion shall constitute no more than 10% of the total market value of the Portfolio.

Equity & Growth Assets: The domestic equity investments are expected to be diversified at all times by size, industry, sector, and style (Large Cap, Mid Cap, and Small Cap). At the time of purchase, no individual equity security shall exceed 2% of the total market value of the Portfolio. The international equity investments (including emerging markets) shall constitute no more than 20% of the total market value of the Portfolio. The real estate investments shall be captured through the use of diversified mutual funds or ETFs investing in REITs; and shall constitute no more than 15% of the total market value of the Portfolio. The commodities investments shall be captured through the use of diversified mutual funds or ETFs; and shall constitute no more than 10% of the total market value of the Portfolio.

Permitted Asset Classes and Security Types

- Fixed Income & Cash Equivalent Investments:
 - Domestic Certificates of Deposit (rated A-1/P-1 or better)
 - Domestic Commercial Paper (rated A-1/P-1 or better)
 - Floating Rate Notes
 - Money Market Mutual Funds
 - U.S. Treasury Bonds, Bills and Notes
 - U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
 - Treasury Inflation-Protected Securities (TIPS)
 - Municipal Bonds and Notes
 - Corporate Bonds
 - Mortgage-Backed Bonds (MBS)
 - Asset-Backed Bonds (ABS)
 - High-Yield Bonds (rated B-/B3 or better)
 - Dollar denominated Foreign Bonds and Notes
 - Bond Mutual Funds

- Equity Investments:
 - Common & Preferred Stocks
 - American Depository Receipts (ADRs)
 - Domestic and International Equity Mutual Funds (Open and Closed)
 - Emerging Market Equity Funds or Exchange Traded Funds (ETFs)

- Alternative Investments:
 - Commodities Mutual Funds or Exchange Traded Notes (ETNs)
 - REIT Investment or Pooled Strategy or Fund of REITs
 - Registered Hedge Funds or Hedge Fund of Funds

(Continued)

NOTE 2 – CASH AND INVESTMENTS (Continued)

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. All of the Plan's investments are held in mutual fund securities with a maturity of less than 12 months.

Money market mutual funds are available for withdrawal on demand. At June 30, 2017, money market mutual funds, used for pooled investment and held by fiscal agent purposes, had a weighted average maturity of 34 days or less.

Fair Value Hierarchy: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Plan's investments in mutual funds are valued at fair value and are considered Level 1 investments.

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. As the Plan is invested in mutual funds, there are no available credit risk ratings.

Concentration of Credit Risk: The Plan'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 Plan did not have investments that represent 5% or more of total Plan investments.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 3 — LOANS RECEIVABLE

Related Party Loans: In conjunction with the City's executive housing assistance program, a loan totaling \$584,360 has been provided to an executive manager. The 40-year loan bears an interest rate equal to the 11th District Cost of Funds at the time of the loan, and requires bi-weekly principal and interest payments. In addition, there is a two percent deferral on the interest rate for the first five years of the loan, at which time the interest rate may be adjusted to the current 11th District Cost of Funds for the remainder of the loan. At June 30, 2017, the balance remaining on the loan was \$388,256.

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, 2017, 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, 2017, the balance on the loan was \$198,632.

In addition to these loans, the City has \$41,120 in housing and other loans receivable at June 30, 2017. These loans bear interest at 3 to 6 percent and are due by June 30, 2025.

NOTE 4 – INTERFUND TRANSACTIONS

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

<u>Fund Making Transfers</u>	<u>Fund Receiving Transfers</u>	<u>Amount Transferred</u>
General Fund	Transportation Special Revenue Fund	\$ 3,355,374 (A)
	Housing Development	3,614 (D)
	Public Financing Corporation Debt Service Fund	3,177,286 (B,D)
	Capital Improvement Projects Capital Projects Fund	15,000,000 (A)
	Non-major Governmental Funds	2,106,834 (C)
	Resource Recovery Enterprise Fund	53,215 (D)
	Recreation Program Enterprise Fund	457,312 (D)
	Non-major Enterprise Funds	1,363,593 (D)
	Internal Service Funds	1,092,130 (E)
Capital Improvements Projects Capital Projects Fund	Transportation Special Revenue Fund	2,797,608 (A)
Non-major Governmental Funds	General Fund	<u>5,374 (F)</u>
Total Interfund Transfers		<u>\$ 29,412,340</u>

The reasons for these transfers are set forth below:

- (A) To fund capital projects.
- (B) For annual lease payment for 2012 Certificates of Participation debt service.
- (C) To support state-mandated activities including complaint response and enforcement programs.
- (D) Operating subsidy from General Fund.
- (E) To fund IT operations, personnel costs associated with staffing special project, and compensated absences and retiree health.
- (F) To transfer residual resources due to fund closing.

Current Interfund Balances: Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2017, the Retiree Medical Internal Service Fund owed the General Fund \$1,400,000.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 – CAPITAL ASSETS

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

	Balance at July 1, 2016	Additions	Deletions	Transfers	Balance at June 30, 2017
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 62,045,969	\$ -	\$ -	\$ -	\$ 62,045,969
Easements	19,491,959	-	-	-	19,491,959
Construction in Progress	759,718	9,873,146	(635,609)	(9,223,690)	773,565
Total Capital Assets Not Being Depreciated	<u>82,297,646</u>	<u>9,873,146</u>	<u>(635,609)</u>	<u>(9,223,690)</u>	<u>82,311,493</u>
Capital Assets Being Depreciated:					
Buildings	44,335,568	-	-	(573,472)	43,762,096
Improvements Other Than Buildings	48,917,333	-	(22,631)	770,345	49,665,047
Machinery and Equipment	2,581,617	-	(599,000)	1,086,626	3,069,243
Road, Curbs, Gutters, Sidewalks, Medians and Bridges	151,585,111	-	-	8,225,961	159,811,072
Streetlights	8,633,769	-	-	1	8,633,770
Storm Drain Structure and Mains	35,789,952	-	-	6,803	35,796,755
Traffic Signals	6,191,808	-	-	226,438	6,418,246
Total Capital Assets Being Depreciated	<u>298,035,158</u>	<u>-</u>	<u>(621,631)</u>	<u>9,742,702</u>	<u>307,156,229</u>
Less Accumulated Depreciation For:					
Buildings	(24,565,434)	(1,602,902)	-	848,366	(25,319,970)
Improvements Other Than Buildings	(31,943,199)	(2,052,955)	22,631	(33,838)	(34,007,361)
Machinery and Equipment	(2,030,390)	(267,803)	599,000	(371,746)	(2,070,939)
Road, Curbs, Gutters, Sidewalks, Medians and Bridges	(101,339,851)	(2,064,464)	-	(367,123)	(103,771,438)
Streetlights	(7,020,638)	(106,688)	-	(3,734)	(7,131,060)
Storm Drain Structure and Mains	(30,615,795)	(1,156,082)	-	(75,781)	(31,847,658)
Traffic Signals	(5,244,200)	(103,908)	-	(2,505)	(5,350,613)
Total Accumulated Depreciation	<u>(202,759,507)</u>	<u>(7,354,802)</u>	<u>621,631</u>	<u>(6,361)</u>	<u>(209,499,039)</u>
Total General Government Capital Assets Being Depreciated, Net	<u>95,275,651</u>	<u>(7,354,802)</u>	<u>-</u>	<u>9,736,341</u>	<u>97,657,190</u>
Internal Service Fund Capital Assets					
Machinery and Equipment	9,038,313	1,235,410	(998,669)	(666,436)	8,608,618
Less Accumulated Depreciation	<u>(6,828,916)</u>	<u>(212,908)</u>	<u>998,669</u>	<u>153,785</u>	<u>(5,889,370)</u>
Net Internal Service Fund Capital Assets Being Depreciated	<u>2,209,397</u>	<u>1,022,502</u>	<u>-</u>	<u>(512,651)</u>	<u>2,719,248</u>
Governmental Activity Capital Assets, Net	<u>\$179,782,694</u>	<u>\$ 3,540,846</u>	<u>\$ (635,609)</u>	<u>\$ -</u>	<u>\$182,687,931</u>

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 5 – CAPITAL ASSETS (Continued)

	Restated Balance at July 1, 2016	Additions	Deletions	Transfers	Balance at June 30, 2017
Business-Type Activities:					
Capital Assets Not Being Depreciated:					
Construction in Progress	\$ 607,494	\$ 81,870	\$ -	\$ (676,068)	\$ 13,296
Total Capital Assets Not Being Depreciated	<u>607,494</u>	<u>81,870</u>	<u>-</u>	<u>(676,068)</u>	<u>13,296</u>
Capital Assets Being Depreciated:					
Buildings	681,914	-	-	324,088	1,006,002
Improvements Other Than Buildings	1,594,177	186,223	(2,089)	279,140	2,057,451
Machinery and Equipment	300,369	-	(28,203)	351,166	623,332
Total Capital Assets Being Depreciated	<u>2,576,460</u>	<u>186,223</u>	<u>(30,292)</u>	<u>954,394</u>	<u>3,686,785</u>
Less Accumulated Depreciation For:					
Buildings	(180,636)	(28,337)	-	(42,284)	(251,257)
Improvements Other Than Buildings	(688,185)	(288,178)	2,089	26,229	(948,045)
Machinery and Equipment	(279,220)	(15,322)	28,203	(262,271)	(528,610)
Total Accumulated Depreciation	<u>(1,148,041)</u>	<u>(331,837)</u>	<u>30,292</u>	<u>(278,326)</u>	<u>(1,727,912)</u>
Total Capital Assets Being Depreciated, Net	<u>1,428,419</u>	<u>(145,614)</u>	<u>-</u>	<u>676,068</u>	<u>1,958,873</u>
Business-Type Activity Capital Assets, Net	<u>\$ 2,035,913</u>	<u>\$ (63,744)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,972,169</u>

Depreciation expense was charged to functions and programs based on their usage of the related assets. Depreciation expense was charged to governmental activities as follows:

Governmental Activities	
Administration	\$ 180,540
Public and Environment Affairs	15,783
Administrative Services	27,980
Parks and Recreation	159,986
Public Works	6,970,513
Internal Service Funds	212,908
Total	<u>\$ 7,567,710</u>

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

Business-Type Activities	
Resources Recovery	\$ 3,351
Blackberry Farm	21,470
Cupertino Sports Center	40,538
Recreation Program	266,478
Total	<u>\$ 331,837</u>

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 6 – LONG-TERM DEBT

Cupertino Public Facilities Corporation Certificates of Participation:

	<u>Original Issue Amount</u>	<u>Balance June 30, 2016</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
2012 Refinancing Certificates of Participation:					
0.350-3.125%, due 07/01/2030	\$ 43,940,000	\$ 35,835,000	\$ 2,135,000	\$ 33,700,000	\$ 2,180,000
Total long-term debt		<u>\$ 35,835,000</u>	<u>\$ 2,135,000</u>	<u>\$ 33,700,000</u>	<u>\$ 2,180,000</u>

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 May 9, 2012, \$43,940,000 principal amount of 2012 Refinancing Certificates of Participation (2012 COPs) were issued to refund the 2002 COPs, to fund a reserve fund for the 2012 COPs, and pay costs incurred in connection with issuance.

The 2012 COPs are payable by a pledge of revenues from the lease payments payable by the City pursuant to the Lease Agreement between the Cupertino Public Facilities Corporation and the City for the use and possession of the Site and Facility as described in the Lease Agreement. The City also covenanted in the Lease Agreement to include all lease payments in its annual budget. Total debt service payments remaining on the 2012 COPs is \$41,217,585 payable through July 1, 2030. For the year ended June 30, 2017, the bonds had \$2,135,000 of principal and \$1,035,738 interest due.

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

For the Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,180,000	\$ 993,038
2019	2,220,000	949,438
2020	2,290,000	882,838
2021	2,355,000	814,138
2022	2,425,000	743,486
2023-2027	13,275,000	2,580,740
2028-2030	<u>8,955,000</u>	<u>553,907</u>
Total	<u>\$ 33,700,000</u>	<u>\$ 7,517,585</u>

(Continued)

NOTE 7 – NET POSITION AND FUND BALANCES

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

Net Position: The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets - This category groups all capital assets including, infrastructure, into one component of net position. 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 position that has 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.

Unrestricted - This category represents net position of the City that do not meet the definition of "net investment in capital assets" or "restricted."

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

Nonspendable Fund Balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: prepaid items, property held for resale 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 (resolution) that imposed the constraint originally.

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. Through the adopted budget, the City Council establishes assigned fund balance policy levels and also sets the means and priority for the City Manager to fund these levels.

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

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

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 7 - NET POSITION AND FUND BALANCES (Continued)

Fund balances for all major and nonmajor governmental funds as of June 30, 2017, were distributed as follows:

	General	Transportation	Housing Development	Public Facilities Corporation	Capital Improvements Projects	Other Governmental Funds	Total
Nonspendable:							
Loans receivable	\$ 851,714	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 851,714
Prepaid items	25,225	-	-	-	-	-	25,225
Subtotal	<u>876,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>876,939</u>
Restricted for:							
Public access television	1,016,771	-	-	-	-	-	1,016,771
Debt service	-	-	-	1,597,234	-	-	1,597,234
Storm drain system	-	-	-	-	-	3,102,459	3,102,459
Parks and open space	-	-	-	-	-	9,412,548	9,412,548
Environmental management	-	-	-	-	-	397,236	397,236
Streets and road projects	-	6,981,275	-	-	-	-	6,981,275
Housing programs	-	-	12,484,169	-	-	-	12,484,169
Subtotal	<u>1,016,771</u>	<u>6,981,275</u>	<u>12,484,169</u>	<u>1,597,234</u>	<u>-</u>	<u>12,912,243</u>	<u>34,991,692</u>
Committed for:							
Economic uncertainty I	19,000,000	-	-	-	-	-	19,000,000
Streets and road projects	-	1,398,665	-	-	-	-	1,398,665
Subtotal	<u>19,000,000</u>	<u>1,398,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,398,665</u>
Assigned to:							
PERS liability	100,000	-	-	-	-	-	100,000
Encumbrances	4,538,181	-	-	-	-	-	4,538,181
Capital projects	-	-	-	-	25,069,160	236,814	25,305,974
Subtotal	<u>4,638,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,069,160</u>	<u>236,814</u>	<u>29,944,155</u>
Unassigned	28,057,799	-	-	-	-	-	28,057,799
Total	\$ 53,589,690	\$ 8,379,940	\$ 12,484,169	\$ 1,597,234	\$ 25,069,160	\$ 13,149,057	\$ 114,269,250

NOTE 8 – COMMITMENTS AND CONTINGENCIES

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, 2017, 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.

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

As of June 30, 2017, the City had the following encumbrances outstanding:

Governmental Funds:	
General Fund	\$ 4,538,181
Transportation Special Revenue Fund	4,019,740
Capital Improvements Projects Capital Projects Fund	708,867
Other Governmental Funds	1,199,125
Total Encumbrances	\$ 10,465,913

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, 2017, the cost and carrying value of the building which opened in October 2004, is \$21,952,133 and \$10,694,441 respectively, with \$11,257,692 in accumulated depreciation.

Consulting Agreement for Sales Taxes: The City entered into agreements with two companies to provide services consisting of the assessment and creation of new sales and use tax revenue sources for the City. The City agreed to pay the companies based on a sliding scale payment schedule dependent on the level of new sales tax revenue realized by the City as defined in the consulting agreements.

Santa Clara County Vehicle Registration Fee (VRF): The City is required to report VRF revenues, expenditures and fund balances as of the year ended June 30, 2017:

VRF Balance as of July 1, 2016	\$ -
VRF Revenue	352,246
VRF Interest	-
VRF Expended	352,246
VRF Balance as of June 30, 2017	\$ -

NOTE 9 – LIABILITIES UNDER SELF-INSURANCE AND RISK MANAGEMENT

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 30 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, 2017, the City paid ABAG PLAN premiums of \$419,644.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 9 – LIABILITIES UNDER SELF-INSURANCE AND RISK MANAGEMENT (Continued)

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 ETA may be obtained from their offices at the following address: CSAC Excess Insurance Authority, Finance Department, EIA 75 Iron Point Circle, Suite 200, Folsom, CA 95630. For the year ended June 30, 2017, the City paid premiums of \$115,327.

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 percent, annual rate of return of 2 percent, claim severity increase at 2.5 percent were assumed. In the current year, management used actuarial estimates based on a 90 percent confidence level.

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

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

	2017	2016
Claims liability, beginning of year	\$ 1,481,098	\$ 2,190,079
Incurred claims and changes in estimate	590,254	(379,665)
Claim payments and credits	(388,701)	(329,316)
Total claims liability, end of year	1,682,651	1,481,098
Less current portion	(521,998)	(489,499)
Non-current portion	\$ 1,160,653	\$ 991,599

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions and Summary of Balances by Plan: The City has one defined benefit pension plan. The Miscellaneous Plan (Plan) is an Agent-Multiple Employer Plan. Benefit provisions under the Plan is established by State statute and City Ordinance. All qualified permanent and probationary employees are eligible to participate in the Plan for which they are an eligible member based on their employment position with the City.

The Plan is administered by the California Public Employees' Retirement System (CalPERS) which acts as a common investment and administrative agent for its participating member employers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

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

Below is a summary of the deferred outflows of resources, net pension liabilities and deferred inflows of resources by Plan:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources
Miscellaneous	\$ 9,045,993	\$ 36,739,962	\$ 742,037

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012. The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Hire date	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Minimum retirement age	50	52
Monthly benefits, as a % of eligible compensation	2% to 2.7%	1% to 2%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	23.54%	25.653%

Employees Covered: As of the June 30, 2016 actuarial valuation date (most current), the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	201
Inactive employees entitled to but not yet receiving benefits	124
Active employees	182
Total	507

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability: The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions: The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service (1)
Investment Rate of Return	7.5% (2)
Derived using CalPERS' Membership	
Mortality	Data for all Funds (3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses and administrative expenses, including inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Change of Assumptions: There were no changes in the assumptions used for the June 30, 2016 measurement.

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return (presented as geometric means) are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Changes in Net Pension Liability: The changes in the Net Pension Liability for the City's Miscellaneous Plan are as follows:

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2015	<u>\$ 108,511,840</u>	<u>\$ 77,999,263</u>	<u>\$ 30,512,577</u>
Changes in the year:			
Service cost	2,525,314		2,525,314
Interest on the total pension liability	8,253,983		8,253,983
Differences between actual and expected experience	696,347		696,347
Contribution - employer		3,659,170	(3,659,170)
Contribution - employee		1,169,921	(1,169,921)
Net investment income		466,704	(466,704)
Administrative expenses		(47,536)	47,536
Benefit payments, including refunds of employee contributions	<u>(5,151,298)</u>	<u>(5,151,298)</u>	<u>-</u>
Net changes	<u>6,324,346</u>	<u>96,961</u>	<u>6,227,385</u>
Balance at June 30, 2016	<u>\$ 114,836,186</u>	<u>\$ 78,096,224</u>	<u>\$ 36,739,962</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the City, calculated using the discount rate for the Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$51,807,352
Current Discount Rate	7.65%
Net Pension Liability	\$36,739,962
1% Increase	8.65%
Net Pension Liability	\$24,242,330

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

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the City recognized pension expense of \$4,091,868. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,183,821	\$ -
Differences between actual and expected experience	632,240	-
Changes in assumptions	-	(742,037)
Net differences between projected and actual earnings on plan investments	4,229,932	-
Total	\$ 9,045,993	\$ (742,037)

The \$4,183,821 of contributions for the fiscal year ended June 30, 2017 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2018	\$ 365,560
2019	686,017
2020	1,975,781
2021	1,092,777
	\$ 4,120,135

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

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 \$1,605 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.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The City participates in the Public Agency Retirement System (PARS) Public Agencies Post Retirement Health Care Plan Trust Program (PARS Trust), an agent-multiple employer irrevocable trust established to fund other postemployment benefits. The City Council adopted the PARS Public Agencies Post-Retirement Health Care Plan Trust, including the PARS Public Agencies Post-Retirement Health Care Plan, to fund medical insurance costs for its retired employees, effective February 17, 2010. The City Council appointed the City Treasurer, or his/her successor or his/her designee as the City's plan administrator. The plan administrator is authorized to execute the PARS legal documents on behalf of the City and to take whatever additional actions necessary to maintain the City's participation in the Program and to maintain compliance of any relevant regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the City's PARS Plan. 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 is available at the City's Finance Department. However, as the City is the plan administrator and has ultimate responsibility for the plan, the City considered the plan to be a single employer plan with PARS as the trust administrator only (with no special funding situation or nonemployer contributing entity). As such, in accordance with the requirements of GASB Statement 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, the City has elected to present the PARS Trust as a fiduciary fund and include the required disclosures and required supplementary information in its annual financial statements.

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.

Plan membership: At January 1, 2017, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	130
Inactive plan members entitled to but not yet receiving benefit payments	1
Active plan members	<u>174</u>
	<u>305</u>

Funding Policy: OPEB Plan contributions are set by the adopted budget. The cost of the benefits provided by the OPEB Plan is currently being paid by the City on a fully pre-funded basis. The City has expressed intent to fully fund the annual required contribution (ARC) each year. Based on the actuarial valuation date of January 1, 2017, the annual required contribution rate is 7.11 percent of annual covered payroll. For the year ended June 30, 2017, the City paid \$956,571 in healthcare premium payments. Plan members are not required to contribute to the plan.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

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

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

The other significant actuarial assumptions used to prepare the City's January 1, 2017 actuarial valuation include the following:

Valuation date:	January 1, 2017
Measurement date:	June 30, 2017
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percent of pay closed
Amortization Period:	12 year
Asset Valuation Method:	Market value
Actuarial Assumptions:	
Discount Rate	7.00%
Payroll Growth	3.00%
Ultimate Rate of Medical Inflation	4.50%
Mortality (1)	CalPERS mortality assumptions

(1) 2014 CalPERS Experience Study, Recipients with attained age of 50

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

<u>Fiscal Year</u>	<u>OPEB Annual Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2015	\$ 1,584,785	\$ 9,088,056	573%	\$ (10,494,403)
6/30/2016	1,227,219	1,225,353	100%	(10,492,537)
6/30/2017	1,451,232	1,303,571	90%	(10,344,876)

(Continued)

CITY OF CUPERTINO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The City's Net OPEB asset is recorded in the Retiree Medical Internal Service Fund and is calculated as of June 30, 2017 as follows:

Annual required contribution	\$ 1,116,764
Interest on prior year net OPEB asset	(734,478)
Adjustment to annual required contribution	<u>1,068,946</u>
Annual OPEB cost	<u>1,451,232</u>
Insurance premiums paid on behalf of retirees	(956,571)
Implicit subsidy	<u>(347,000)</u>
Decrease in net OPEB asset	147,661
Net OPEB (asset) June 30, 2016	<u>(10,492,537)</u>
Net OPEB (asset) June 30, 2017	<u><u>\$ (10,344,876)</u></u>

The latest available actuarial data and funding progress are set forth below at their actuarial valuation date of January 1, 2017.

Actuarial accrued liability (AAL)	\$ 26,294,101
Actuarial value of planned assets	<u>(23,808,423)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,485,678</u>
Funded Ratio (actuarial value of plan assets/AAL)	90.55%
Covered payroll (active plan members)	\$ 15,705,000
UAAL as a percentage of covered payroll	15.83%

Investment policy: The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Plan's Board by a majority vote of its members. It is the policy of the Plan Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Fixed income	29%
Equities	62%
Real estate	6%
Commodities	2%
Cash	<u>1%</u>
Total	<u>100%</u>

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Concentrations: The Plan did not have investments outside of mutual funds that comprise 5% or more of the Plan's total fiduciary net position.

Rate of return: For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 10.74 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability of the City: The components of the net OPEB liability of the City at June 30, 2017 (expressed in thousands) were as follows:

Total OPEB liability	\$	27,006
Plan fiduciary net position		(25,745)
City's net OPEB liability		1,261

Plan fiduciary net position as a percentage of the total OPEB liability	95.3%
---	-------

The City is not required to report this liability on its financial statements for the year ended June 30, 2017, in accordance with the adoption requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the previously listed actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. Mortality rates were based on the CalPERS mortality assumptions.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income – core	4.00%
Fixed income – high yield	6.50%
Fixed income – inflation protected	4.25%
Fixed income – hedged	7.00%
Equities – domestic	8.50%
Equities – developed foreign	9.00%
Equities – emerging foreign	10.75%
Real estate	8.00%
Commodities	8.00%
Cash	1.00%

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Discount rate: The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate (expressed in thousands):

	1% Decrease	Discount Rate	1% Increase
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Net OPEB liability (asset)	\$ 4,746	\$ 1,261	\$ (1,625)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (decreasing to 3.5 percent) or 1-percentage-point higher (increasing to 5.5 percent) than the current healthcare cost trend rates (expressed in thousands):

	1% Decrease	Healthcare Cost	1% Increase
	<u>3.50%</u>	<u>Trend Rates</u>	<u>5.50%</u>
	<u>4.50%</u>		
Net OPEB liability (asset)	\$ (1,754)	\$ 1,261	\$ 4,944

NOTE 12 — CONCENTRATION RISK

The City has an economic dependency on revenues generated directly or indirectly from one company. For the year ended June 30, 2017, more than 10 percent of the City General Fund's total revenues are derived from the company. The City's operations would be adversely impacted if there are any significant declines in taxes received from the company.

(Continued)

NOTE 13 – UPCOMING GASB PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. This Statement is effective for the City's fiscal year ended June 30, 2018. This statement will have an effect on the City and the OPEB liability will be added to the Statement of Net Position.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This Statement provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement is effective for the City's fiscal year ended June 30, 2018. This statement will have no effect on the City.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement is effective for the City's fiscal year ended June 30, 2019. Management has not determined what impact, if any, this statement will have on its financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for the City's fiscal year ended June 30, 2020. Management has not determined what impact, if any, this statement will have on its financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This Statement is effective for the City's fiscal year ended June 30, 2018. Management has not determined what impact, if any, this statement will have on its financial statements.

In March 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the City's fiscal year ended June 30, 2018. Management has not determined what impact, if any, this statement will have on its financial statements.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the year ended June 30, 2017

NOTE 13 – UPCOMING GASB PRONOUCEMENTS (Continued)

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for the City's fiscal year ended June 30, 2021. Management has not determined what impact, if any, this statement will have on its financial statements.

NOTE 14 – FUND CLOSING TRANSFER

During FY17, the City elected to close the City Channel/Web Internal Service Fund and move the related current financial resources into the General Fund, with related capital assets and long-term debt being moved into the Governmental Activities. This was effective as of July 1, 2016. The transfer of current resources as of July 1, 2016 was reflected as a separate transfer in the General Fund of \$260,374, with the residual capital assets and long-term debt of \$272,011 being reported as a part of the Governmental Activities for a total transfer of \$532,385.

NOTE 15 – PRIOR PERIOD RESTATEMENTS

In FY17 the City identified and corrected two errors in the financial statements. The first error pertained to capital assets that were not reported in the correct fund as well as construction in progress that was not calculated correctly in prior years. The second error pertained to the incorrect allocations of pension-related liabilities, deferred outflows of resources and deferred inflows of resources between the funds they are directly related to and expected to be paid from. A summary of the restatements is as follows:

	Net Position July 1, 2016	Capital Assets Adjustment	Pension Adjustment	Net Position July 1, 2016 (as restated)
Information Technology Internal Service Fund	\$ 2,821,765	\$ -	\$ (1,184,643)	\$ 1,637,122
Recreation Programs Enterprise Fund	2,170,189	327,730	-	2,497,919

The impact on the change in net position for the preceding period for the Information Technology Internal Service Fund was (\$1,141,065) and the impact on the Recreation Programs Enterprise Fund was \$743,272.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

CITY OF CUPERTINO
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
For the year ended June 30, 2017

Agent Multiple Employer Defined Benefit Retirement Plan – Miscellaneous Plan
Last 10 years*

Measurement Date	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>
Total Pension Liability			
Service Cost	\$ 2,504,228	\$ 2,444,939	\$ 2,525,314
Interest	7,349,943	7,789,134	8,253,983
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	372,917	696,347
Changes in assumptions	-	(1,883,633)	-
Benefit payments, including refunds of employee contributions	<u>(4,351,614)</u>	<u>(4,637,005)</u>	<u>(5,151,298)</u>
Net change in total pension liability	5,502,557	4,086,352	6,324,346
Total pension liability - beginning	<u>98,922,931</u>	<u>104,425,488</u>	<u>108,511,840</u>
Total pension liability - ending (a)	<u>\$ 104,425,488</u>	<u>\$ 108,511,840</u>	<u>\$ 114,836,186</u>
Plan fiduciary net position			
Contributions - employer	\$ 2,891,986	\$ 3,301,642	\$ 3,659,170
Contributions - employee	1,061,884	1,149,894	1,169,921
Net investment income	11,379,985	1,724,204	466,704
Benefit payments, including refunds of employee contributions	(4,351,614)	(4,637,005)	(5,151,298)
Administrative expense	<u>-</u>	<u>(87,780)</u>	<u>(47,536)</u>
Net change in plan fiduciary net position	10,982,241	1,450,955	96,961
Plan fiduciary net position - beginning	<u>65,566,067</u>	<u>76,548,308</u>	<u>77,999,263</u>
Plan fiduciary net position - ending (b)	<u>\$ 76,548,308</u>	<u>\$ 77,999,263</u>	<u>\$ 78,096,224</u>
Net pension liability - ending (a)-(b)	\$ 27,877,180	\$ 30,512,577	\$ 36,739,962
Plan fiduciary net position as a percentage of the total pension liability	73.30%	71.88%	68.01%
Covered payroll	\$ 13,080,327	\$ 13,504,966	\$ 14,336,969
Net pension liability as percentage of covered payroll	213.12%	225.94%	256.26%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the actuarial valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2015 measurement date were the same as those used for the June 30, 2016 measurement date.

* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

Source: CalPERS Accounting Valuation

CITY OF CUPERTINO
SCHEDULE OF CONTRIBUTIONS
For the year ended June 30, 2017

Agent Multiple Employer Defined Benefit Retirement Plan - Miscellaneous Plan
Last 10 Years*

	2015	2016	2017
Actuarially determined contribution	\$ 3,608,853	\$ 3,659,170	\$ 4,183,821
Contributions in relation to the actuarially determined contributions	(3,608,853)	(3,659,170)	(4,183,821)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered payroll	 \$ 13,504,966	 \$ 14,336,969	 \$ 16,505,207
Contributions as a percentage of covered payroll	26.72%	25.52%	25.35%

Notes to Schedule

Valuation date:	6/30/2013	6/30/2014	6/30/2015
-----------------	-----------	-----------	-----------

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increases	3%
Investment rate of return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
 Retirement age	 The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
 Mortality	 The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* - Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

Source: City of Cupertino's general ledger and CalPERS Actuarial Valuation

CITY OF CUPERTINO
 SCHEDULE OF FUNDING PROGRESS
 For the year ended June 30, 2017

Required Supplementary Information (Unaudited)
 Defined Benefit Other Post-Employment Benefits Plan:

Actuarial Valuation Date	Actuarial Accrued Liability Entry Age	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payrol
1/1/2015	\$23,370,871	\$14,770,023	\$ 8,600,848	63.20%	\$13,800,000	62.32%
1/1/2016	24,483,554	22,294,035	2,189,519	91.06%	14,214,000	15.40%
1/1/2017	26,294,101	23,808,423	2,485,678	90.55%	15,705,000	15.83%

CITY OF CUPERTINO, CA
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the year ended June 30, 2017

Single Employer Defined Benefit OPEB Plan
Last 10 years*
Expressed in thousands

	6/30/2017
Total OPEB liability	
Service cost	\$ 908
Interest	1,781
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(1,333)</u>
Net change in total OPEB liability	1,356
Total OPEB liability - beginning	<u>25,650</u>
Total OPEB liability - ending (a)	<u><u>\$ 27,006</u></u>
Plan fiduciary net position	
Contributions - employer	1,333
Net investment income	2,960
Benefit payments	(1,333)
Administrative expense	<u>(49)</u>
Net change in fiduciary net position	2,911
Plan fiduciary net position - beginning	<u>22,834</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 25,745</u></u>
Net OPEB liability - ending (a-b)	\$ 1,261
Plan fiduciary net position as a percentage of the total OPEB liability	95.33%
Covered-employee payroll	\$ 17,255
Net OPEB liability as a percentage of covered-employee payroll	7.31%

Notes to schedule:

* - Fiscal year 2017 was the 1st year of implementation, therefore only one year is shown.

CITY OF CUPERTINO, CA
 SCHEDULE OF CONTRIBUTIONS - OPEB
 For the year ended June 30, 2017

Single Employer Defined Benefit OPEB Plan
 Last 10 years*
Expressed in thousands

	6/30/2017
Actuarially determined contribution	\$ 1,117
Contributions in relation to the actuarially determined contributions	1,333
Contribution deficiency (excess)	\$ (216)
Covered-employee payroll	\$ 17,255
Contributions as a percentage of covered-employee payroll	7.73%

Notes to schedule:

* - Fiscal year 2017 was the 1st year of implementation, therefore only one year is shown.

Valuation Date 1/1/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, closed
Remaining amortization period	12 years as of the valuation date
Asset valuation method	Fair value of assets
Discount rate	7.00%
Amortization growth rate	3.00%
Ultimate rate of medical inflation	4.50%
Salary increases	3.00% plus merit component based on years of service
Mortality	CalPERS mortality assumptions

CITY OF CUPERTINO, CA
SCHEDULE OF INVESTMENT RETURNS - OPEB
For the year ended June 30, 2017

Single Employer Defined Benefit OPEB Plan
Last 10 years*

6/30/2017

Annual money-weighted rate of return, net of investment expense 10.74%

Notes to schedule:

* - Fiscal year 2017 was the 1st year of implementation, therefore only one year is shown.

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

This section is provided for the presentation of budget-to-actual statements for the Public Facilities Corporation Debt Service Fund. Although the fund is considered to be a major government fund, budget-to-actual information in the basic financial statements is limited to the General Fund and major Special Revenue Funds. All other major governmental fund schedules with such information are therefore included as Supplemental Information. The Capital Projects Funds are budgeted on a major project length basis and therefore not comparable on an annual basis.

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

CITY OF CUPERTINO, CALIFORNIA
PUBLIC FACILITIES CORPORATION DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Expenditures			
Administration	\$ -	\$ 6,296	\$ (6,296)
Debt service:			
Principal	3,167,538	2,135,000	1,032,538
Interest and fiscal charges	<u>-</u>	<u>1,035,738</u>	<u>(1,035,738)</u>
Total expenditures	<u>3,167,538</u>	<u>3,177,034</u>	<u>(9,496)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,167,538)</u>	<u>(3,177,034)</u>	<u>(9,496)</u>
Other financing sources (uses)			
Transfers in	<u>3,167,538</u>	<u>3,177,286</u>	<u>9,748</u>
Total other financing sources (uses)	<u>3,167,538</u>	<u>3,177,286</u>	<u>9,748</u>
Net change in fund balance	<u>\$ -</u>	252	<u>\$ 252</u>
Beginning fund balance		<u>1,596,982</u>	
Ending fund balance		<u>\$ 1,597,234</u>	

NON-MAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Special Revenue Funds			Capital Projects Funds			Total Nonmajor Governmental Funds
	Storm Drain Improvement	Park Dedication	Environmental Management/ Clean Creeks	Stevens Creek Corridor Park	Don Burnett Bicycle Pedestrian Bridge		
Assets							
Cash and investments	\$ 3,102,460	\$ 9,412,548	\$ 397,841	\$ 240,675	\$ -	\$ 13,153,524	
Accounts receivable	-	-	3,823	-	-	3,823	
Total assets	\$ 3,102,460	\$ 9,412,548	\$ 401,664	\$ 240,675	\$ -	\$ 13,157,347	
Liabilities							
Accounts payable and accruals	\$ 1	\$ -	\$ 4,428	\$ 3,861	\$ -	\$ 8,290	
Total liabilities	1	-	4,428	3,861	-	8,290	
Fund balances							
Restricted	3,102,459	9,412,548	397,236	-	-	12,912,243	
Assigned	-	-	-	236,814	-	236,814	
Total fund balances	3,102,459	9,412,548	397,236	236,814	-	13,149,057	
Total liabilities and fund balances	\$ 3,102,460	\$ 9,412,548	\$ 401,664	\$ 240,675	\$ -	\$ 13,157,347	

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds			Capital Projects Funds			Total Nonmajor Governmental Funds
	Storm Drain Improvement	Park Dedication	Environmental Management/ Clean Creeks	Stevens Creek Corridor Park	Don Burnett Bicycle Pedestrian Bridge		
Revenues							
Taxes	\$ 84,984	\$ 152,250	\$ -	\$ -	\$ -	\$ -	\$ 237,234
Use of money and property	10,201	51,641	1,411	-	-	-	63,253
Charges for services	-	2,700	369,884	-	-	-	372,584
Fines and forfeitures	-	-	10,071	-	-	-	10,071
Other revenue	-	-	7,640	-	-	-	7,640
Total revenues	<u>95,185</u>	<u>206,591</u>	<u>389,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>690,782</u>
Expenditures							
Current:							
Public works	13,623	-	594,357	-	-	-	607,980
Capital outlay	104,126	27,038	-	27,195	-	-	158,359
Total expenditures	<u>117,749</u>	<u>27,038</u>	<u>594,357</u>	<u>27,195</u>	<u>-</u>	<u>-</u>	<u>766,339</u>
Excess of revenues over (under) expenditures	<u>(22,564)</u>	<u>179,553</u>	<u>(205,351)</u>	<u>(27,195)</u>	<u>-</u>	<u>-</u>	<u>(75,557)</u>
Other finances sources (uses)							
Transfers in	1,950,000	-	156,834	-	-	-	2,106,834
Transfers out	-	-	-	-	(5,374)	-	(5,374)
Total other financing sources (uses)	<u>1,950,000</u>	<u>-</u>	<u>156,834</u>	<u>-</u>	<u>(5,374)</u>	<u>-</u>	<u>2,101,460</u>
Net change in fund balances	1,927,436	179,553	(48,517)	(27,195)	(5,374)	-	2,025,903
Beginning fund balances	<u>1,175,023</u>	<u>9,232,995</u>	<u>445,753</u>	<u>264,009</u>	<u>5,374</u>	<u>-</u>	<u>11,123,154</u>
Ending fund balances	<u>\$ 3,102,459</u>	<u>\$ 9,412,548</u>	<u>\$ 397,236</u>	<u>\$ 236,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,149,057</u>

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Storm Drain Improvement				Park Dedication				Special Revenue Funds				Environmental Management/Clean Creeks			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues																
Taxes	\$ 100,000	\$ 100,000	\$ 84,984	\$ (15,016)	\$ 17,821,125	\$ 17,821,125	\$ 152,250	\$ (17,668,875)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	10,201	10,201	-	-	51,641	51,641	-	-	1,411	1,411	-	-	369,884	369,884
Charges for services	-	-	-	-	-	-	2,700	2,700	-	-	502,000	502,000	-	-	10,071	(491,929)
Fines for forfeitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,640	7,640
Other revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	100,000	100,000	95,185	(4,815)	17,821,125	17,821,125	206,591	(17,614,534)	502,000	502,000	502,000	502,000	502,000	502,000	389,006	(112,994)
Expenditures																
Current:																
Public works	-	-	13,623	(13,623)	-	-	-	-	-	-	671,613	696,136	671,613	696,136	594,357	101,779
Capital outlay	2,025,000	117,750	104,126	13,624	-	27,039	27,038	1	-	-	-	-	-	-	-	-
Total expenditures	2,025,000	117,750	117,749	1	-	27,039	27,038	1	-	-	671,613	696,136	671,613	696,136	594,357	101,779
Excess (deficiency) of revenues over expenditures	(1,925,000)	(17,750)	(22,564)	(4,814)	17,821,125	17,794,086	179,553	(17,614,533)	(169,613)	(194,136)	(205,351)	(11,215)	(169,613)	(194,136)	(205,351)	(11,215)
Other financing sources (uses)																
Transfers in	1,950,000	1,950,000	1,950,000	-	-	-	-	-	128,679	156,834	156,834	-	128,679	156,834	156,834	-
Total other financing sources (uses)	1,950,000	1,950,000	1,950,000	-	-	-	-	-	128,679	156,834	156,834	-	128,679	156,834	156,834	-
Net change in fund balance	\$ 25,000	\$ 1,932,250	1,927,436	\$ (4,814)	\$ 17,821,125	\$ 17,794,086	179,553	\$ (17,614,533)	\$ (40,934)	\$ (37,302)	(48,517)	\$ (11,215)	\$ (40,934)	\$ (37,302)	(48,517)	\$ (11,215)
Beginning fund balance			1,175,023				9,232,995				445,753				445,753	
Ending fund balance			\$ 3,102,459				\$ 9,412,548				\$ 397,236				\$ 397,236	

NON-MAJOR ENTERPRISE FUNDS

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

The City has identified the funds below as nonmajor proprietary funds for fiscal 2016 - 17.

Blackberry Farm Fund: This fund accounts for activities related to operating the City-owned golf course.

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

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR ENTERPRISE FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Blackberry Farm	Cupertino Sports Center	Totals
ASSETS			
Current assets			
Cash and cash investments (Note 2)	\$ 819,319	\$ 2,206,368	\$ 3,025,687
Total current assets	<u>819,319</u>	<u>2,206,368</u>	<u>3,025,687</u>
Noncurrent assets			
Depreciable, net of accumulated depreciation	<u>60,000</u>	<u>496,255</u>	<u>556,255</u>
Total non current assets	<u>60,000</u>	<u>496,255</u>	<u>556,255</u>
Total assets	<u>879,319</u>	<u>2,702,623</u>	<u>3,581,942</u>
Deferred outflows of resources			
Related to pension (Note 10)	<u>56,940</u>	<u>122,002</u>	<u>178,942</u>
LIABILITIES			
Current liabilities			
Accounts payable and accruals	12,868	184,339	197,207
Compensated absences (Note 1):	21,182	6,423	27,605
Unearned revenue	<u>-</u>	<u>114,801</u>	<u>114,801</u>
Total current liabilities	<u>34,050</u>	<u>305,563</u>	<u>339,613</u>
Noncurrent liabilities			
Compensated absences (Note 1)	28,723	8,710	37,433
Net pension liability (Note 10)	<u>231,259</u>	<u>495,508</u>	<u>726,767</u>
Total liabilities	<u>294,032</u>	<u>809,781</u>	<u>1,103,813</u>
Deferred inflows of resources			
Related to pension (Note 10)	<u>4,671</u>	<u>10,008</u>	<u>14,679</u>
Net position (Note 7)			
Net investment in capital assets	60,000	496,255	556,255
Unrestricted	<u>577,556</u>	<u>1,508,581</u>	<u>2,086,137</u>
Total Net Position	<u>\$ 637,556</u>	<u>\$ 2,004,836</u>	<u>\$ 2,642,392</u>

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Blackberry Farm	Cupertino Sports Center	Totals
Operating revenues			
Charges for services	\$ 305,435	\$ 2,238,023	\$ 2,543,458
Other	19,789	-	19,789
Total operating revenue	<u>325,224</u>	<u>2,238,023</u>	<u>2,563,247</u>
Operating expenses			
Salaries and benefits	195,164	488,669	683,833
Materials and supplies	113,736	224,650	338,386
Contractual services	267,036	1,405,386	1,672,422
Depreciation (Note 5)	21,470	40,538	62,008
Total operating expenses	<u>597,406</u>	<u>2,159,243</u>	<u>2,756,649</u>
Operating income (loss)	<u>(272,182)</u>	<u>78,780</u>	<u>(193,402)</u>
Nonoperating revenues			
Investment Income	4,221	8,552	12,773
Total nonoperating revenues	<u>4,221</u>	<u>8,552</u>	<u>12,773</u>
Income (loss) before transfers	(267,961)	87,332	(180,629)
Transfers in (Note 4)	<u>332,931</u>	<u>1,030,662</u>	<u>1,363,593</u>
Changes in net position	<u>64,970</u>	<u>1,117,994</u>	<u>1,182,964</u>
Net position - beginning of year	<u>572,586</u>	<u>886,842</u>	<u>1,459,428</u>
Net position - end of year	<u>\$ 637,556</u>	<u>\$ 2,004,836</u>	<u>\$ 2,642,392</u>

CITY OF CUPERTINO, CALIFORNIA
NONMAJOR ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Blackberry Farm	Cupertino Sports Center	Totals
Cash flows from operating activities			
Cash received from customers	\$ 325,224	\$ 2,249,923	\$ 2,575,147
Cash payments to suppliers for goods and services	(403,324)	(1,647,736)	(2,051,060)
Cash payments to employees for salaries and benefits	(188,231)	(484,705)	(672,936)
Net cash provided (used) by operating activities	<u>(266,331)</u>	<u>117,482</u>	<u>(148,849)</u>
Cash flows from noncapital financing activities			
Transfers in	<u>332,931</u>	<u>1,030,662</u>	<u>1,363,593</u>
Cash flows from noncapital financing activities	<u>332,931</u>	<u>1,030,662</u>	<u>1,363,593</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	<u>(52,208)</u>	<u>(200,102)</u>	<u>(252,310)</u>
Cash flows from capital and related financing activities	<u>(52,208)</u>	<u>(200,102)</u>	<u>(252,310)</u>
Cash Flows from Investing Activities			
Interest received	<u>4,221</u>	<u>8,552</u>	<u>12,773</u>
Cash flows from investing activities	<u>4,221</u>	<u>8,552</u>	<u>12,773</u>
Net cash flows	<u>18,613</u>	<u>956,594</u>	<u>975,207</u>
Cash and investments at beginning of year	<u>800,706</u>	<u>1,249,774</u>	<u>2,050,480</u>
Cash and investments at end of year	<u>\$ 819,319</u>	<u>\$ 2,206,368</u>	<u>\$ 3,025,687</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (272,182)	\$ 78,780	\$ (193,402)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	21,470	40,538	62,008
Change in assets and liabilities			
Accounts receivable	-	7,243	7,243
Due to retirement system	1,320	2,429	3,749
Accounts payable and accruals	(22,552)	(17,700)	(40,252)
Unearned revenue	-	4,657	4,657
Compensated absences	<u>5,613</u>	<u>1,535</u>	<u>7,148</u>
Net cash provided (used) by operating activities	<u>\$ (266,331)</u>	<u>\$ 117,482</u>	<u>\$ (148,849)</u>

INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

CITY OF CUPERTINO, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2017

	Information Technology	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	City Channel/Web	Total
Assets							
Current assets:							
Cash and investments	\$ 3,283,594	\$ 3,053,968	\$ 469,678	\$ 150,989	\$ 70,775	\$ -	\$ 7,029,004
Total current assets	<u>3,283,594</u>	<u>3,053,968</u>	<u>469,678</u>	<u>150,989</u>	<u>70,775</u>	<u>-</u>	<u>7,029,004</u>
Noncurrent assets:							
Net OPEB assets	-	-	-	-	10,344,876	-	10,344,876
Capital assets, depreciable net of accumulated depreciation	386,364	-	2,332,884	-	-	-	2,719,248
Total noncurrent assets	<u>386,364</u>	<u>-</u>	<u>2,332,884</u>	<u>-</u>	<u>10,344,876</u>	<u>-</u>	<u>13,064,124</u>
Total assets	<u>3,669,958</u>	<u>3,053,968</u>	<u>2,802,562</u>	<u>150,989</u>	<u>10,415,651</u>	<u>-</u>	<u>20,093,128</u>
Deferred outflows of resources							
Related to pension (Note 10)	406,443	12,877	119,726	-	-	-	539,046
Liabilities							
Current liabilities							
Accounts payable and accruals	70,507	2,209	35,729	-	-	-	108,445
Accrued payroll and benefits	-	-	72	-	-	-	72
Due to other funds	-	-	-	-	1,400,000	-	1,400,000
Compensated absences	19,668	452	3,205	-	-	-	23,325
Claims payable	-	521,998	-	-	-	-	521,998
Total current liabilities	<u>90,175</u>	<u>524,659</u>	<u>39,006</u>	<u>-</u>	<u>1,400,000</u>	<u>-</u>	<u>2,053,840</u>
Noncurrent liabilities							
Compensated absences	97,394	2,236	15,872	-	-	-	115,502
Claims payable	-	1,160,653	-	-	-	-	1,160,653
Net pension liability (Note 10)	1,650,753	52,301	486,261	-	-	-	2,189,315
Total noncurrent liabilities	<u>1,748,147</u>	<u>1,215,190</u>	<u>502,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,465,470</u>
Total liabilities	<u>1,838,322</u>	<u>1,739,849</u>	<u>541,139</u>	<u>-</u>	<u>1,400,000</u>	<u>-</u>	<u>5,519,310</u>
Deferred inflows of resources							
Related to pension (Note 10)	33,340	1,056	9,821	-	-	-	44,217
Net position							
Net investment in capital assets	386,364	-	2,332,884	-	-	-	2,719,248
Unrestricted	1,818,375	1,325,940	38,444	150,989	9,015,651	-	12,349,399
Total net position	<u>\$ 2,204,739</u>	<u>\$ 1,325,940</u>	<u>\$ 2,371,328</u>	<u>\$ 150,989</u>	<u>\$ 9,015,651</u>	<u>\$ -</u>	<u>\$ 15,068,647</u>

CITY OF CUPERTINO, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Information Technology	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	City Channel/Web	Total
Operating revenues							
Charges for services	\$ 2,996,196	\$ 628,648	\$ 3,000	\$ 114,560	\$ -	\$ -	\$ 3,742,404
Other	-	-	1,529	-	-	-	1,529
Total operating revenues	<u>2,996,196</u>	<u>628,648</u>	<u>4,529</u>	<u>114,560</u>	<u>-</u>	<u>-</u>	<u>3,743,933</u>
Operating expenses							
Salaries and related expenses	1,148,231	73,611	922,128	-	1,104,232	-	3,248,202
Materials and supplies	1,718,300	18,130	378,899	3,280	5,841	-	2,124,450
Contractual services	333,556	67	147,497	-	-	-	481,120
Insurance claims and premiums	-	388,701	-	400,123	-	-	788,824
Depreciation	173,306	-	39,602	-	-	-	212,908
Total operating expenses	<u>3,373,393</u>	<u>480,509</u>	<u>1,488,126</u>	<u>403,403</u>	<u>1,110,073</u>	<u>-</u>	<u>6,855,504</u>
Operating income (loss)	<u>(377,197)</u>	<u>148,139</u>	<u>(1,483,597)</u>	<u>(288,843)</u>	<u>(1,110,073)</u>	<u>-</u>	<u>(3,111,571)</u>
Nonoperating revenue (expenses)							
Interest income	13,344	14,543	6,652	1,819	(4,082)	-	32,276
Gain on sale of capital assets	-	-	82,095	-	-	-	82,095
Total nonoperating revenue (expenses)	<u>13,344</u>	<u>14,543</u>	<u>88,747</u>	<u>1,819</u>	<u>(4,082)</u>	<u>-</u>	<u>114,371</u>
Income (loss) before transfers	<u>(363,853)</u>	<u>162,682</u>	<u>(1,394,850)</u>	<u>(287,024)</u>	<u>(1,114,155)</u>	<u>-</u>	<u>(2,997,200)</u>
Transfers in	931,470	1,192	9,468	150,000	-	-	1,092,130
Transfers (out) - fund closing (Note 14)	-	-	-	-	-	(532,385)	(532,385)
Change in net position	<u>567,617</u>	<u>163,874</u>	<u>(1,385,382)</u>	<u>(137,024)</u>	<u>(1,114,155)</u>	<u>(532,385)</u>	<u>(2,437,455)</u>
Beginning net position as restated (Note 15)	<u>1,637,122</u>	<u>1,162,066</u>	<u>3,756,710</u>	<u>288,013</u>	<u>10,129,806</u>	<u>532,385</u>	<u>17,506,102</u>
Ending net position	<u>\$ 2,204,739</u>	<u>\$ 1,325,940</u>	<u>\$ 2,371,328</u>	<u>\$ 150,989</u>	<u>\$ 9,015,651</u>	<u>\$ -</u>	<u>\$ 15,068,647</u>

CITY OF CUPERTINO, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Information Technology	Workers' Compensation	Equipment Revolving	Compensated Absences and Long-Term Disability	Retiree Medical	City Channel/Web	Total
Cash flows from operating activities							
Cash received from customers	\$ 2,996,196	\$ 628,648	\$ 17,474	\$ 114,560	\$ -	\$ -	\$ 3,756,878
Cash payments to suppliers for goods and services	(1,985,079)	(15,990)	(559,831)	(3,280)	(5,841)	-	(2,570,021)
Cash payments to employees	(1,026,185)	(32,794)	(545,816)	-	(956,571)	-	(2,561,366)
Cash payment for judgment and claims	-	(187,148)	-	(400,123)	-	-	(587,271)
Net cash from operating activities	(15,068)	392,716	(1,088,173)	(288,843)	(962,412)	-	(1,961,780)
Cash flows from noncapital financing activities							
Transfers in	931,470	1,192	9,468	150,000	949,780	-	2,041,910
Transfers (out) - fund closing	-	-	-	-	-	(337,571)	(337,571)
Net cash from noncapital financing activities	931,470	1,192	9,468	150,000	949,780	(337,571)	1,704,339
Cash flows from capital and related financing activities							
Acquisition of capital assets	(122,093)	-	(983,125)	-	-	-	(1,105,218)
Net cash from capital and related financing activities	(122,093)	-	(983,125)	-	-	-	(1,105,218)
Cash flows from investing activities							
Interest received	13,344	14,543	6,652	1,819	(4,082)	-	32,276
Net cash flows from investing activities	13,344	14,543	6,652	1,819	(4,082)	-	32,276
Net cash flows	807,653	408,451	(2,055,178)	(137,024)	(16,714)	(337,571)	(1,330,383)
Cash and investments beginning of year	2,475,941	2,645,517	2,524,856	288,013	87,489	337,571	8,359,387
Cash and investments end of year	\$ 3,283,594	\$ 3,053,968	\$ 469,678	\$ 150,989	\$ 70,775	\$ -	\$ 7,029,004
Reconciliation of operating income (loss) to net cash flows from operating activities							
Operating income (loss)	\$ (377,197)	\$ 148,139	\$ (1,483,597)	\$ (288,843)	\$ (1,110,073)	\$ -	\$ (3,111,571)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities							
Depreciation	173,306	-	39,602	-	-	-	212,908
Change in assets and liabilities							
Accounts receivable	-	-	12,945	-	-	-	12,945
Prepaid expenses	25,210	-	-	-	-	-	25,210
Net OPEB asset	-	-	-	-	147,661	-	147,661
Due to retirement system	93,007	40,480	376,356	-	-	-	509,843
Accounts payable and accruals	41,567	2,207	(33,435)	-	-	-	10,339
Accrued payroll and benefits	-	-	(44)	-	-	-	-
Compensated absences	29,039	337	(44)	-	-	-	29,332
Claims payable	-	201,553	-	-	-	-	201,553
Cash flows from operating activities	\$ (15,068)	\$ 392,716	\$ (1,088,173)	\$ (288,843)	\$ (962,412)	\$ -	\$ (1,961,780)
Noncash capital and related financing							
Transfer of capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 512,648	\$ 512,648
Transfer of debt	-	-	-	-	-	(240,637)	(240,637)

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 wellbeing have changed over time:

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

Revenue Capacity

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

1. Assessed and Estimated Actual Value of Taxable Property
2. Direct and Overlapping Property Tax Rates
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. Ratios 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. 2017 Employer Ranking

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 Employees by Function/Program
2. Operating Indicators by Function/Program
3. Capital Assets Statistics by Function/Program

Sources

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

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

	Fiscal Year Ended June 30									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental Activities										
Net investment in capital assets	\$ 85,173,998	\$ 103,341,905	\$ 120,405,290	\$ 120,724,205	\$ 117,440,257	\$ 116,343,918	\$ 122,081,223	\$ 131,425,677	\$ 148,168,074	\$ 153,239,534
Restricted	9,926,770	6,661,074	8,692,175	7,721,962	7,572,865	8,351,118	24,232,367	38,327,705	34,861,807	34,991,692
Unrestricted	43,242,639	33,290,050	31,087,861	33,185,903	38,117,361	47,558,701	63,150,548	51,003,950	51,164,063	59,385,309
Total governmental activities net position/assets	<u>138,343,407</u>	<u>143,293,029</u>	<u>160,185,326</u>	<u>161,632,070</u>	<u>163,130,483</u>	<u>172,253,737</u>	<u>209,464,138</u>	<u>220,757,332</u>	<u>234,193,944</u>	<u>247,616,535</u>
Business-Type Activities										
Net investment in capital assets	84,126	136,127	788,213	777,521	824,687	762,013	1,110,414	2,079,561	1,708,183	1,972,169
Unrestricted	7,849,147	8,949,142	9,063,616	9,779,087	10,057,331	10,865,479	10,292,210	6,604,578	7,375,444	9,092,584
Total business-type activities net position/assets	<u>7,933,273</u>	<u>9,085,269</u>	<u>9,851,829</u>	<u>10,556,608</u>	<u>10,882,018</u>	<u>11,627,492</u>	<u>11,402,624</u>	<u>8,684,139</u>	<u>9,083,627</u>	<u>11,064,753</u>
Primary Government										
Net investment in capital assets	85,258,124	103,478,032	121,193,503	121,501,726	118,264,944	117,105,931	123,191,637	133,505,238	149,876,257	155,211,703
Restricted	9,926,770	6,661,074	8,692,175	7,721,962	7,572,865	8,351,118	24,232,367	38,327,705	34,861,807	34,991,692
Unrestricted	51,091,786	42,239,192	40,151,477	42,964,990	48,174,692	58,424,180	73,442,758	57,608,528	58,539,507	68,477,893
(1)	<u>\$ 146,276,680</u>	<u>\$ 152,378,298</u>	<u>\$ 170,037,155</u>	<u>\$ 172,188,678</u>	<u>\$ 174,012,501</u>	<u>\$ 183,881,229</u>	<u>\$ 220,866,762</u>	<u>\$ 229,441,471</u>	<u>\$ 243,277,571</u>	<u>\$ 258,681,288</u>

(1) Represents net assets thru June 30, 2012 and net position after that.

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

	Fiscal Year Ended June 30									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Expenses										
Governmental Activities:										
Administration	\$ 1,636,284	\$ 1,769,500	\$ 1,911,665	\$ 1,860,451	\$ 1,837,072	\$ 2,367,255	\$ 4,529,539	\$ 3,286,919	\$ 3,710,388	\$ 2,873,744
Law enforcement	7,679,467	8,804,195	8,385,476	8,434,885	8,776,633	9,274,536	10,062,192	10,705,328	11,316,271	12,528,328
Public and environmental affairs	1,216,164	1,624,210	1,653,034	1,625,876	1,743,151	1,595,982	512,895	649,442	575,260	1,884,165
Administrative services	3,923,217	4,001,738	4,080,134	3,993,654	4,309,503	4,171,440	2,662,008	4,300,336	2,994,611	5,898,479
Recreation services	3,845,873	4,206,343	4,444,536	4,528,968	4,577,243	4,473,861	4,866,974	5,365,282	5,758,194	10,651,557
Community development	4,059,740	6,177,879	4,351,975	5,961,774	4,922,237	4,676,273	9,108,949	5,976,797	6,259,734	13,775,591
Public works	16,569,310	18,104,649	19,320,151	20,224,662	20,387,508	22,149,063	21,143,331	27,893,361	31,313,396	32,491,244
Interest on long-term debt	2,183,403	2,118,714	2,076,264	2,032,464	1,837,655	1,256,922	1,130,428	1,120,138	1,077,538	1,035,738
Total governmental activities expense	41,113,458	46,807,228	46,223,235	48,662,734	48,391,002	49,965,332	54,016,316	59,297,603	63,005,392	81,138,846
Business-Type Activities:										
Resources recovery	2,056,061	1,998,184	2,018,147	1,801,599	1,566,229	1,764,993	2,159,047	2,548,461	2,997,200	2,991,177
Blackberry farm	450,206	495,845	457,169	457,065	460,698	463,336	571,000	547,185	576,177	597,406
Cupertino sports center	1,547,402	1,594,325	1,478,143	1,716,741	1,897,611	2,011,483	2,221,703	2,269,420	2,299,210	2,159,243
Recreation programs	1,853,217	1,739,892	1,854,648	1,753,156	1,985,618	2,025,416	2,730,765	2,342,457	3,136,011	2,351,501
Total business-type activities expense	5,906,886	5,828,246	5,808,107	5,728,561	5,910,156	6,265,228	7,682,515	7,707,523	9,008,598	8,099,327
Total primary government expense	47,020,344	52,635,474	52,031,342	54,391,295	54,301,158	56,230,560	61,698,831	67,005,126	72,013,990	89,238,173
Program Revenues										
Governmental Activities:										
Charges for services:										
Administration	10,711	2,240	21,873	15,801	6,454	5,676	1,087,393	322,534	369,069	3,992,716
Law enforcement	799,350	869,295	811,676	797,757	696,498	637,595	725,631	590,378	664,483	603,194
Public and environmental affairs	-	-	-	-	-	-	-	41,352	41,352	-
Administrative services	-	-	-	-	-	-	-	481,616	359,148	3,565,627
Recreation services	847,424	801,280	930,773	1,020,159	1,166,323	970,292	955,081	1,798,134	1,421,185	2,016,159
Community development	3,551,478	3,586,993	3,310,355	4,149,620	4,919,216	6,765,564	6,649,292	8,511,745	10,534,457	10,902,822
Public works	135,942	157,311	556,636	549,065	503,225	593,501	7,916,897	2,869,357	6,358,870	6,873,487
Operating grants and contributions	2,392,987	4,014,036	2,042,557	2,351,287	2,508,917	2,752,493	10,000,131	6,002,617	1,851,282	2,313,632
Capital grants and contributions	5,696,124	4,759,485	5,511,359	1,972,951	780,761	719,880	569,159	4,022,190	362,491	245,288
Total governmental activities program revenue	13,434,016	14,190,640	13,185,229	10,856,640	10,581,394	12,445,001	27,903,584	24,639,923	21,962,337	30,512,925
Business-Type Activities:										
Charges for services:										
Resources recovery	2,254,790	2,100,704	2,104,299	1,931,076	1,727,783	1,882,517	2,074,251	2,591,276	2,664,888	2,792,190
Blackberry farm	640,771	596,944	568,770	447,797	411,056	386,753	302,472	388,091	334,529	325,224
Cupertino sports center	1,605,545	1,732,282	1,578,330	1,722,700	1,965,684	2,150,139	2,188,127	2,152,498	2,224,146	2,238,023
Recreation programs	2,493,214	2,364,037	2,249,191	2,260,296	2,325,705	2,409,720	2,480,209	2,532,800	2,466,336	2,778,588
Operating grants and contributions	14,309	14,471	6,895	-	-	-	-	-	-	-
Total business-type activities program revenue	7,008,629	6,808,438	6,507,485	6,361,869	6,430,228	6,829,129	7,045,059	7,664,665	7,689,899	8,134,025
Total primary government program revenue	20,442,645	20,999,078	19,692,714	17,218,509	17,011,622	19,274,130	34,948,643	32,304,588	29,652,236	38,646,950

(continued)

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

	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (Expense) Revenue:										
Governmental activities	\$ (27,679,442)	\$ (32,616,588)	\$ (33,038,006)	\$ (37,806,094)	\$ (37,809,608)	\$ (37,520,331)	\$ (26,112,732)	\$ (34,657,680)	\$ (41,043,055)	\$ (50,625,921)
Business-Type activities	1,101,743	980,192	699,378	633,308	520,072	563,901	(637,456)	(42,858)	(1,318,699)	34,698
Total primary government net expense	<u>(26,577,699)</u>	<u>(31,636,396)</u>	<u>(32,338,628)</u>	<u>(37,172,786)</u>	<u>(37,289,536)</u>	<u>(36,956,430)</u>	<u>(26,750,188)</u>	<u>(34,700,538)</u>	<u>(42,361,754)</u>	<u>(50,591,223)</u>
General Revenues and Transfers										
Governmental Activities:										
Taxes:										
Property taxes	6,941,910	7,491,965	7,488,701	7,296,970	7,479,132	8,793,110	9,169,183	-	11,864,027	13,251,840
Property taxes in lieu of motor vehicle fee	3,894,502	4,299,902	4,420,912	4,404,795	4,487,412	4,772,355	5,289,476	-	6,330,436	6,967,237
Incremental property tax	220,267	1,211,128	1,322,925	1,251,777	202,793	-	-	-	-	-
Sales tax	13,154,749	14,139,190	9,930,530	14,539,243	17,326	18,721,193	19,794,036	-	21,350,056	26,932,012
Transient occupancy tax	2,711,590	2,140,274	2,142,137	2,536,501	3,112,934	3,768,504	4,590,156	-	5,852,244	6,023,681
Utility user tax	3,175,724	3,205,073	3,271,452	3,227,942	3,264,896	2,994,526	3,098,639	-	3,370,830	3,082,407
Franchise tax	2,547,439	2,618,125	2,597,930	2,841,344	2,808,136	2,848,950	2,775,892	-	3,478,024	3,409,572
Other taxes	1,709,892	1,317,767	1,211,899	1,491,316	1,377,211	4,561,219	18,791,559	-	2,818,019	3,258,118
Intergovernmental (1)	266,789	171,621	166,440	259,289	29,064	30,256	25,294	-	24,111	26,118
Investment earnings	1,451,973	889,823	295,059	259,217	61,096	176,782	133,243	40,751	807,287	694,730
Miscellaneous	103,529	81,342	119,393	1,144,429	82,684	126,690	57,005	(2)	219,053	2,004,906
Gain on sale of capital assets	-	-	-	-	-	-	-	23,715,897	580	-
Extraordinary items (2)	-	-	-	-	(1,130,797)	-	-	-	-	-
Transfers - fund closings (3)	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Total governmental activities	<u>992,150</u>	<u>37,566,210</u>	<u>32,967,378</u>	<u>39,252,838</u>	<u>21,998,887</u>	<u>(150,000)</u>	<u>(401,350)</u>	<u>872,340</u>	<u>(1,635,000)</u>	<u>(1,874,120)</u>
Business-Type Activities:										
Investment earnings	378,828	171,804	67,182	71,486	12,338	31,573	11,238	42,531	82,187	59,012
Transfers	(992,150)	-	-	(15)	(207,000)	150,000	401,350	(872,340)	1,635,000	1,874,120
Total business-type activities	<u>(613,322)</u>	<u>171,804</u>	<u>67,182</u>	<u>71,471</u>	<u>(194,662)</u>	<u>181,573</u>	<u>412,588</u>	<u>(829,809)</u>	<u>1,717,187</u>	<u>1,933,132</u>
Total primary government	<u>36,557,192</u>	<u>37,738,014</u>	<u>33,034,560</u>	<u>39,324,309</u>	<u>21,804,225</u>	<u>46,825,158</u>	<u>63,735,721</u>	<u>23,799,177</u>	<u>56,196,854</u>	<u>65,981,644</u>
Change in Net Position/Assets (4)										
Governmental activities	9,491,072	4,949,622	(70,628)	1,446,744	(15,810,721)	9,123,254	37,210,401	(10,028,694)	13,436,612	13,422,591
Business-Type activities	488,421	1,151,996	766,560	704,779	325,410	745,474	(224,868)	(872,667)	398,488	1,967,830
Total primary government	<u>\$ 9,979,493</u>	<u>\$ 6,101,618</u>	<u>\$ 695,932</u>	<u>\$ 2,151,523</u>	<u>\$ (15,485,311)</u>	<u>\$ 9,868,728</u>	<u>\$ 36,985,533</u>	<u>\$ (10,901,361)</u>	<u>\$ 13,835,100</u>	<u>\$ 15,390,421</u>

(1) The 2006 state take-away of sales taxes, property taxes and vehicle license fees is reported in this category
(2) Asset transfer to Successor to Redevelopment Agency fiduciary trust in 2012
(3) Asset and liability transfer from the closed City Channel/Web Internal Service Fund in 2017
(4) Represents changes in net assets thru fiscal year ended June 30, 2012 and changes in net position after that

CITY OF CUPERTINO
Fund Balances of Governmental Funds
Last Ten Fiscal Years

*(Modified accrual basis of accounting
(Unaudited))*

	Fiscal Year Ended June 30									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (1)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund										
Reserved	\$ 2,668,914	\$ 2,325,283	\$ 2,308,290					\$ 938,245	\$ 937,381	\$ 876,939
Unreserved	16,997,569	19,871,574	13,622,828					761,653	888,374	1,016,771
Total General Fund	19,666,483	22,196,857	15,931,118							19,000,000
All Other Governmental Funds										
Reserved	11,240,851	4,180,483	5,465,423							
Unreserved, reported in:										
Special Revenue Funds	7,270,331	3,692,187	5,113,020							
Capital Project Funds	7,631,866	968,077	3,788,810							
Total All Other Governmental Funds	26,143,048	8,840,747	14,367,253							
Total Governmental Funds	\$ 45,809,531	\$ 31,037,604	\$ 30,298,371							
General Fund										
Nonspendable	\$ 1,023,950	\$ 1,003,438	\$ 956,827				\$ 3,363,065	\$ 938,245	\$ 937,381	\$ 876,939
Restricted	663,254	695,564	725,903				-	761,653	888,374	1,016,771
Committed	-	-	-				-	-	-	19,000,000
Assigned	14,739,394	17,729,297	16,400,000				16,400,000	28,849,679	20,500,000	4,638,181
Unassigned	3,380,279	6,669,379	17,961,579				23,197,378	8,774,966	29,869,085	28,057,799
Total General Fund	19,806,877	26,097,678	36,044,309				42,960,443	39,324,543	52,194,840	53,589,690
All Other Governmental Funds										
Nonspendable	615,000	-	-				-	-	-	-
Restricted	6,314,106	6,877,301	7,625,215				24,232,367	37,566,052	33,973,433	33,974,921
Committed	-	-	-				-	1,398,665	1,398,665	1,398,665
Assigned	4,303,822	3,646,073	5,299,904				7,619,534	20,671,116	15,344,191	25,305,974
Unassigned	-	-	-				(2,280,961)	-	-	-
Total All Other Governmental Funds	11,232,928	10,523,374	12,925,119				29,570,940	59,635,833	50,716,289	60,679,560
Total Governmental Funds	\$ 31,039,805	\$ 36,621,052	\$ 48,969,428				\$ 72,531,383	\$ 98,960,376	\$ 102,911,129	\$ 114,269,250

(1) 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
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	\$ 34,589,139	\$ 36,395,950	\$ 30,994,583	\$ 37,582,299	\$ 40,265,944	\$ 48,382,570	\$ 72,211,724	\$ 55,134,238	\$ 55,462,956	\$ 62,924,867
Use of money and property	2,490,444	1,300,508	774,219	792,035	661,602	744,196	764,299	915,933	1,654,702	1,425,629
Intergovernmental	8,285,280	6,896,394	7,539,835	3,543,641	2,678,888	2,841,407	3,069,400	7,210,562	2,532,025	2,585,038
Licenses and permits	2,656,017	2,740,463	2,583,131	2,901,944	2,900,936	3,502,617	3,679,943	3,170,445	3,073,110	2,536,925
Charges for services	1,728,099	1,707,533	1,701,157	2,311,216	3,273,946	4,515,066	10,744,113	5,203,371	17,249,123	24,103,167
Fines and forfeitures	722,087	761,320	736,239	695,666	661,899	560,417	616,889	554,002	564,903	603,194
Other	95,388	80,835	689,941	73,881	264,302	57,828	545,052	542,429	1,289,013	2,004,904
Total revenues	50,566,454	49,883,003	45,019,105	47,900,682	50,707,517	60,604,101	91,631,420	72,730,980	81,825,832	96,183,724
Expenditures:										
Current:										
Administration	1,351,273	1,336,921	1,469,004	1,528,070	1,533,070	2,005,176	3,957,739	3,897,701	4,053,741	5,942,633
Law enforcement	7,456,661	8,133,168	8,384,310	8,434,885	8,445,917	8,783,885	9,626,121	10,283,772	10,988,735	11,939,095
Public and environmental affairs	1,169,247	1,486,443	1,487,265	1,497,263	1,659,856	1,486,910	477,852	624,295	544,718	1,864,746
Administrative services	3,797,156	3,634,043	3,733,414	3,695,076	4,103,982	3,772,714	2,444,670	3,226,164	2,811,117	5,054,539
Recreation services	3,745,244	3,789,260	4,003,764	4,117,477	4,319,983	4,083,822	4,536,519	5,047,548	5,441,200	9,361,934
Community development	3,931,055	5,841,428	4,125,739	5,693,541	4,762,229	4,395,601	8,424,254	5,180,659	6,102,820	7,431,292
Public works	11,137,935	11,914,584	11,961,218	12,234,726	12,528,194	13,996,516	17,469,627	14,625,038	15,078,174	18,623,585
Capital Outlay	8,334,093	22,262,369	4,710,360	5,281,927	3,523,047	4,684,676	7,110,974	21,760,899	26,171,127	18,731,165
Debt service:										
Principal repayment	1,355,000	1,415,000	1,460,000	1,500,000	-	1,920,000	2,040,000	2,055,000	2,090,000	2,135,000
Interest and fiscal changes	2,183,403	2,118,714	2,076,265	2,032,464	1,837,665	1,256,922	1,130,428	1,120,138	1,077,538	1,035,738
Payment to refunded debt escrow agent	-	-	-	-	44,897,800	-	-	-	-	-
Total expenditures	44,461,067	61,931,930	43,411,339	46,015,429	87,611,743	46,386,222	57,218,184	67,821,214	74,359,170	82,119,727
Excess (deficiency) of revenues over (under) expenditures	6,105,387	(12,048,927)	1,607,766	1,885,253	(36,904,226)	14,217,879	34,413,236	4,909,766	7,466,662	14,063,997
Other Financing Sources (Uses)										
Bond proceeds	-	-	-	-	44,823,839	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	1,055,449	421	-	37,569	23,814,257	580	-
Transfers in	19,136,165	5,035,925	7,788,417	5,684,483	6,484,426	8,438,707	13,610,304	39,408,990	11,905,724	26,446,090
Transfers in - fund closing	-	-	-	-	-	-	-	-	-	260,374
Transfers out	(20,705,750)	(7,758,925)	(10,135,417)	(7,883,751)	(7,692,426)	(10,308,210)	(24,499,154)	(39,177,284)	(15,422,213)	(29,412,340)
Total other financing sources (uses)	(1,569,585)	(2,723,000)	(2,347,000)	(1,143,819)	43,616,260	(1,869,503)	(10,851,281)	24,045,963	(3,515,909)	(2,705,876)
Extraordinary Item										
Asset transferred to Successor Agencies	-	-	-	-	(1,130,797)	-	-	-	-	-
Change in fund balances	\$ 4,535,802	\$ (14,771,927)	\$ (739,234)	\$ 741,434	\$ 5,581,237	\$ 12,348,376	\$ 23,561,955	\$ 28,955,729	\$ 3,950,753	\$ 11,358,121
Debt service as a percentage of noncapital expenditures (1)	9.8%	8.9%	9.1%	8.7%	55.6%	7.6%	6.6%	5.8%	5.5%	5.0%

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

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

Fiscal Year	Total Secured (a)	Unsecured (a)	State Board of Equalization Non-Unitary	Secured Exemptions	Total Assessed & Est. Full Market Valuation (a)	Direct Tax Rate
2008	\$ 11,512,949,952	\$ 417,564,226	-	96,690,910	\$ 11,930,514,178	5.87%
2009	12,637,622,059	533,413,208	1,390,000	99,950,894	13,172,425,287	6.26%
2010	12,979,346,158	564,277,611	1,390,000	99,947,559	13,545,013,769	6.51%
2011	13,017,910,372	476,332,025	1,390,000	96,704,811	13,495,632,397	6.51%
2012	13,219,574,367	527,310,319	1,390,000	96,081,912	13,748,274,686	6.24%
2013	13,882,147,291	738,243,050	1,390,000	108,468,872	14,621,780,341	6.20%
2014	15,391,656,690	813,117,019	1,390,000	113,744,809	16,206,163,709	5.62%
2015	16,133,637,244	965,141,148	-	119,476,276	17,098,778,392	5.61%
2016	18,308,720,226	1,086,786,901	-	114,223,063	19,395,507,127	5.59%
2017	20,196,258,418	1,150,311,942	-	118,257,368	21,346,570,360	5.98%



(a) Net of exemptions
Source: HdL, Coren & Cone
Data Source: Santa Clara County Assessor 0/ - 2016/17 Combined Tax Rolls
This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone
Prepared On 7/25/2017 By MV

THE CITY OF CUPERTINO
Direct and Overlapping Property Tax Rates
 (Rate per \$100 of taxable value)

Agency	Last 10 Fiscal Years									
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Basic Levy¹	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
County Bond 2008 Hospital Facility	0.00000	0.00000	0.01220	0.00950	0.00470	0.00510	0.00350	0.00910	0.00880	0.00860
County Library Retirement Levy	0.00240	0.00240	0.00240	0.00240	0.00240	0.00240	0.00240	0.00240	0.00240	0.00240
County Retirement Levy	0.03880	0.03880	0.03880	0.03880	0.03880	0.03880	0.03880	0.03880	0.03880	0.03880
Cupertino Elementary	0.03370	0.03060	0.03120	0.03080	0.02900	0.05980	0.05250	0.05400	0.05190	0.05090
El Camino Hospital 2003	0.01290	0.01290	0.01290	0.01290	0.01290	0.01290	0.01290	0.01290	0.01290	0.01290
Foothill De Anza College	0.01130	0.01230	0.03220	0.03260	0.02970	0.02870	0.02900	0.02760	0.02400	0.02340
Fremont High	0.02410	0.03390	0.03060	0.03650	0.04150	0.03900	0.04050	0.03960	0.05250	0.04030
Los Gatos-Saratoga High 1998	0.03450	0.03300	0.03520	0.03770	0.03810	0.03680	0.03510	0.05160	0.04230	0.04230
MidPeninsula Open Space 2014	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00080	0.00060
Santa Clara Unified	0.02710	0.07430	0.07010	0.05190	0.08360	0.08190	0.07070	0.07040	0.00080	0.08180
Santa Clara Valley Water District	0.00710	0.00610	0.00740	0.00720	0.00640	0.00690	0.00700	0.00650	0.09420	0.00860
Saratoga Elementary	0.03630	0.03630	0.03880	0.04370	0.04440	0.04520	0.04500	0.04580	0.04490	0.04560
West Valley College	0.01180	0.00320	0.01400	0.01390	0.01370	0.02890	0.02550	0.01200	0.02320	0.01960
Total Direct & Overlapping² Tax Rates	1.24000	1.28380	1.32580	1.31790	1.34520	1.38640	1.36290	1.37070	1.40240	1.38040
City's Share of 1% Levy Per Prop 13³	0.05706	0.05661	0.05641	0.05644	0.05650	0.05652	0.05626	0.05617	0.05571	0.05962
General Obligation Debt Rate										
Redevelopment Rate⁴	1.04830	1.04730	1.04860	1.04840	1.04760					
Total Direct Rate⁵	0.05870	0.06263	0.06510	0.06507	0.06238	0.06204	0.05623	0.05610	0.05588	0.05976

Notes:

- ¹In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.
- ²Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.
- ³City's Share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.
- ⁴Redevelopment Rate is based on the largest RDA tax rate area and only includes rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012/13 and years thereafter.
- ⁵Total Direct Rate is the weighted average of all individual direct rates applied to by the government preparing the statistical section information and excludes revenues derived from aircraft. Beginning in 2013/14 the Total Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas. Challenges to recognized enforceable obligations are assumed to have been resolved during 2012/13. For the purposes of this report, residual revenue is assumed to be distributed to the City in the same proportions as general fund revenue.

Data Source: Santa Clara County Assessor 2006/07 - 2016/17 Tax Rate Table
This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone
 Prepared On 7/25/2017 By MV

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

Taxpayer	2017 Assessed Valuation	Percentage of Total Assessed Valuation	2012 Assessed Valuation	Percentage of Total Assessed Valuation
Apple Inc.	\$ 4,268,201,034	19.99%	\$ 933,312,667	6.38%
Campus Holdings Inc. ¹	-	-	699,845,700	4.79%
Vallco Property Owner	290,290,950	1.36%	72,972,533	0.50%
BVK Perimeter Square Retail LLC ET AL	170,863,220	0.80%	-	-
Main Street Cupertino Aggregator LLC	243,314,884	1.14%	-	-
Cupertino City Center Buildings	143,098,044	0.67%	-	-
Mission West Properties LP II ETAL	132,318,020	0.62%	-	-
SVF Cupertino City Center Corp.	127,324,883	0.60%	-	-
Cupertino Property Development	149,867,120	0.70%	-	-
PR Cupertino Gateway LLC	123,129,000	0.58%	-	-
Markham Apartments LP	98,820,847	0.46%	-	-
Total	\$ 5,747,228,002	26.92%	\$ 1,706,130,900	11.67%

Source: HdL, Coren & Cone

¹ Campus Holdings Inc. became a subsidiary of Apple Inc. and property tax data is commingled for 2016-17 per HdL

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
2008	\$ 7,162,177	\$ 7,162,177	100.00%	\$ -	\$ 7,162,177	100.00%
2009	8,703,093	8,703,093	100.00%	-	8,703,093	100.00%
2010	8,760,881	8,760,881	100.00%	-	8,760,881	100.00%
2011	8,497,119	8,497,119	100.00%	-	8,497,119	100.00%
2012	7,681,925	7,681,925	100.00%	-	7,681,925	100.00%
2013	8,199,752	8,199,752	100.00%	-	8,199,752	100.00%
2014	9,169,183	9,169,183	100.00%	-	9,169,183	100.00%
2015	10,178,734	10,178,734	100.00%	-	10,178,734	100.00%
2016	11,864,026	11,864,026	100.00%	-	11,864,026	100.00%
2017	13,308,884	13,308,884	100.00%	-	13,308,884	100.00%

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

Source: City of Cupertino

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

Fiscal Year	Certificates of Participation	Percentage of Estimated		Per Capita	% of Personal Income
		Actual Market Value of Taxable Property	Actual Market Value of Taxable Property		
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	0.32%		755	1.70%
2012	43,940,000	0.30%		744	1.56%
2013	42,020,000	0.29%		705	1.41%
2014	39,980,000	0.25%		671	1.38%
2015	37,925,000	0.22%		633	1.28%
2016	35,835,000	0.21%		598	1.21%
2017	33,700,000	0.16%		579	1.02%

Source: City of Cupertino

CITY OF CUPERTINO
Direct and Overlapping Bonded Debt
June 30, 2017
(Unaudited)

2016-17 Assessed Valuation

\$ 21,346,570,360

Overlapping Tax and Assessment Debt:

	Total Debt 6/30/2017	% Applicable (1)	City's Share of Debt 6/30/17
Santa Clara County	\$ 784,845,000	5.096%	\$ 39,995,701
Foothill-DeAnza Community College District	649,079,095	13.454%	87,327,101
West Valley Community College District	407,295,973	1.634%	6,655,216
Santa Clara Unified School District	501,080,000	3.813%	19,106,180
Fremont Union High School District	364,345,088	29.883%	108,877,243
Cupertino Union School District	281,213,688	50.963%	143,314,932
El Camino Hospital District	227,050,000	1.056%	2,397,648
Midpeninsula Regional Open Space District	44,225,000	8.134%	3,597,262
Santa Clara Valley Water District Benefit Assessment	90,945,000	5.096%	4,634,557
Total Overlapping Tax and Assessment Debt	\$ 3,350,078,844		\$ 415,905,840

Direct and Overlapping General Fund Debt

Overlapping Debt:			
Santa Clara County General Fund Obligations	\$ 634,190,521	5.096%	\$ 32,318,349
Santa Clara County Pension Obligations	362,470,957	5.096%	\$ 18,471,520
Santa Clara County Board of Education Certificates of Participation	5,690,000	5.096%	\$ 289,962
Foothill-De Anza Community College District Certificates of Participation	30,830,528	13.454%	\$ 4,147,939
West Valley-Mission Community College District General Fund Obligations	63,715,000	1.634%	\$ 1,041,103
Santa Clara Unified School District Certificates of Participation	13,795,000	3.813%	\$ 526,003
Santa Clara County Vector Control District Certificates of Participation	2,685,000	5.096%	\$ 136,828
Midpeninsula Regional Open Space Park District Certificates of Participation	112,143,611	8.134%	\$ 9,121,761
Subtotal Overlapping General Fund Debt	1,225,520,617		66,053,466
Direct Debt: City of Cupertino Certificates of Participation	33,700,000	100.000%	33,700,000
Total Direct and Overlapping General Fund Debt	1,259,220,617		99,753,466

Totals by Category:

Total Direct Debt	33,700,000		33,700,000
Total Overlapping Debt	4,575,599,461		481,959,306
Combined Total Debt	\$ 4,609,299,461		\$ 515,659,306

Ratios to 2016-17 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	1.95%
Combined Total Debt	0.16%
	2.42%

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Principal amount as of 7/1/17.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: MuniServices

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

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total net debt applicable to the limit as a % of debt limit
2008	\$ 431,735,623	\$ -	\$ 431,735,623	-
2009	473,910,827	-	473,910,827	-
2010	486,725,480	-	486,725,480	-
2011	488,171,639	-	488,171,639	-
2012	495,734,039	-	495,734,039	-
2013	520,580,523	-	520,580,523	-
2014	577,187,126	-	577,187,126	-
2015	605,011,397	-	605,011,397	-
2016	686,577,008	-	686,577,008	-
2017	757,359,691	-	757,359,691	-
Debt Limit:				
Secured property assessed value, net of exempt real property			\$ 20,196,258,418	
Adjusted valuation - 25% of assessed valuation				5,049,064,605
Debt limit - 15% of adjusted valuation				<u>757,359,691</u>
Amount of Debt Subject to Limit:				
Total Bonded Debt				33,700,000
Less: Certificates of Participation not subject to debt limit				(33,700,000)
Amount of debt subject to limit				<u>-</u>
Legal Debt Margin				<u>\$ 757,359,691</u>

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

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
2008	54,584	\$ 11,930,514,178	\$ -	\$ -	-
2009	55,045	13,172,425,287	-	-	-
2010	55,838	13,545,013,769	-	-	-
2011	58,302	13,495,632,397	-	-	-
2012	59,022	13,748,274,686	-	-	-
2013	59,620	14,621,780,341	-	-	-
2014	59,620	16,206,163,709	-	-	-
2015	59,777	17,098,778,392	-	-	-
2016	58,185	19,395,507,127	-	-	-
2017	60,668	21,346,570,360	-	-	-

Sources: HdL, Coren & Cone
City of Cupertino

City of Cupertino

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	City Population (1)	County Population (1)	City Population % of County	City Personal Income (2)	Per Capita Personal Income (2)	**Public School Enrollment	City Unemployment Rate (%) (3)	County Unemployment Rate (%) (3)	Median Age (4)	% of Population Over 25 with High School Degree	% of Population Over 25 with Bachelor's Degree
2007-08	54,584	1,748,976	3.12%	\$ 3,369,668,000	\$ 61,734	10,300	3.0%	-	-	-	-
2008-09	55,045	1,857,621	2.96%	3,442,884,000	62,547	10,300	3.8%	-	-	-	-
2009-10	55,838	1,800,876	3.10%	3,350,250,000	59,999	10,350	7.2%	-	40.5	96.5%	69.3%
2010-11	58,302	1,781,642	3.27%	2,586,120,000	44,357	10,365	7.3%	-	39.1	96.3%	72.6%
2011-12	59,022	1,809,378	3.26%	2,818,655,000	47,756	10,625	6.3%	-	39.2	97.0%	74.7%
2012-13	59,620	1,842,254	3.24%	2,888,768,456	48,453	29,699	5.4%	8.4%	39.9	96.7%	75.5%
2013-14	59,946	1,868,558	3.21%	2,965,595,760	49,471	29,904	4.4%	6.8%	40.4	96.1%	75.0%
2014-15	59,756	1,889,638	3.16%	3,290,377,494	55,064	29,871	3.1%	3.8%	40.0	96.5%	74.6%
2015-16	58,185	1,927,888	3.02%	3,298,679,878	56,693	29,684	3.4%	4.2%	40.2	96.5%	75.6%
2016-17	60,668	1,938,180	3.04%	3,500,965,974	59,422	29,467	3.0%	3.8%	40.6	96.7%	76.0%

Source: 2011-12 and prior, previously published CAFR Report

Source: MuniServices, LLC, U.S. Census Bureau, 2010 American Community Survey.

The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark.

1.) Population Projections are provided by the California Department of Finance Projections.

2.) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey.

3.) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.

4.) Median Age reflects the U.S. Census data estimation table.

**Reported Public School Enrollment reflects the total number of students in the Fremont Union High School District and Cupertino Union School District. Previously published reports included Fremont Union High School District only.

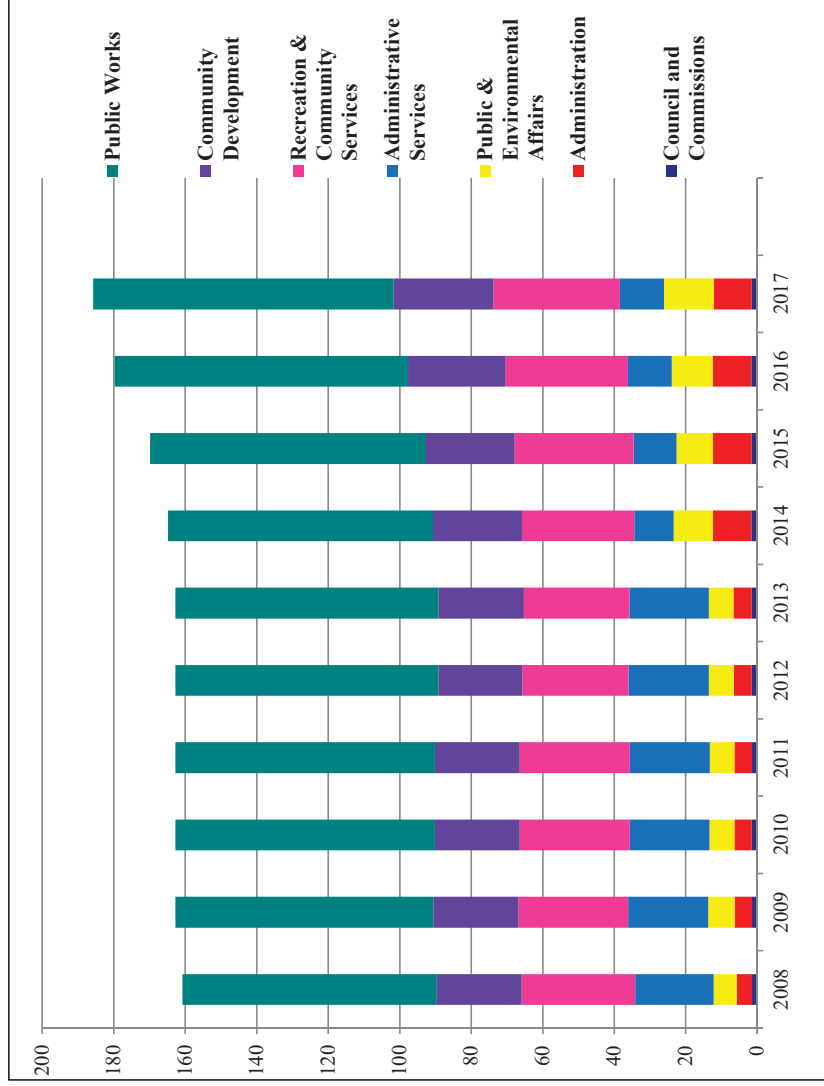
CITY OF CUPERTINO
2017 Employer Ranking
(Unaudited)

<u>Employer</u>	<u>Ranking</u>	<u>Employer</u>	<u>Ranking</u>
Apple	1	TD Ameritrade	11
Seagate Technology	2	Keller Williams Realty	12
Cellular Biomedicine	3	Cupertino Healthcare-Wellness	13
Adobe Systems Inc.	4	Summit Group Inc.	14
Magnet Systems Inc.	5	99 Ranch Market	15
Aemetis Inc.	6	Morgan Stanley Wealth	16
Target	7	Nexsales Corp	17
Insight Solutions	8	Product Engine	18
Sugar CRM Inc.	9	Coldwell Banker	19
Whole Foods Market	10	Sprouts Farmers Market	20

Source: Report#1280054096, 6/13/17 from InfoUSA.com

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Council and Commissions	1.40	1.40	1.47	1.46	1.47	1.52	1.57	1.55	1.60	1.55
Administration	4.30	4.85	4.90	4.85	5.05	5.05	10.75	10.75	10.85	10.57
Public & Environmental Affairs	6.50	7.45	6.95	6.95	6.95	6.90	11.00	10.25	11.40	13.95
Administrative Services	21.88	22.33	22.33	22.34	22.48	22.26	11.00	12.00	12.30	12.30
Recreation & Community Services	31.76	30.77	30.78	30.78	29.78	29.53	31.48	33.28	34.18	35.33
Community Development	23.78	23.78	23.73	23.78	23.43	23.90	24.83	24.80	27.30	27.93
Public Works	71.13	72.17	72.59	72.59	73.59	73.59	74.12	77.12	82.12	84.12
Total	160.75	162.75	162.75	162.75	162.75	162.75	164.75	169.75	179.75	185.75



Source: City of Cupertino Budget

CITY OF CUPERTINO
Operating Indicators by Function/Program
(Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Law Enforcement/Sheriff Response										
Priority One-Respond within 5 minutes	5:83 Min.	3:88 Min.	3:95 Min.	4:49 Min.	4:84 Min.	3:76 Min.	4:30 Min.	4:90 Min.	4:90 Min.	4:90 Min.
Priority Two-Respond within 9 minutes	7:95 Min.	5:94 Min.	5:90 Min.	5:76 Min.	6:44 Min.	5:98 Min.	6:39 Min.	6:56 Min.	6:56 Min.	6:56 Min.
Priority Three-Respond within 20 minutes	15:73 Min.	9:40 Min.	9:77 Min.	9:79 Min.	10:62 Min.	10:29 Min.	10:76 Min.	10:52 Min.	10:52 Min.	10:52 Min.
Public Works										
Street Sweeping	696 Curb Miles 24 Hrs of Call	696 Curb Miles 24 Hrs of Call	696 Curb Miles 24 Hrs of Call	696 Curb Miles 24 Hrs of Call	575 Curb Miles 24 Hrs of Call	575 Curb Miles 24 Hrs of Call	575 Curb Miles 24 Hrs of Call	575 Curb Miles 24 Hrs of Call	575 Curb Miles 24 Hrs of Call	534 Curb Miles 24 Hrs of Call
Street Maintenance										
Recreation Services										
Teen Center Memberships	444	400	447	492	576	564	684	424	491	388
Sports Center Memberships	1,419	1,700	1,385	1,598	1,776	1,852	1,950	2,000	1,989	2,015
Senior Center Memberships	2,110	2,243	2,287	2,387	2,470	2,456	2,623	2,549	2,493	2,260
Local Resident Rentals at Blackberry Farm (a)	-	28	91	120	135	141	148	120	107	107
Quinlan Community Center Rental Revenue (a)	-	\$80,000	\$71,000	\$91,000	\$133,000	\$120,000	\$109,342	\$110,033	\$104,150	\$128,778
Community Development										
Approved Building Plan Sets	Within 5 Days	91% Within 5 Days	96% Within 5 Days	97% Within 5 Days	93% Within 5 Days	92% Within 5 Days	95% Within 7 Work Days	95% Within 7 Work Days	95% Within 7 Work Days	95% Within 7 Work Days
Discretionary Land Use Applications	Within 21 Days	95% Within 21 Days	100% Within 21 Days	100% Within 21 Days	99% Within 21 Days	99% Within 21 Days	99% Within 21 Work Days	99% Within 21 Work Days	99% Within 21 Work Days	99% Within 21 Work Days
Public Notice of Upcoming Projects	Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days	100% Within 10 Days
Administrative Services										
Accounts Payable Processing	5 Days	5 Days	5 Days	5 Days	7 Days	7 Days	7 Days	7 Days	7 Days	7 Days
Business License Renewal Certificates	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days	3 Days
Library										
Volumes in Collection	-	-	-	-	-	-	-	361,817	364,557	369,924
Annual Gate Count	-	-	-	-	-	-	-	869,762	880,894	835,073
Annual Circulation Children's Items	-	-	-	-	-	-	-	1,474,996	1,544,095	1,448,265
Annual Circulation Adult and Teen Items	-	-	-	-	-	-	-	999,766	1,032,326	950,453
Adult Classes and Events	-	-	-	-	-	-	-	209	215	242
Teen Classes and Events Attendance	-	-	-	-	-	-	-	11,860	8,855	9,242
Teen Classes and Events	-	-	-	-	-	-	-	52	78	66
Teen Classes and Events Attendance	-	-	-	-	-	-	-	3,393	3,135	2,571
Children's Classes and Events	-	-	-	-	-	-	-	458	493	440
Children's Classes and Events Attendance	-	-	-	-	-	-	-	25,529	28,552	25,857
Volunteer Hours	-	-	-	-	-	-	-	11,786	10,000	9,645

Sources: City of Cupertino and Santa Clara County Library District

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Works										
Centerline Miles of Streets	142	142	142	142	142	142	142	142	142	142
Streetlights	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950
Traffic Signals	39	39	39	39	39	48	48	48	48	48
Culture & Recreation										
Parks and Open Spaces	17	17	18	19	19	19	21	21	21	21
Park and Landscape Acreage	150.8	150.8	151.4	152.0	152.0	152.0	159.0	165.0	165.0	165.0
City Trails	1	1	1	1	1	1	3	3	3	3
Golf Courses	1	1	1	1	1	1	1	1	1	1
Community Center	1	1	1	1	1	1	1	1	1	1
Community Hall	1	1	1	1	1	1	1	1	1	1
Senior Center	1	1	1	1	1	1	1	1	1	1
Sports Center	1	1	1	1	1	1	1	1	1	1
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Tennis Courts	17	17	17	17	17	17	17	24	24	24
Sports Fields	1	1	1	1	1	1	41	41	41	41
City Library	1	1	1	1	1	1	1	1	1	1

Source: City of Cupertino

History

Cupertino owes its name and earliest mention in recorded history to the 1776 expedition led by the Spanish explorer Captain Juan Bautista de Anza. Starting in Sonora, Mexico, Anza led a group up the coast of California, aiming to establish a presidio (fort) on San Francisco Bay.



In late March, Anza left the majority of his party of men, women, and children in Monterey to rest and pressed on through the Santa Clara Valley to his San Francisco destination with 18 men and Pedro Font, a diarist, cartographer, and Franciscan priest.

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 Copertino, Italy. The arroyo is now known as Stevens Creek.

The village of Cupertino sprang up at the crossroads of Saratoga-Sunnyvale Road (now DeAnza Boulevard) and Stevens Creek Boulevard. It was first known as West Side, but by 1898, the post office at the Crossroads needed a more unique name. 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 – likewise, in 1904, the same name was applied to the Crossroads and to the post office as the Home Union Store in the northeast corner of the Crossroads changed its name to The Cupertino Store.



Although Cupertino's pioneer settlers planted grapes in the late 1800s, many switched to keeping orchards when phylloxera, a root louse, struck the thriving wine industry in 1895. As the orchards flourished, the valley became known for the spring profusion of blossoms.

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 for incorporation in 1954. The incorporation was approved in the September 27, 1955 election, and Cupertino officially became Santa Clara County's 13th City on October 10, 1955.

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

2017 Community Economic Profile

Cupertino, with a population of 60,668 and the city limits stretching across 13 square miles, is considered one of the most prestigious cities to live and work in the San Francisco Bay Area.

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 Cupertino is a mature, 90% built-out city, we focus on business retention and revitalization. For example, 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, offering a dynamic and exciting business climate. Apple Inc., Verigy, Durect Corporation, and Trend Micro 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 a responsive and customer-oriented entitlement process.

Another popular shopping venue is the Cupertino Marketplace, located just across Vallco Mall. A popular destination by high school students in the area, the Marketplace has a variety of hangout locations such as Yogurtland, Super Cue, La Patisserie Bakery, and Beard Papa's. In addition to shopping for Japanese groceries and goods at Marukai and Daiso,



customers can eat at one of the many culturally diverse restaurants, including Merlion Restaurant, Harumi Sushi, Gyu-Kaku Japanese BBQ, One Pot Shabu Shabu, Kong's Korean Tofu & BBQ, PotSticker King, Wingstop, Erik's Deli Café, J.T. McHart's Pizza, and Elephant Bar.



On the other side of Vallco Mall is the Cupertino Village, home to 99 Ranch Market, Ten Ren Tea, Fantasia Coffee & Tea, Joy Luck Palace, and other Asian restaurants, bakeries, and shops.

The city features many other stores, including TJ Maxx and Home Goods, Whole Foods, Target, and over 160 restaurants to serve the local workforce and residents. Cupertino features five hotels: Cupertino Inn, Hilton

Garden Inn, Marriott Courtyard, the Cypress Hotel, operated by the Kimpton Group and The Aloft Cupertino Hotel, operated by Starwood Hotels & Resorts.

In addition, Cupertino is excited to have new retail commercial development projects underway, including Main Street Cupertino on Stevens Creek Boulevard, the Biltmore on DeAnza Boulevard, and Saich Way Station on Stevens Creek Boulevard and Saich Way. Each project features mixed use to accommodate the growing retail and residential needs of the community.



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.

2017 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 meetings can be viewed on the City website.

The City has 185.75 authorized full-time benefited employee positions. City departments include Administration (City Council, Commissions, City Clerk, City Manager, City Attorney, Environmental Affairs); Administrative Services (Finance, Human Resources); Community Development (Planning, Building, Housing Services, Economic Development, Code Enforcement); Recreation and Community Services (Parks and Recreation, Community Events,

Sports and Fitness, Senior Programs, Youth and Teen Programs, Neighborhood Services, Emergency Preparedness); Public Works (Engineering, Maintenance, Transportation, Solid Waste, and Storm Drain Management); and Information Services (IT, GIS, Public 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 including housing, telecommunications, fine arts, library, planning, audit, parks and recreation, bicycle and pedestrian, teens, economic development, strategic planning, sustainability, and public safety. Members of the volunteer boards are appointed by the City Council and vacancies are announced so that interested residents can 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 listing of an existing single-family home is \$1,890,000 for the time between July and October 2017. For housing programs in Cupertino, please see "Programs & Applications."

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

<i>Gas & Electric</i>	Pacific Gas and Electric, 800-743-5000
<i>Phone</i>	AT&T residential service, 800-894-2355 AT&T business service, 800-750-2355
<i>Cable</i>	Comcast, 800- 945-2288
<i>Solid Waste & Recycling</i>	Recology, 408-725-0420
<i>Water</i>	San Jose Water Company, 408-279-7900 California Water, 650-917-0152
<i>Sewer Service</i>	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 bears 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, and other taxing agencies. Assessed valuations and tax rates are published annually after July 1.

Assessed Valuation (Secured and Unsecured)

Cupertino: \$21,346,570,360 (7/1/16)

County: \$418,872,247,147 (7/1/16)

Retail Sales Tax

Grand Total = 9.00%.

Breakdown = Cupertino 1%, State General Fund 3.9375%, County Public Safety (Prop 172) .50%, County Realignment (Mental Health/Welfare/Public Safety) 1.5625%, Countywide Transportation Fund .25%, Santa Clara County Transit District (SCCT) .50%, Santa Clara County Valley Transportation Authority (SCVT) .50%, Santa Clara County VTA BART Operating & Maintenance Transaction and Use Tax (SVTV) .125%, Santa Clara County Retail Transactions and Use Tax (SCCR) .125%, Silicon Valley Transportation Solutions Tax (SVTS) .50%.

Transportation

Rail: The CalTrain station is four miles north of city. The Amtrak station is 10 miles south.

Air: The San Francisco International Airport is located roughly 30 miles north, and the Mineta San Jose International Airport is located approximately 11 miles south.

Bus: Cupertino is served by the Santa Clara Valley Transportation Authority. The routes listed below pass through the City. For Cupertino-specific schedules and maps visit their online website:

Route 23 San Jose – Mountain View/Palo Alto
Route 25 San Jose – De Anza College
Route 26 Eastridge – Lockheed
Route 36 East San Jose – Vallco
Route 51 Vallco – Moffett/Ames
Route 53 Westgate – Sunnyvale

Route 54 West Valley – Fair Oaks/ Tasman
Route 55 De Anza – Great America
Route 81 East San Jose – Vallco
Express 101 Camden/Branham – Palo Alto
Express 501 Palo Alto – I.B.M Bailey

Car: The City of Cupertino is in the heart of the world renowned Silicon Valley. The major highway transportation facilities are Interstate Route 280 and State Route 85 freeways. The City is linked internally by several principal arterials and Santa Clara County expressways. Principal arterials are De Anza Boulevard, Stevens Creek Boulevard, and Wolfe Road. Nearby expressways are Lawrence Expressway and Foothill Expressway.

Sister Cities

Cupertino has four sister cities: Copertino, Italy; Hsinchu, Taiwan; Toyokawa, Japan, and Bhubaneswar, India.

Education

Winner of numerous state and national awards for excellence, our city's schools are widely acknowledged as 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 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 achievements. Many high schools in the district exceed their established achievement targets for the State Academic Performance Index. District students are encouraged to volunteer and 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 at 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 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.

Programs & Applications

Community Outreach Programs

Leadership 95014

Leadership 95014 is a program designed by the City of Cupertino, Wilfred Jarvis Institute, and other local sponsors to offer an exciting adult program that is guaranteed to enhance the participants' leadership skills. The ten full-day sessions feature inside looks at local governments, the social sector, local non-profit organizations, and educational institutions. This 9-month program is offered annually, September to May, and applications can be found online.



Neighborhood Block Leader Program

Good neighborhoods are those where neighbors work together on common issues and look out for each other. Block leaders take extra steps to connect neighbors and build community, making our neighborhoods safer and more harmonious. The Block Leader Program teaches residents how to get to know their neighbors and how to organize activities so neighbors can more easily communicate with each other. Block leaders are vital links between City Hall and the neighborhoods, and leaders gain the inside track on neighborhood development activities.



Neighborhood Watch

Neighborhood Watch is a crime prevention program that enlists the active participation of citizens in cooperation with law enforcement to reduce crime in our communities. It involves: neighbors getting to know each other and working together in a program of mutual assistance; citizens being trained to recognize and report suspicious activities in their neighborhoods; and implementation of crime prevention techniques such as home security and operation identification. To organize a Neighborhood Watch program in your neighborhood, please contact the Neighborhood Watch Coordinator at 408.777.3177.

eCAP

Email Community Alert Program (eCAP) was created by the Santa Clara County Sheriff's Office to prevent and reduce crime by raising community awareness, minimizing opportunities for crime, and increasing the possibility of solving crimes with the public's help. Cupertino residents may voluntarily register their email addresses with the Sheriff's Office for community alert messages. Citizens can sign-up at a Neighborhood Watch meeting or log-on to the City of Cupertino's eCAP online registration.

Affordable Housing: BMR (Below Market Rate) Program

The City of Cupertino requires 15% of all new construction be affordable to households below 120% of the County median income. Rental units are affordable to very low and low-income households while ownership units are affordable to median and moderate-income households.

The City of Cupertino contracts with West Valley Community Services (WVCS) to screen and place qualified households in most of the city's BMR units. WVCS maintains a waiting list of interested persons for these BMR units. If interested, please call 408.255.8033. More information can be found online.

Smart Phone Applications

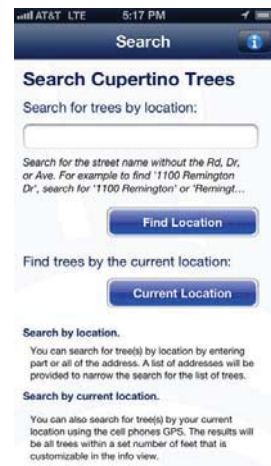


Mobile 95014

City of Cupertino's Mobile 95014 app offers latest listing of Cupertino news and events as well as local parks, schools, and recreation offerings in the city. This app showcases environmental services and community services such as Block Leaders and Neighborhood Watch programs. Users can learn about public safety and contact City Council members and City officials. The app also offers links to Cupertino's social media sites.

Trees 95014

Trees 95014 is an iPhone/iPad and Android app which provides details about the city-planted trees in Cupertino. Users can search for trees by street name or by current location. The search results show the picture of the tree and details such as location, height, diameter, and species. Cupertino residents can also sign up their tree, name their tree, and request tree service through this app.



Eats 95014

Eats 95014 is the local restaurant app that showcases Cupertino's dining options such as restaurants, grocery stores, farmers' markets, and vineyards. The app provides information on the services offered at such eating places including store hours, parking information, noise level, directions, and website link.



Ready 95014

Ready 95014 is an app that puts safety information into the hands of Cupertino residents. Steps to prepare and respond to emergencies including earthquakes, floods, fires, and pandemics are outlined in an easy-to-understand format. The app also streams Cupertino's own AM radio station (1670 AM) and has a map of the City's Area Resource Centers, satellite locations opened after disasters to provide public assistance.

Geographic Information System (GIS)



For local governments, a GIS is a computer technology that combines geographic data (the locations of manmade and natural features on the earth's surface) and other types of information (names, classifications, addresses, and much more) to generate visual maps and reports. A GIS uses geographic location to relate otherwise disparate data and provides a systematic way to collect and manage location-based information crucial to local government.

The City of Cupertino has been using GIS within individual departments to enhance both operational and analytical functions since 1977. The City has organized their GIS efforts by placing GIS into the Information Technology Division.

Cupertino at a Glance

The Cupertino at a Glance application can be accessed online at:
gis.cupertino.org/CupertinoAtAGlance.

Cupertino's Green Program

Cupertino is committed to maintaining the City as a sustainable place to live, learn, work, and play for all the community members. To achieve this goal of safeguarding the community's well-being and environmental health, Cupertino is actively working to implement its first Climate Action Plan (CAP) and provide residents, businesses, and schools with clear and easy-to-access programs and services to jumpstart green leadership. More information can be found online.



Social Media Sites

Facebook Sites

City of Cupertino Facebook
Cupertino Parks and Recreation Facebook
Cupertino Teen Center Facebook
McClellan Ranch Preserve Facebook
Cupertino Senior Center Facebook
Cupertino Sports Center Facebook
Cupertino Block Leader Facebook

Twitter Sites

City of Cupertino Twitter
Cupertino Fields Twitter
Cupertino Parks and Recreation Twitter

YouTube Site

City of Cupertino, City Channel

Community Statistics

Facts and Figures¹

Population in City Limits	60,668
Median Household Income	\$136,940
Median Age	40
Registered Voters	25,516
Democrats	9,558
Republicans	4,887
American Independent	373
Other	206
No Political Party designated	10,445

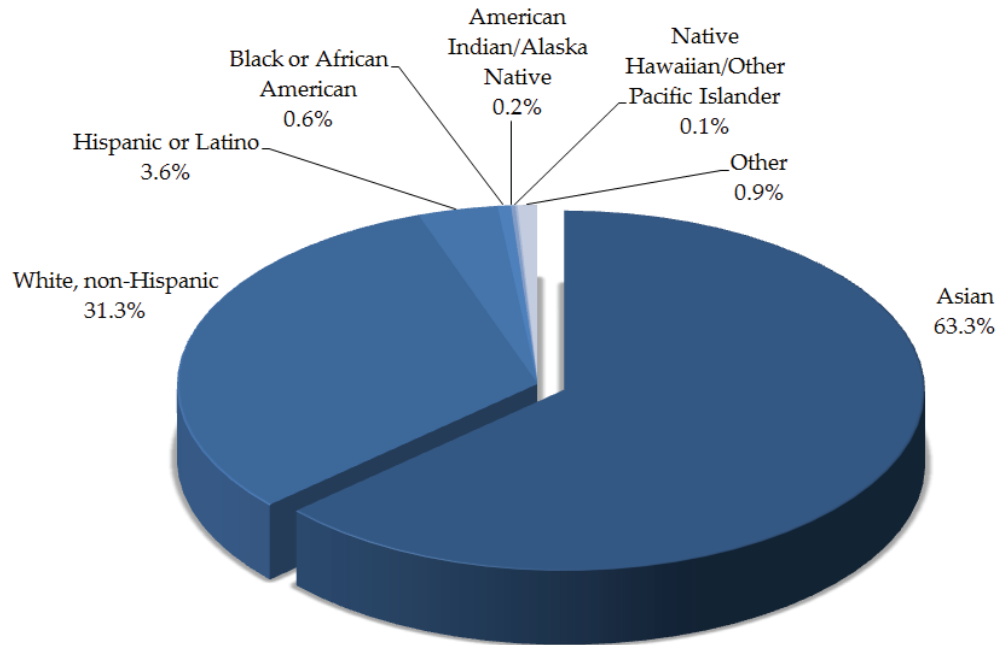
Top 40 Sales Tax Producers

First Quarter 2017 in Alphabetical Order

7 Eleven	Dynasty Seafood Rest.	Scandinavian Designs
99 Ranch Market	Estel Group	Seagate
Alexander's Steak House	Haworth	Seele
Alliance	Huawei Enterprise	Shane
Apple	Insight Direct	Shell
Argonaut Window & Door	Insight Public Sector	Superior Air Handling
Benihana	Kula Revolving Sushi Bar	Target
BJ's Restaurant & Brewhouse	Lazy Dog Cafe	Teknion
Brightview Tree Company	Mirapath	TJ Maxx
Chevron	Mitsubishi Electric Inc.	Ulta Beaty
Columbia Stone	Permasteelisa No. America	Valero
Cupertino Electric	Powersecure	Whole Foods Market
De Anza College Campus Ctr.	Rotten Robbie	
Dental Arts of California	Safeway	

¹ U.S. Census Bureau

Demographic Information

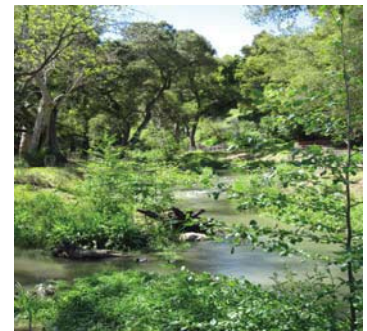


Community and Recreation Services

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 and a child-watch center are also included. 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, computer lab classes, and English as a second language classes, 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, Planning Commission sessions, and Parks and Recreation Commission sessions are held in the Community Hall.

The 54,000 square foot library continues to be one of the busiest libraries 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, and livestock barn. Two historic buildings have been recently renovated: Baer's Blacksmith Shop, originally located at DeAnza and Stevens Creek, and the Environmental Education Center which houses the Nature Museum. Cupertino is famous for its continued dedication to education and environmental sustainability. The original ranch house houses Santa Clara Valley Audubon and Friends of Stevens Creek Trail. Rolling Hills 4-H Club members raise rabbits, chickens, sheep, swine, and cattle. McClellan Ranch is located at 22221 McClellan Road. Telephone: 408-777-3149.



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, presents one-of-a-kind exhibitions, publications, and events reflecting the rich diverse heritage of our area. The Museum prides itself on its changing exhibitions of national and international stature emphasizing Bay Area artists. Museum hours are 10 a.m. – 3 p.m. Monday through Thursday. Telephone: 408-864-5464.

Fujitsu Planetarium

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

Flint Center

The cultural life of the Peninsula and South Bay is enhanced by programs presented at the Flint Center for Performing Arts located at 21250 Stevens Creek Boulevard in the 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 1.5 hours prior to any performance. Box office: 408-864-8816; administrative office: 408-864-8820.

Cupertino Historical Society

The Cupertino Historical Society was founded in 1966 by a group of 177 longtime residents and is dedicated to the preservation and exhibition of the city's history. Their museum, located at the Quinlan Community Center, develops and expands the learning opportunities that it offers to the ethnically diverse community of the City of Cupertino. Telephone: 408-973-1495.



Farmers' Market



There are two farmers' markets located in the City of Cupertino. One is held on Fridays from 9:00 a.m. to 1:00 p.m. at Creekside Park, and the other is held every Sunday from 9:00 a.m. to 1:00 p.m. at the Cupertino Oaks Shopping Center, 21275 Stevens Creek Blvd.

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 boast a large collection of books, pamphlet files, 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 and/or natural history are offered by the center each quarter. For more information, call 408-864-8987. The center is open September through June, Tuesday through Thursday, from 9:30 a.m. to noon and 1:00 p.m. to 4:00 p.m.