



# CITY OF CUPERTINO

## AGENDA

### AUDIT COMMITTEE

10185 North Stelling Road, Quinlan Conference Room

Monday, June 24, 2024

3:00 PM

Amended - Special Meeting

Amended on 6/21/2024 at 3:45 p.m. to update Item #1 Attachment A and to update Item #4 subject and recommended action.

Amended on 6/20/2024 at 5:15 p.m. to add attachments A & B for Agenda Item #4.

Members of the public wishing to observe the meeting may do so in one of the following ways:

- 1) Attend in person at Quinlan Community Center, 10185 North Stelling Road
- 2) The meeting will also be streamed live on and online at <https://youtube.com/@cupertinocitycommission>

Members of the public wishing to comment on an item on the agenda may do so in the following ways:

- 1) Appear in person at Quinlan Community Center.
- 2) E-mail comments by 3:00 p.m. on Monday, June 24 to the legislative body at [auditcommittee@cupertino.gov](mailto:auditcommittee@cupertino.gov). These e-mail comments will also be posted to the City's website after the meeting.

Oral public comments may be made during the public comment period for each agenda item.

Members of the audience who address the legislative body are requested to complete a Speaker Card and identify themselves. Completion of Speaker Cards and identifying yourself is voluntary and not required to attend the meeting or provide comments.

### NOTICE AND CALL FOR A SPECIAL MEETING OF THE CUPERTINO AUDIT COMMITTEE

NOTICE IS HEREBY GIVEN that a special meeting of Cupertino Audit Committee is hereby called for Monday June 24, 2024, commencing at 3:00 p.m. at the Quinlan Community Center Conference Room, 10185 North Stelling Road, Cupertino, California 95014. Said special meeting shall be for the purpose of conducting business on the subject

matters listed below under the heading, "Special Meeting."

### SPECIAL MEETING

#### ROLL CALL

#### ORDERS OF THE DAY

#### APPROVAL OF MINUTES

1. Subject: Approve Minutes of Regular Meeting on April 22, 2024  
Recommended Action: Approve Minutes of Regular Meeting on April 22, 2024  
[A - Amended Draft Minutes](#)

#### POSTPONEMENTS

#### ORAL COMMUNICATIONS

*This portion of the meeting is reserved for persons wishing to address the Committee on any matter within the jurisdiction of the Committee and not on the agenda. Speakers are limited to three (3) minutes. In most cases, State law will prohibit the Commission from making any decisions with respect to a matter not on the agenda.*

#### OLD BUSINESS

#### NEW BUSINESS

2. Subject: ACTION ITEM Receive the Enterprise Risk Assessment Final Report and FY 2024-25 Internal Audit Work Plan  
Recommended Action: 1. Receive the Enterprise Risk Assessment Final Report and Forward to City Council  
2. Receive the FY 2024-25 Internal Audit Work Plan and Forward to City Council  
Presenter: Thomas Leung, Budget Manager and Moss Adams  
3:15(10)  
[Staff Report](#)  
[A – City of Cupertino Enterprise Risk Assessment Final Report](#)  
[B – FY 2024-25 Internal Audit Work Plan](#)
3. Subject: ACTION ITEM Status update for prior Internal Audit Work Plans in Fiscal (FY) 2021-22 and FY 2022-23  
Recommended Action: Receive status update report for prior Internal Audit Work Plans in FY 2021-22 and FY 2022-23 and forward to City Council  
Presenter: Toni Oasay-Anderson  
3:25(10)

[Staff Report](#)[A – Procurement Operational Review - Audit Recommendation Update](#)[B – Fiscal Policy Inventory & Gap Analysis - Audit Recommendation Update](#)[C – Capital Program Effectiveness - Audit Recommendation Update](#)[D – Fraud, Waste, and Abuse Program - Audit Recommendation Update](#)[E – Budget Process Review - Audit Recommendation Update](#)[F – Enterprise Leadership Assessment - Audit Recommendation Update](#)[G – Library Expansion Construction - Audit Recommendation Update](#)

4. Subject: ACTION ITEM Receive the FY 2022-23 Annual Comprehensive Financial Report (ACFR)  
Recommended Action: Receive the FY 2022-23 ACFR and forward to City Council  
Presenter: Jonathan Orozco, Finance Manager and The Pun Group  
3:35(25)  
[A - ACFR Memo](#)  
[B - Draft FY 2022-23 Annual Comprehensive Financial Report \(ACFR\)](#)
  
5. Subject: INFORMATIONAL ITEM Receive the proposed Audit Committee 2024 Schedule and Workplan  
Recommended Action: Receive the proposed Audit Committee 2024 Schedule and Workplan  
Presenter: Jonathan Orozco, Finance Manager and The Pun Group  
4:00(10)  
[A - Proposed Audit Committee 2024 Schedule and Work Plan](#)

## STAFF AND COMMITTEE REPORTS

## FUTURE AGENDA SETTING

## ADJOURNMENT

*In compliance with the Americans with Disabilities Act (ADA), anyone who is planning to attend this meeting who is visually or hearing impaired or has any disability that needs special assistance should call the City Clerk's Office at 408-777-3223, at least 48 hours in advance of the meeting to arrange for assistance. In addition, upon request, in advance, by a person with a disability, meeting agendas and writings distributed for the meeting that are public records will be made available in the appropriate alternative format.*

*Any writings or documents provided to a majority of the members after publication of the agenda will be made available for public inspection. Please contact the City Clerk's Office in City Hall located at 10300 Torre Avenue, Cupertino, California 95014, during normal business hours.*

*IMPORTANT NOTICE: Please be advised that pursuant to Cupertino Municipal Code section 2.08.100 written communications sent to the Cupertino City Council, Commissioners or City staff*

*concerning a matter on the agenda are included as supplemental material to the agenda item. These written communications are accessible to the public through the City's website and kept in packet archives. Do not include any personal or private information in written communications to the City that you do not wish to make public, as written communications are considered public records and will be made publicly available on the City website.*

*Members of the public are entitled to address the members concerning any item that is described in the notice or agenda for this meeting, before or during consideration of that item. If you wish to address the members on any other item not on the agenda, you may do so during the public comment.*



# CITY OF CUPERTINO

## Agenda Item

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**24-13239**

**Agenda Date: 6/24/2024**  
**Agenda #: 1.**

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Subject: Approve Minutes of Regular Meeting on April 22, 2024

**Approve Minutes of Regular Meeting on April 22, 2024**

City of Cupertino  
**Audit Committee Regular Meeting**  
Minutes  
April 22, 2024

**CALL TO ORDER**

At 4:00 p.m., Chair ~~Chen-Schmidt~~ called the ~~special-regular~~ meeting to order in the City of Cupertino Conference Room A, 10300 Torre Avenue.

**ROLL CALL**

Committee Members Present: Chair Eno Schmidt, Mayor Sheila Mohan, Committee member Hanyan Wu, Councilmember Hung Wei

City Staff Present: Kristina Alfaro, Thomas Leung, Janet Liang, Matt Morley, Jonathan Orozco

Absent: Committee member Angela Chen

Guests: Carlos Oblites (Chandler), Haile Garcia (Moss Adams), Ryan Maxey (U.S. Bank), Jennifer Meza (PARS), Will Rogers (PARS), Dennis Mullins (PFM Asset Management), Rick Rosenthal (PFM Asset Management)

**ORDERS OF THE DAY**

**1. APPROVE MINUTES OF SPECIAL MEETING ON MARCH 21, 2024**

Mayor Mohan motioned; Committee member Wei seconded. No public comment. The motion passes unanimously.

Chair Schmidt motioned an amendment to edit future minutes so that the Audit Committee members that are on the City Council should be addressed as Council member in the minutes instead of Committee member. The motion passes as amended unanimously.

**POSTPONEMENTS**

**ORAL COMMUNICATIONS**

Rhoda Fry provided comments. Brooke Ezzat provided comments.

**OLD BUSINESS**

**NEW BUSINESS**

**2. Receive the Internal Audit and Fraud, Waste, and Abuse programs update**

Garcia provided an update. Chair Schmidt asked if committee members were interested in seeing the Fraud, Waste and Abuse reports, would it be available to view. Garcia noted that the reports are confidential and is a requirement of State law and City policy.

No public comment.

Mayor Mohan motioned to receive the report, Committee member Wu seconded. The motion passes unanimously.

### **3. Receive OPEB & Pension Section 115 Trust Performance Report for Quarter Ending December 31, 2023 and March 31, 2024**

Meza provided an overview of the report. Rosenthal provided an overview of the report. Chair Schmidt asked what the process is for eliminating certain stocks and if they are in communication with city staff. Rosenthal noted that they do not communicate trades directly with the City, it is included in the statements and the report shows the top 5 and bottom 5 contributors. Chair Schmidt asked if they are worried about regional banking failures. Rosenthal noted that they have not seen much of it in the last year. Committee member Wu asked if they have any recommendations on the market trend. Rosenthal noted that they do not as they did a through review not too long ago.

No Public Comment.

Councilmember Wei motioned to receive the report, Committee member Wu seconded. The motion passes unanimously.

### **4. Receive the Treasurer's Investment Report for the Quarter Ending December 31, 2023 and March 31, 2024**

Orozco provided an overview. Oblites provided an overview. Chair Schmidt asked if we should expect the portfolio to vary from the index in the future because of the duration. Oblites noted yes, particularly on the front end because of the benchmark. Chair Schmidt asked if this leads into the cash management issue for the City. Oblites noted yes and that there is a liquidity component at the bank and at the State Pool - LAIF to cover expenditures, payroll runs and AP runs.

Committee member Wu asked about the \$45 million LAIF transfer. Orozco noted that the City transferred funds out and withholding the funds until then was driven by the unknown of the CDTFA audit and a few other outstanding liabilities.

Mayor Mohan asked if it is common to move funds to LAIF. Orozco noted that the City historically has maintained approximately \$20 million but with clarity in the CDTFA audit and repayment portion of it, funds were moved. Alfaro noted that staff looks at it on a regular basis and make a decision on what we know at a given point in time. Mayor Mohan asked one of our priorities is liquidity, how does LAIF play into it. Orozco noted that it is relatively liquid and that it is around 4% return.

Committee member Wu asked what is the composition of the LAIF fund. Orozco noted that LAIF is administered by the State of California and they set the restrictions and baseline. Oblites noted that LAIF invests in money market securities and longer treasuries.

Rhoda Fry provided public comment.

Councilmember Wei motioned to receive the report, Committee member Wu seconded. The motion passes unanimously.

**5. Annual Review of the City’s Investment Policy**

Orozco provided an overview. Chair Schmidt asked about the initial allocation of \$56.5 million that was set aside for disputed sales tax revenue, how does it get into the investment policy. Orozco noted that the funds are set aside in the City’s accounting software and is unaffected or may be affected by the investment policy as the City wants to shorten the maturity date.

Rhoda Fry provided public comment.

Mayor Mohan motioned to accept the report and forward to the City Council for approval, Committee member Wu seconded. The motion passes unanimously.

**6. Update on FY 2022-23 ACFR and Supplemental Reports**

Orozco provided an overview.

Rhoda Fry provided public comment.

**7. Receive the proposed Audit Committee 2024 Schedule and Workplan**

Orozco provided an overview.

Govind Tatachari and Rhoda Fry provided public comment.

**STAFF AND COMMITTEE REPORTS**

**COMMITTEEMEMBER ATTENDANCE AT UPCOMING MEETINGS AND EVENTS**

**FUTURE AGENDA SETTING**

**ADJOURNMENT**

The meeting adjourned at 5:56 p.m.

Recording Secretary:  
Janet Liang, Management Analyst



# CITY OF CUPERTINO

## Agenda Item

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**24-13240**

**Agenda Date: 6/24/2024**  
**Agenda #: 2.**

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**Subject:** ACTION ITEM Receive the Enterprise Risk Assessment Final Report and FY 2024-25 Internal Audit Work Plan

- 1. Receive the Enterprise Risk Assessment Final Report and Forward to City Council**
- 2. Receive the FY 2024-25 Internal Audit Work Plan and Forward to City Council**

**Presenter:** Thomas Leung, Budget Manager and Moss Adams

**3:15(10)**



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

## AUDIT COMMITTEE STAFF REPORT

Meeting: June 24, 2024

### Subject

Receive the Enterprise Risk Assessment Final Report and FY 2024-25 Internal Audit Work Plan

### Recommended Action

1. Receive the Enterprise Risk Assessment Final Report and Forward to City Council
2. Receive the FY 2024-25 Internal Audit Work Plan and Forward to City Council

### Reasons for Recommendation

#### *Background*

As of FY 2021-22, Moss Adams LLP (“Moss Adams”) serves as the designated Internal Auditor for the City of Cupertino (the City) and conducts projects focusing on:

- Risks
- Internal controls
- Efficiency and effectiveness
- Best practices
- Compliance

As described in the [internal audit charter](#), the Internal Auditor is appointed by and reports to the Audit Committee and City Council. The Audit Committee and City Council approve the annual audit work plan, review audit report findings and recommendations, and monitor the implementation of recommendations.

#### *2024 Enterprise Risk Assessment*

As part of their internal audit work plan, Moss Adams conducted a triennial enterprise risk assessment for the City. An enterprise risk assessment provides a snapshot of the risk landscape at a specific point in time, reflecting current threats and vulnerabilities faced by the City. It is a recommended practice to regularly update an enterprise risk assessment to ensure that the City maintains an accurate and up-to-date understanding of its risk environment.

This enterprise risk assessment provides a way for the leadership of the City to measure uncertainty related to the City’s ability to achieve defined strategic objectives and operate effectively. Risks are identified, analyzed, and measured by the level of inherent vulnerability,

the level of preparedness to mitigate them, and the impact such negative events could have on the City should they occur. This assessment evaluates risk across 19 categories. This engagement took place between December 2023 and May 2024 and is a point-in-time assessment. Additionally, as stated in the report, the results of this ERA were largely impacted by views of the City's financial future; however, currently, management believes there is now a more optimistic outlook on the City's finances.

The previous [Enterprise Risk Assessment](#) was conducted in 2020 and presented to the Audit Committee on [February 22, 2021](#) and [May 24, 2021](#) (continued from previous meeting), and to the City Council on [July 20, 2021](#).

Compared to 2020, the 2024 risk assessment results show that 42% of the City's risk categories have remained flat in their risk rating. There has been an increase in risk rating for 32% of categories, and 26% of categories have decreased in their risk rating. Increased risk ratings are largely driven by the change in the City's financial situation, while decreased risk is due to the City's efforts in the intervening years to deploy risk mitigation strategies. This has involved additional studies over the past three years to address areas of risk, including an Enterprise Leadership Assessment, Budget Review, Capital Program Effectiveness Study, and Procurement Operational Review.

#### *Internal Audit Work Plan*

The Internal Audit Work Plan, developed by Moss Adams, outlines the projects to be undertaken in FY 2024-25. The Audit Committee and City Council prioritize the projects included in the work plan.

The Audit Committee and City Council approved the following internal audit work plans in prior years:

- *FY 2021-22:*
  - Procurement Operational Review
  - Policy Inventory (Fiscal) and Plan
  - Capital Program Effectiveness Study Fraud, Waste, and Abuse Program
  
- *FY 2022-23:*
  - Budget Process Review
  - Enterprise Leadership Effectiveness Study
  - Library Construction Audit
  
- *FY 2023-24:*
  - Enterprise Risk Assessment
  - City Policy Inventory

For FY 2024-25, Moss Adams recommended the following internal audit work plan:

- Grants Management Internal Controls Review: Assess the internal controls in place over the City’s grants management activities (including applications, review, administration, and reporting). (16 weeks, \$25,000)
- Special Revenue Funds Process Review: Document the process used for special revenue fund accounting, identify gaps compared to best practices, and conduct testing of prior years’ accounting. (16 weeks, \$18,000)
- Recommendation Validation Process Establishment: Inventory prior internal and external audit recommendations, collaborate with City staff to develop a tracking mechanism and process to report and validate recommendation implementation (20 weeks, \$10,000)
- Ongoing Internal Audit Services Attend Audit Committee and Council meetings, prepare status reports, manage internal audit program, and monitor FWA hotline. (\$7,000)

*Next Steps*

From the risk assessment results, Moss Adams prioritized and recommended an internal audit plan for FY 2024-25. If the City Council approves the recommended internal audit work plan, Moss Adams will complete the recommended projects and present the audit reports to the Audit Committee for review and the City Council for acceptance. The audit reports will be available on the City’s website at [cupertino.org/finance](http://cupertino.org/finance) under Internal Audit.

Sustainability Impact

No sustainability impact.

Fiscal Impact

In the FY 2024-25 Adopted Budget, the City has budgeted \$60,000 for the internal audit contract in the contracts category of the accounting program (GL 100-41-405 700-702). No additional appropriations are requested.

California Environmental Quality Act

Not applicable.

Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – City of Cupertino Enterprise Risk Assessment Final Report

B – FY 2024-25 Internal Audit Work Plan



*Proprietary & Confidential*

FINAL REPORT

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# City of Cupertino

## ENTERPRISE RISK ASSESSMENT

May 23, 2024

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Moss Adams LLP  
999 Third Avenue, Suite 2800  
Seattle, WA 98104  
(206) 302-6500



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# I. EXECUTIVE SUMMARY

## A. PROJECT SCOPE

As part of our internal audit workplan, Moss Adams LLP (Moss Adams) conducted a triennial enterprise risk assessment for the City of Cupertino (the City). An enterprise risk assessment provides a snapshot of the risk landscape at a specific point in time, reflecting current threats and vulnerabilities faced by the City. It is a recommended practice to regularly update an enterprise risk assessment to ensure that the City maintains an accurate and up-to-date understanding of its risk environment.<sup>1</sup>

This enterprise risk assessment provides a way for the leadership of the City to measure uncertainty related to the City’s ability to achieve defined strategic objectives and operate effectively. Risks are identified, analyzed, and measured by the level of inherent vulnerability, the level of preparedness to mitigate them, and the impact such negative events could have on the City should they occur. This assessment evaluates risk across 19 categories. This engagement took place between December 2023 and May 2024.

## B. RISK ASSESSMENT FRAMEWORK

For each risk category, our assessment includes an overview of each risk condition, including the current risk level, likelihood, impact, preparedness, and trajectory (defined in the table below). Risk mitigation identifies potential strategies to reduce overall risk for each category. The residual risk level represents the probable risk exposure after mitigation efforts are implemented. These elements make up the risk assessment framework, which is guided by the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Enterprise Risk Management (ERM) methodology. The COSO framework is supported by the Institute of Internal Auditors (IIA), American Institute of Certified Public Accountants (AICPA), and American Accounting Association (AAA).

<b>RISK LEVEL</b>	Level of uncertainty that could impair functions and processes, in the absence of any actions taken to alter either the risk’s likelihood or impact.
<b>LIKELIHOOD</b>	Qualitative assessment of the probability of a negative event occurring, given the current risk conditions.
<b>IMPACT</b>	Level of potential impact of a negative event on strategy, people, operations, systems, and resources.
<b>PREPAREDNESS</b>	Level of preparedness through activities and resources to manage risks and minimize and limit potential losses.
<b>TRAJECTORY</b>	Trajectory of the risk level, given the current risk conditions.

<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission. 2012. “Risk Assessment in Practice.” Accessed April 8, 2024: [https://www.coso.org/files/ugd/3059fc\\_cdb2016e5bf64213a5ca726b7846856d.pdf](https://www.coso.org/files/ugd/3059fc_cdb2016e5bf64213a5ca726b7846856d.pdf)



<b>RISK MITIGATION</b>	Potential strategies for reducing risk.
<b>RESIDUAL RISK</b>	Possible remaining exposure after known risks have been mitigated through specific actions.

### C. RISK ASSESSMENT RESULTS

The assessment evaluates the City’s risks across 19 categories. The table below presents the summary results of the assessment.

RISK CATEGORY	IMPACT	LIKELIHOOD	PREPAREDNESS	TRAJECTORY
<b>High Risk</b>				
Funding and Economics	High	High	Moderate to High	Flat
<b>Moderate to High Risk</b>				
Capital Improvement Program	Moderate to High	Moderate	Low to Moderate	Increasing – Low
Compliance and Financial Reporting	Moderate	Moderate to High	Low to Moderate	Flat
Human Resources	High	Moderate to High	Moderate	Increasing – Low
Planning and Strategy	Moderate	Moderate to High	Moderate	Increasing – Low
<b>Moderate Risk</b>				
Asset Management	Moderate to High	Moderate	Moderate	Flat
Governance	Moderate to High	Moderate	Moderate	Decreasing – Low
Internal Controls	Moderate	Moderate	Moderate	Flat
Management and Leadership	Moderate	Moderate to High	Moderate	Flat
Operations and Service Delivery	Moderate to High	Moderate	Moderate	Flat
Organization and Staffing	Moderate to High	Moderate	Moderate	Increasing – Low
Policies and Procedures	Moderate	Moderate	Moderate	Flat
Procurement and Contracting	Moderate	Moderate to High	Moderate	Decreasing – Low



RISK CATEGORY	IMPACT	LIKELIHOOD	PREPAREDNESS	TRAJECTORY
Reputation and Public Perception	Moderate	Moderate	Moderate	Increasing – Low
Risk Programs	Moderate to High	Moderate	Moderate	Flat
<b>Low to Moderate Risk</b>				
Accounting and Finance	Moderate	Low to Moderate	Moderate	Flat
Ethics and Fraud, Waste, Abuse	Moderate	Low to Moderate	Moderate to High	Decreasing – Low
Information Technology	Moderate to High	Low to Moderate	Moderate to High	Flat
Public Safety and Security	Moderate	Low to Moderate	Moderate	Flat



## II. INTRODUCTION

### A. PROJECT SCOPE

The City engaged its internal auditor, Moss Adams LLP (Moss Adams), to conduct an independent enterprise risk assessment to analyze the City's overarching areas of risk. Periodically conducting an enterprise risk assessment enables the City to monitor risk over time, as well as identify emerging risks, and prioritize the implementation of mitigation strategies to address the most critical areas. The enterprise risk assessment process followed conventional ERM methodology as defined by COSO and embraced by IIA.

The Moss Adams team evaluated 19 categories of risk that collectively comprise operations across the organization. Risk assessment procedures include identifying the current levels of risk, the likelihood of a negative event occurring, the impact of a negative event, and the level of preparedness in terms of mitigating negative events. All City departments were included in the risk assessment process. This assessment incorporates information provided by City Council members, senior leadership, managers, supervisors, and staff.

The enterprise risk assessment process reflects a specific point in time. This engagement was conducted between December 2023 to May 2024. Both the overall risk ratings and trajectory levels are directly connected to this timing.

### B. METHODOLOGY

The enterprise risk assessment process consists of four phases: 1) planning, 2) fact finding, 3) analysis, and 4) reporting. Planning included requesting documents, identifying which individuals to interview, and timing the all-staff survey. Fact finding encompassed document review, analysis of existing data, interviews, and an online survey sent to City employees. Analysis included assessment of the level of uncertainty associated with each risk factor, including the potential for impact on the City's operations. Reporting entailed the development of draft and final deliverables as well as follow-up discussions with management and presentation to key stakeholders.

The activities and goals for each phase are described in detail below.



#### PLANNING

We began planning our assessment by requesting a standard set of documents and data from the City, including (but not limited to) prior risk assessments, audits, public website documents, and financial reports. We used these documents to identify individuals to interview and additional document needs based on business processes and functional areas.



**FACT FINDING**

Fact finding encompassed reviewing documents received, interviewing employees and City Council members, and soliciting employee feedback via an online survey. During this phase, we gathered information to gain a clear understanding of the City’s processes and the way it operates to achieve its goals and purpose.



**ANALYSIS**

With the information collected and compiled, we performed a risk analysis that included a comprehensive review and evaluation of the various categories of risks. This analysis included assessing current risk conditions and trajectory, the level of preparedness efforts to mitigate risks, and the probability and potential impact a negative event may have on the City’s ability to achieve its mission, vision, and strategic goals.



**REPORTING**

During the reporting phase, we developed preliminary observations to verify facts. Preliminary observations were reviewed with City leadership and feedback incorporated into the draft report. The draft report was developed and submitted to City leadership for review. Based on feedback, we finalized the report for delivery to City leadership and presentation to the Audit Committee.

The enterprise risk assessment process relies on data and documents obtained from the City. By design, the assessment process requires access to all senior leadership and many department and division managers. Full disclosure of information has been assumed in this process.

**Risk Assessment Framework**

The process to identify and assess risks considers both internal and external factors. As part of this risk assessment, Moss Adams used a variety of techniques, both qualitative and quantitative, to identify external and internal factors that contribute to risk. Risk assessments involve a dynamic and iterative process to identify and analyze risks to the City’s ability to achieve its objectives, forming a basis for determining how risks should be managed.

For each of the risk categories assessed, our risk assessment includes an overview of the risk condition at the City, including the current risk level, likelihood, impact, preparedness, and trajectory (defined in the table below). Risk mitigation identifies potential strategies to reduce overall risk for each category, and residual risk represents the probable risk exposure after risk mitigation efforts have been implemented. The elements outlined below make up the risk assessment framework and are industry standard as defined by COSO’s ERM methodology.



<p><b>RISK LEVEL</b></p>	<p>Level of uncertainty that could impair functions and processes, in the absence of any actions taken to alter either the risk's likelihood or impact.</p>	<ul style="list-style-type: none"> <li>• Low</li> <li>• Low to Moderate</li> <li>• Moderate</li> <li>• Moderate to High</li> <li>• High</li> </ul>
<p><b>IMPACT</b></p> 	<p>Level of potential impact of a negative event on strategy, people, operations, systems, and resources.</p>	<ul style="list-style-type: none"> <li>• Low</li> <li>• Low to Moderate</li> <li>• Moderate</li> <li>• Moderate to High</li> <li>• High</li> </ul>
<p><b>LIKELIHOOD</b></p> 	<p>Qualitative assessment of the probability of a negative event occurring, given the current risk conditions.</p>	<ul style="list-style-type: none"> <li>• Low</li> <li>• Low to Moderate</li> <li>• Moderate</li> <li>• Moderate to High</li> <li>• High</li> </ul>
<p><b>PREPAREDNESS</b></p> 	<p>Level of preparedness through activities and resources to manage risks and minimize and limit potential losses.</p>	<ul style="list-style-type: none"> <li>• Low</li> <li>• Low to Moderate</li> <li>• Moderate</li> <li>• Moderate to High</li> <li>• High</li> </ul>
<p><b>TRAJECTORY</b></p> 	<p>Trajectory of the risk level, given the current risk conditions.</p>	<ul style="list-style-type: none"> <li>• Decreasing – High</li> <li>• Decreasing – Low</li> <li>• Flat</li> <li>• Increasing – Low</li> <li>• Increasing – High</li> </ul>
<p><b>RISK MITIGATION</b></p> 	<p>Potential strategies for reducing risk.</p>	<p>Based on the current risk conditions</p>
<p><b>RESIDUAL RISK</b></p> 	<p>Possible remaining exposure after known risks have been mitigated through specific actions.</p>	<ul style="list-style-type: none"> <li>• Low</li> <li>• Low to Moderate</li> <li>• Moderate</li> <li>• Moderate to High</li> <li>• High</li> </ul>

## Definition of Risk Levels

For each risk factor category, Moss Adams assigned an overall risk rating. The risk levels are intended to provide City leadership with a means of prioritizing remediation efforts. Definitions of each level of risk, impact, likelihood, preparedness, and trajectory are provided in the following tables.



RISK LEVEL DEFINITIONS	
Risk	Significance
High	➤ Represents significant risks that should be addressed immediately.
Moderate to High	➤ Represents serious risks that should be addressed expeditiously.
Moderate	➤ Represents moderate risks that should be addressed as soon as reasonably possible.
Low to Moderate	➤ Represents ordinary risks that should be addressed during the next review cycle.
Low	➤ Represents a minor threat to the organization.

IMPACT LEVEL DEFINITIONS	
Impact	Significance
High	➤ Threatens the success of the organization/service delivery.
Moderate to High	➤ Substantial impact on time, cost, or quality.
Moderate	➤ Notable impact on time, cost, or quality.
Low to Moderate	➤ Minor impact on time, cost, or quality.
Low	➤ Negligible impact.

LIKELIHOOD LEVEL DEFINITIONS	
Likelihood	Significance
High	➤ Almost certain to occur with current risk conditions.
Moderate to High	➤ Very likely to occur with current risk conditions.
Moderate	➤ Likely to occur with current risk conditions.
Low to Moderate	➤ May occur with current risk conditions.
Low	➤ Unlikely to occur with current risk conditions.



PREPAREDNESS LEVEL DEFINITIONS	
Preparedness	Significance
Low	➤ Minimal risk preparedness activity.
Low to Moderate	➤ Preliminary risk preparedness efforts have been initiated, though few, if any, have been implemented.
Moderate	➤ Deliberate risk preparedness efforts are underway; important gaps remain.
Moderate to High	➤ Risk preparedness efforts are well-established, documented, and stable.
High	➤ Risk preparedness activities are robust and likely to be sustained, with readily available evidence attesting to this level of achievement.

TRAJECTORY DEFINITIONS	
Trajectory	Significance
Increasing – High	➤ Inherent risk is increasing significantly in current conditions.
Increasing – Low	➤ Inherent risk is increasing somewhat in current conditions.
Flat	➤ Inherent risk is holding steady in current conditions.
Decreasing – Low	➤ Inherent risk is decreasing somewhat in current conditions.
Decreasing – High	➤ Inherent risk is decreasing significantly in current conditions.

## C. EXTERNAL ENVIRONMENT

The external environment can have a significant impact on the City's enterprise risk profile by introducing risks and uncertainties that may affect the City's operations and goals; however, these factors are not necessarily within the City's ability to control or influence. For example, some of the key factors that may influence the external environment and, therefore, the enterprise risk assessment for the City include:

- **Economic Conditions:** Prevailing economic conditions, such as inflation, interest rates, and market fluctuations, can impact financial health, revenue streams, and investment opportunities.
- **Political Climate:** The political climate can also affect risk exposure. For example, changes in local, state, or federal laws and regulations can create new compliance obligations or financial penalties.
- **Natural Disasters and Climate Change:** Natural disasters, such as floods, hurricanes, or earthquakes, can significantly impact the infrastructure and operations.
- **Social and Demographic Changes:** Changes in population demographics and social trends can also affect the risk assessment. For example, an aging population may require more health care services, and changes in consumer preferences may impact the City's tourism industry.



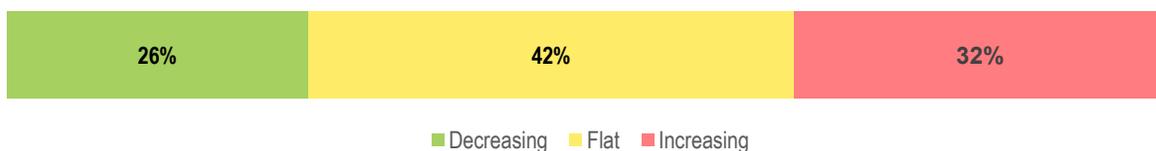
Several significant trends have emerged at the national level that influence the City’s risk profile. Economically, inflation rates have risen steadily, driven by global supply chain disruptions and increased consumer demand, posing challenges for cities in managing budgets and funding priorities. Additionally, legislative and regulatory changes have been notable, with new environmental regulations and infrastructure investment initiatives impacting planning and compliance requirements. Extreme weather events, including hurricanes, wildfires, and floods, have intensified due to climate change, emphasizing the urgency to invest in infrastructure resilience and emergency response capabilities. Demographic shifts have continued, characterized by ongoing urbanization and an aging population, influencing service demand for health care, housing, and social services within cities. These national trends underscore the importance for cities to regularly update their risk assessments to account for evolving external factors and develop adaptive strategies to mitigate potential risks and capitalize on emerging opportunities. Prominent at the time of this report was the revenue shortfall resulting from a state audit (see [Funding and Economics](#)).

## D. COMPARISON TO 2020 RISK ASSESSMENT

Compared to 2020, the 2024 risk assessment results show that 42% of the City’s risk categories have remained flat in their risk rating. There has been an increase in risk rating for 32% of categories, and 26% of categories have decreased in their risk rating. Increased risk ratings are largely driven by the change in the City’s financial situation, while decreased risk is due to the City’s efforts in the intervening years to deploy risk mitigation strategies. This has involved additional studies over the past three years to address areas of risk, including an Enterprise Leadership Assessment, Budget Review, Capital Program Effectiveness Study, and Procurement Operational Review.

The following table presents the results from the 2020 assessment alongside the 2024 results.

### SUMMARY OF RISK LEVEL RATING CHANGES



RISK CATEGORY	2020 RISK LEVEL	2024 RISK LEVEL	CHANGE
Funding and Economics	Moderate	High	↑
Capital Improvement Program	Moderate	Moderate to High	↑
Compliance and Financial Reporting	Moderate	Moderate to High	↑
Human Resources	Moderate to High	Moderate to High	→
Planning and Strategy	Moderate to High	Moderate to High	→
Asset Management	Low to Moderate	Moderate	↑



RISK CATEGORY	2020 RISK LEVEL	2024 RISK LEVEL	CHANGE
Governance	High	Moderate	↓
Internal Controls	Moderate	Moderate	→
Management and Leadership	Low to Moderate	Moderate	↑
Operations and Service Delivery	Moderate	Moderate	→
Organization and Staffing	Moderate	Moderate	→
Policies and Procedures	Moderate to High	Moderate	↓
Procurement and Contracting	High	Moderate	↓
Reputation and Public Perception	Low to Moderate	Moderate	↑
Risk Programs	Moderate	Moderate	→
Accounting and Finance	Low to Moderate	Low to Moderate	→
Ethics and Fraud, Waste and Abuse	Moderate	Low to Moderate	↓
Information Technology	Moderate to High	Low to Moderate	↓
Public Safety and Security	Low to Moderate	Low to Moderate	→

## E. RISK ASSESSMENT EMPLOYEE SURVEY RESULTS

Distribution of a risk assessment survey offers staff the opportunity to identify perceived strengths and weaknesses of the City, which helps us assess potential opportunities for improvement and identify areas of specific vulnerability. The survey poses a variety of statements to employees, including rating scale questions as well as open-ended questions for each risk category. The confidential questionnaire was distributed to employees and was open for submission between January 29 and February 8, 2024. Out of the 198 full-time employees invited to take the survey, 92 individuals submitted responses to the survey (a participation rate of 46%). Survey responses are noted in each section, while respondent demographics and overall risk ratings are included in [Appendix A](#) of this report.

While survey responses were considered as part of the overall context for each category, staff ratings for each category are not used as a formal component of the final risk rating. Rather, they provide additional context, a means to understand staff sentiment, and a method to identify trends occurring across departments.



RISK CATEGORY	RISK ASSESSMENT	EMPLOYEE SURVEY RESULTS
Accounting and Finance	Low to Moderate	Moderate
Asset Management	Moderate	Low
Capital Improvement Program	Moderate to High	Low to Moderate
Compliance and Financial Reporting	Moderate to High	Low to Moderate
Ethics and Fraud, Waste, Abuse	Low to Moderate	Low
Funding and Economics	High	Moderate to High
Governance	Moderate	Moderate
Human Resources	Moderate to High	Low
Information Technology	Low to Moderate	Low
Internal Controls	Moderate	Not Surveyed
Management and Leadership	Moderate	Moderate to High
Operations and Service Delivery	Moderate	Low to Moderate
Organization and Staffing	Moderate	Moderate
Planning and Strategy	Moderate to High	Moderate
Policies and Procedures	Moderate	Moderate
Procurement and Contracting	Moderate	Moderate
Public Safety and Security	Low to Moderate	Low
Reputation and Public Perception	Moderate	Low
Risk Programs	Moderate	Low



### III. RISK ASSESSMENT RESULTS

For each of the risk categories assessed, our risk assessment includes an overview of the risk condition, including the levels of overall risk, impact, likelihood, preparedness, and trajectory of the risk conditions. We identified potential risk mitigation strategies intended to reduce overall risk for each category. The residual risk level represents the probable risk exposure after risk mitigation efforts are implemented.

Results are grouped by overall risk level, in order of highest to lowest. The levels and corresponding color coding for each risk condition, impact, likelihood, preparedness, and trajectory are represented in the table below. Definitions of the risk category components are addressed in the [Risk Assessment Framework](#) section of this report.

Impact	Likelihood	Preparedness	Trajectory
High	High	Low	Increasing – High
Moderate to High	Moderate to High	Moderate to High	Increasing – Low
Moderate	Moderate	Moderate	Flat
Low to Moderate	Low to Moderate	Moderate to High	Decreasing – Low
Low	Low	High	Decreasing – High

#### A. HIGH RISK CATEGORIES

##### Funding and Economics

OVERALL RISK LEVEL: HIGH			
Impact	Likelihood	Preparedness	Trajectory
HIGH	HIGH	MODERATE TO HIGH	FLAT
Risk Mitigation	<ul style="list-style-type: none"> <li>Continue to pursue expenditure and service reductions to achieve a balanced budget for fiscal year (FY) 2025 without the use of reserve funds.</li> <li>Continue to explore opportunities to diversify revenues and optimize the City’s revenue strategy.</li> <li>Create a Citywide grant strategy to fully leverage grant funding opportunities (see also <a href="#">Capital Improvement Program</a>).</li> </ul>		
RESIDUAL RISK: MODERATE			



**Risk Areas:** Risks associated with revenue sources, funding levels, cash management, liquidity, expenditure rates and commitments, debt management, and inter-organizational business.

**Scope:** The funding and economic factors that impact the organization's ability to maintain operations and deliver programs and services. Whether within the organization's realm of influence (or outside of their control), the funding and economic factors impact the organization's long-term fiscal stability as well as its ability to mitigate the negative impacts of extraordinary risk such as regional changes and national economic volatility.

The City has historically maintained a structurally sound budget, with revenues surpassing expenditures in most FYs. Additionally, the City has several controls in place to reduce funding and economic risks, including the following:

- The City develops medium-term and long-term financial forecasts as part of the budget process to help identify potential structural budget issues in advance and adjust as needed. The City also has a long-term financial stability policy that sets requirements for long-term financial planning for technology automation, revenue and expenditure forecasting, and decreasing expenditure and risk exposures.
- The City has an established reserves policy that requires a set dollar amount of reserves be maintained for various needs, including economic uncertainty, pension obligations, capital projects, sustainability, and other unassigned needs. Reserves reduce risks associated with unexpected revenue shortfalls or expenses.
- The City's budget includes contingency funds that cover maintenance and operational funding for Public Works, as well as contingency funds for disaster response.

Based on the City's FY24 budget, the City's General Fund revenues are primarily reliant on property tax (40%), charges for service (15%), sales tax (14%), and transient occupancy tax (9%). Estimated sales tax revenues decreased 64.2% from FY23 when they represented 34% of the City's General Fund revenues. This shift was due to a 2023 audit by the California Department of Tax and Fee Administration (CDTFA) that altered the sales tax revenue received by the City. As a result of the CDTFA's audit decision, the City is estimated to experience an ongoing 73% (\$30 million/year) decline in sales tax revenue. In addition to the annual decline in sales tax revenue, the CDTFA audit may call for the City to return sales tax revenue.

The City was able to manage the revenue shortfall resulting from the CDTFA audit in the short term by relying on its reserves. In FY24 the City's adopted general fund budget of \$86.1 million was funded with about \$5.8million in one-time funds. However, based on the FY24 budget, the ongoing drop in sales tax revenue has put the City in a structural deficit, meaning ongoing expenses are projected to exceed ongoing revenue. The use of reserves to close the structural deficit is not sustainable in the long term. Additionally, the City's Balanced Budget Policy requires the City to only deploy reserves with a plan to return to structural balance.

### ***Balanced Budget Plan***

To return to structural balance, the City plans to cover 85% of the expected \$30 million in reduced annual sales tax revenue through expenditure reductions, including \$15 million in reductions through the selective elimination of vacant positions, decreased transfers from the General Fund to other funds, use of the City's Section 115 Trust to fund Other Post-Employment Benefits/Retiree Health (OPEB) costs, and other expenditure decreases. The remaining \$15 million in reductions is expected



to be achieved through service-level reductions, such as reductions to operations and maintenance, infrastructure, technology improvements, community events, and potential revenue generation measures or fee increases. The strategies to fully address the structural deficit are actively in development, meaning that the budget deficit has not yet been resolved. This is the main driver of the increased risk rating in this area compared to the 2020 risk assessment.

To address the structural deficit, the City also explored opportunities to diversify and optimize its revenue sources, specifically increased taxes. After community polling indicated limited community support for increased taxes, the City Council unanimously voted to stop exploring ways to create new taxes or increase taxes in February 2024.

The City also completed a fee study in January 2024, which determined the City was under-recovering its costs by approximately 12%. In May 2024, City Council adopted a revised fee schedule for FY25 to better recover costs. Several interviewed staff also noted there may be opportunities for the City to explore additional grant opportunities to support financial needs, such as those related to capital improvements (see also [Capital Improvement Program](#)); however, the City does not have a Citywide grant strategy in place to fully capitalize on potential grant opportunities.

### Staff Perceptions

The impacts of the CDTFA audit have somewhat impacted employees' outlook on the City's financial future. Most survey respondents (64%) rated the current trajectory of the City's financial future as poor (54%) or terrible (10%). Survey responses reflect staff's attitudes at a particular moment in time in early 2024, when the revenue shortfall was relatively new information. At the time of this report's finalization, management shared the belief that there is now reason to be cautiously optimistic because the full monetary impact of the CDTFA audit on the City's budget is now clear and the City is actively developing strategies to adapt its budget to the new reality (see also [Accounting and Finance](#)).

**Q: How would you rate the current trajectory of the City's financial future?**





## B. MODERATE TO HIGH RISK CATEGORIES

### Capital Improvement Program

OVERALL RISK LEVEL: MODERATE TO HIGH			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>LOW TO MODERATE</b>	<b>INCREASING – LOW</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>• Develop a long-range Capital Improvement Program (CIP) to strategically guide capital improvement investments.</li> <li>• Develop a standardized and transparent process to prioritize CIP projects.</li> <li>• Create a Citywide grant strategy to fully leverage grant funding opportunities, including for CIP projects (see also <a href="#">Funding and Economics</a>).</li> </ul>		
<b>RESIDUAL RISK: LOW TO MODERATE</b>			

**Risk Areas:** Risks associated with CIP, including planning, financing, construction, close-out, and capital asset management (including preservation and maintenance), tracking, reporting, accountability, and inventory.

**Scope:** In construction, issues of risk are closely tied to schedule, site unknowns, and budget issues. In addition, construction contracts must be monitored to ensure full compliance with equal employment opportunity, discrimination, prevailing wage, and fair labor standards laws.

The CIP Division plans, manages, and implements improvements to City land, parks, buildings, and infrastructure, and ensures that all public improvements are designed and constructed in alignment with community expectations and City standards. The CIP Division is within the City’s Public Works department and includes a budgeted staff of 5.8 full-time equivalent (FTE) positions (as of FY24). Each year, the CIP Division develops a schedule of proposed capital improvement projects ranked by priority that includes an estimate of project costs and financing sources. The annual CIP plan and budget are reviewed and approved by the City Council.

In 2022, a Capital Program Review found that although the City’s capital planning process is well-defined, it lacks two industry-standard best practices: 1) a long-range CIP plan and 2) a standardized project prioritization process. These two conditions still exist and are the main drivers of risk in this area.

- **Long-Range CIP Plan:** The Annual CIP Budget document focuses on the current FY. While it includes existing projects with multi-year funding that are intended to be in progress or completed over the course of the next five years, the plan does not provide a clear view of the City’s planned capital improvements beyond the upcoming year. The document does not include planning for projects starting in later years and does not maintain future estimates of CIP project impacts on the City’s operating budget.



It is industry best practice for municipalities to develop a long-term (three to five years) CIP plan<sup>2</sup>. A long-term CIP plan enables the City to be more strategic when prioritizing and planning for upcoming projects and is designed to be amended on an annual basis. The lack of a long-term CIP plan can make it challenging for the City to develop a comprehensive long-range estimate of its unfunded CIP projects. Additionally, it may be more difficult to establish a strategic direction for capital spending, efficiently use resources, and identify opportunities to leverage funding from external sources, such as grants or partnerships. City staff shared the intention to eventually move to the development of a multi-year CIP; however, the budget shortfall has made multi-year budgeting exceptionally difficult.

- Standardized Project Prioritization Process:** The selection of CIP projects is informed by needs identified in various planning documents and an annual process by which individual departments submit project requests. Projects are then prioritized by the CIP Division staff who evaluate various factors, including health and safety, available funding and grant opportunities, and political and community interest. High-priority projects are then submitted to City Council for approval. While the CIP Budget document lists several principles for project evaluation, the City has not yet adopted a standardized or quantitative set of evaluative criteria to guide the prioritization process. Over half of survey respondents rated the processes used to identify and prioritize CIP projects as average (39%), poor (16%), or terrible (3%).
- Without a clear process in place for prioritization, the City may not be able to effectively prioritize critical infrastructure needs or maintenance projects that could extend the life of the City’s current assets. In light of future constraints to City resources, including staff and funds, it will become more important for the City to develop a robust project prioritization process.

**Q: How would you rate the processes the City uses to identify and prioritize capital improvement projects?**



The 2022 Capital Program Review also noted that the City had not yet developed a comprehensive grant strategy to take advantage of CIP funding opportunities outside of City revenues. While grant funding is currently being used on CIP projects, developing a standard approach would enable the City to take advantage of large multi-year grant funding sources and would add stability to CIP funding.

<sup>2</sup> Government Finance Officers Association. 2008. "Master Plans and Capital Improvement Planning." Accessed April 25, 2024: <https://www.gfoa.org/materials/master-plans-and-capital-improvement-planning>



## Compliance and Financial Reporting

OVERALL RISK LEVEL: MODERATE TO HIGH			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE</b>	<b>MODERATE TO HIGH</b>	<b>LOW TO MODERATE</b>	<b>FLAT</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>Continue efforts to update policies and procedures to reduce compliance-related risks.</li> <li>Continue efforts to improve compliance-related training.</li> <li>Review financial reporting and related processes to identify opportunities for streamlining and improving processes.</li> <li>Implement improved grants management controls, including documented policies and procedures, increased training, and effective tracking processes.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with compliance with laws, regulations, and requirements. Also, risks associated with financial reporting (content, distribution, assembly, utilization, frequency, formatting, accuracy, and reliability).

**Scope:** Risks organizations face when they are unable to follow internal policies, government laws, and regulations, which may be subjected to legal penalties and financial fines. Financial reporting includes deliverables such as audited annual financial statements. Reliable financial information is fundamental to planning, budgeting, pricing, evaluating vendor performance, assessing partnerships, and a range of other operational and strategic activities.

Cities are expected to remain in compliance with a large and growing number of laws and regulations, including but not limited to requirements related to financial statements, labor, health and safety, and the environment. Failure to meet compliance regulations can lead to a variety of consequences ranging from legal penalties to financial loss to reputational damage. As is common in most organizations, compliance at the City is managed by a combination of departments and individuals depending on the specific area of compliance. Key departments involved in ensuring the City remains compliant with laws and regulations include the City Attorney’s Office, Finance, HR, and IT.

Effective compliance management requires both clearly defined and up-to-date policies and procedures and regular staff training and education. While the City has taken action to improve its policy and procedure environment since 2020 (see also [Policies and Procedures](#)), there are key policy and procedure gaps that are important to reduce compliance-related risks, including the following:

- The City’s Administrative Rules and Regulations of the Personnel Code have not been updated since 2013, though staff reported updates have been drafted and are under review (see also [Human Resources](#)).
- The City adopted a City Council Grant Policy that does establish Council authority for the application, acceptance, and reporting of grants. However, the City has not yet adopted comprehensive grants management policies and procedures to ensure that grants are managed



efficiently, effectively, and in compliance with relevant rules and regulations. Staff is currently working on documenting grants management policies and procedures, but these have not yet been finalized. Grants management policies and procedures are important to promote compliance with grants and other financial reporting requirements.

In addition to policies and procedures, regular training and education can help increase awareness and understanding of compliance requirements and reduce the risk of unintentional violations. Staff reported the City recently improved processes for tracking staff completion of required compliance-related training, such as mandatory safety training. However, 34% of surveyed employees reported that the quality of training and resources provided to stay abreast of compliance concerns was average. Since all employees share responsibility for compliance and any employee’s actions or decisions can have compliance implications, it is important for compliance-related training to be comprehensive and high quality. Surveyed employees suggested that training could be improved by expanding the training offered internally rather than from regional or state sources and offering guidance and training related to grant management and adherence to grant requirements.

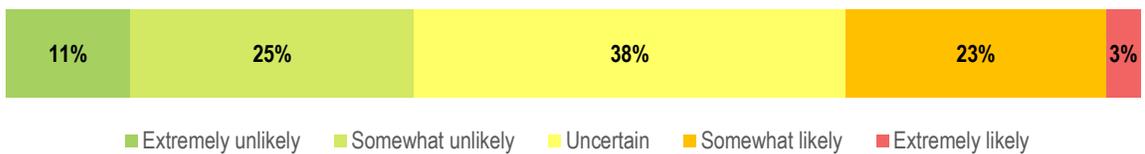
**Q: How would you rate the quality of resources/training provided at the City about how to remain in compliance with laws, regulations, and requirements?**



Total equals 101% due to rounding.

Of survey respondents, only 36% of employees reported confidence that the City is unlikely to experience an issue with compliance in the next year. This indicates there may be a lack of confidence among some employees in the City’s compliance management process or that staff are not fully aware of compliance management processes. It can also be attributed to the changing regulatory environment at the federal and state levels, which is outside of the City’s control. Uncertainty is often a driver of heightened feelings of risk. As noted above, awareness is a critical component of effective compliance management.

**Q: What are the chances that the City will experience any issue with compliance (late or missed reporting, noncompliance with safety requirements, breach of sensitive data, etc.) in the next year?**



### Financial Reporting

Cities are subject to a variety of laws and regulations that are designed to ensure transparency, accuracy, and accountability in financial reporting. The City’s most recent published Single Audit (FY22) found the City did not have proper internal controls in place to ensure appropriate segregation

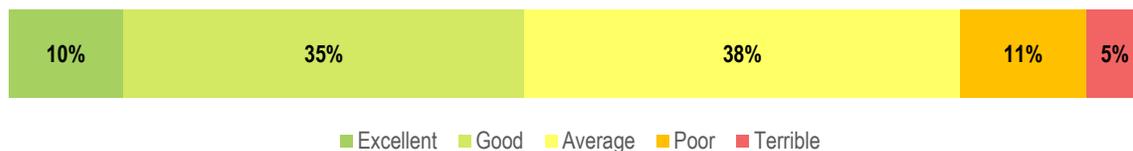


of duties between report preparation and approval or timely filing of financial reports in compliance with federal regulations for American Rescue Plan Act (ARPA) funding. Such issues can lead to the City being noncompliant with laws, regulations, and the terms and conditions of federal grant awards. In response to this finding, the City added additional staff to the Treasury COVID-19 Relief Hub to address segregation of duties and staffing needs and began a Finance team group email to ensure that staff receive reminder emails on reporting deadlines. Strengthening grant management policies and procedures and using a consistent grant management tracking system would also strengthen controls in this area.

Some employees also reported that the City’s financial system limits the effectiveness of the City’s financial reporting. The system is not intuitive and there is not sufficient training available to navigate it, which can make financial reporting a more difficult process. A system replacement was planned but has been postponed due to budget cuts. The Finance Department is working on updated Standard Operating Procedures for financial reporting to improve challenges in this area.

Timeliness of financial reporting is also important for cities to reduce risks related to compliance and to support informed decision-making. Overall, survey respondents rated the timeliness of financial information as excellent (10%), good (35%), or average (38%).

**Q: How would you rate the timeliness of the financial information you receive (e.g., reports, response time to requests, etc.)?**



*Total equals 99% due to rounding.*

### **Grant Management**

As discussed in Funding and Economics, although grant funding is not a significant portion of the City’s overall revenue, it is likely that it will become an increasingly important source of revenue as the City aims to achieve a balanced budget in the future.

Grant management in the City is decentralized. Grant management, including identification, application, and administration, is tracked by individual departments. Reporting on program performance and grant compliance is conducted by individual departments. Financial reporting on grants is conducted by the Finance Division. Successful decentralization relies on comprehensive, accessible, and updated policies and procedures in addition to strong internal controls.

As noted above, the City does not have documented grants management policies and procedures, which are important to promote compliance with grants and other financial reporting requirements. The City also lacks a grant management tracking system to support effective tracking of grant activities and compliance with grant requirements. Staff also reported concerns over individuals with limited experience in grant management being called upon to manage increasingly complex grants.



To mitigate risk in this area the City can implement improved grants management controls, including documented policies and procedures, increased training, and effective tracking processes. Staff note that access to in-house grant management training would be extremely helpful.

## Human Resources

OVERALL RISK LEVEL: MODERATE TO HIGH			
 Impact	 Likelihood	 Preparedness	 Trajectory
HIGH	MODERATE TO HIGH	MODERATE	INCREASING – LOW
 Risk Mitigation	<ul style="list-style-type: none"> <li>• Maintain a one- to three-year schedule for updates to the Administrative Rules and Regulations of the Personnel Code.</li> <li>• Continue to prioritize steps to mitigate turnover, including at the manager level.</li> <li>• Develop the performance appraisal process to incorporate employee goals and growth plans and to move away from a paper-based process.</li> <li>• Continue pursuing formal opportunities for employees to provide upstream or 360 evaluations.</li> <li>• Prioritize retaining professional development opportunities.</li> <li>• Provide formal management training to new managers and supervisors.</li> <li>• Consider using a centralized training management system to track training requirements, schedules, and completions throughout the City.</li> <li>• Develop formal cross-training and succession planning guidance.</li> <li>• Develop strategies for diversifying the City’s workforce.</li> </ul>		
<b>RESIDUAL RISK: MODERATE</b>			

**Risk Areas:** Risks associated with labor management/contracts, employee performance, training, compensation, benefits, turnover, grievances, overtime, resource availability, and communication.

**Scope:** Human capital and resource practices can span functions, including hiring, orientation, training, evaluating, counseling, career planning, compensation and benefits, and housing the policies that define an organization’s expected levels of integrity, ethical behavior, and competence.

Human Resources (HR) has 5.3 budgeted FTEs in FY24, including an HR Manager, two HR Analysts, and two HR Technicians. HR is responsible for the administration of all personnel-related programs, employee benefits, labor relation programs, risk management, safety and wellness, and a self-insured workers’ compensation program. Most survey respondents (76%) reported HR customer service as excellent or good, indicating high levels of satisfaction with the team.



**Q: How would you rate the quality of internal customer service provided to staff by the HR Department?**



Total equals 99% due to rounding.

***Personnel Policies and Procedures***

The Administrative Rules and Regulations of the Personnel Code contain key personnel policies and procedures, including but not limited to those related to classification, recruitment, performance, discipline, grievances, and equal opportunity. The policies were last updated in 2013, though staff reported updates were recently drafted and are being reviewed. It is best practice that policies and procedures be updated every one to three years (see [Policies and Procedures](#)).

***Recruiting and Retention***

The City’s overall turnover rate decreased from 14.9% in 2022 to 10.5% in 2023 (turnover data by department was not provided). The 2023 national average turnover rate for state and local governments (excluding education) was 1.6%.<sup>3</sup> While a turnover rate around 10% is considered reasonable, the City’s 2023 turnover rate is higher than the national average. Staff shared that recent turnover may be due to concerns about layoffs in some departments due to budget reductions. As previously noted in the [Funding and Economics](#) section, the impacts of the CDTFA audit have impacted employees’ outlook on the City’s financial future. Employees who are concerned about organizational financial stability may be less engaged in their work and may be more motivated to seek employment elsewhere.

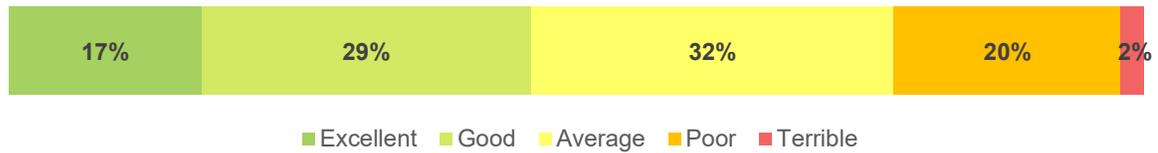
Retaining manager-level employees has reportedly been a particularly difficult challenge. The City’s management turnover rate is higher than its overall turnover rate, though it also decreased from 18% to 13% in 2023. Management-level turnover can have a significant impact in a relatively small organization where backup is usually limited. HR is taking steps to mitigate manager-level turnover, including recently working with the City Manager’s Office to conduct listening sessions with mid-level managers to discuss employee engagement, morale, and how to better support them.

The average recruitment timeline for all positions in 2023 was 88.2 days and the average recruitment timeline for manager-level positions and above was 81.8 days. This is comparable to other local governments. Still, just over half (52%) of surveyed employees rated the City’s recruitment processes and support as average or poor, though respondents did not provide additional detail as to why they responded this way. However, recruitment is an ongoing challenge for local governments nationally.

<sup>3</sup> U. S. Bureau of Labor Statistics. Economic News Release, Table 20, Annual Average Total Separations Rates by Industry and Region, Not Seasonally Adjusted. Accessed April 25, 2024: <https://www.bls.gov/news.release/jolts.t20.htm>



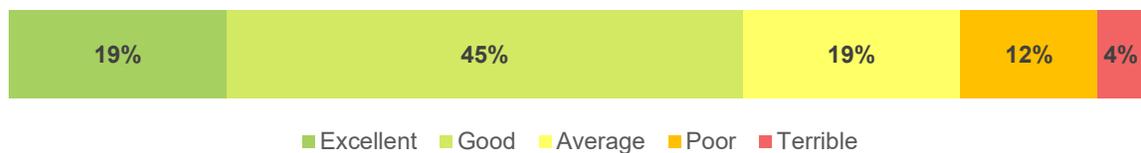
**Q: How would you rate the City’s recruitment processes and support?**



**Compensation and Benefits**

Approximately two-thirds (64%) of survey respondents report that the City’s compensation and benefits competitiveness was excellent or good. In the most recent compensation study that was completed in May 2022, the City was 2% above median total compensation on average. This suggests that the City’s pay scale may help recruit and retain highly qualified candidates, which provides a cascading benefit to the community.

**Q: How would you rate the competitiveness of the City’s compensation and benefits?**



Total equals 99% due to rounding.

Interviewed and surveyed staff shared their concern that the budget adjustments may impact employee compensation and benefits. If compensation and benefits were to stagnate, or the working environment became more difficult while trying to do more with less resources, many employees feel that the City would not be a competitive place to work. However, staff reported City leadership has prioritized funding additional compensation and benefits in the midst of financial uncertainty, including funding employee salary increases and covering increased employee medical insurance costs.

External factors are also affecting risk in this area. Insurance rates are rising industry-wide, making it difficult to maintain affordable rates. Employee medical fees sharply increased last year, though the City covered the cost for employees. Both changes may cause an increasing financial burden on employees to cover their own health benefits. As personnel-related costs rise and costs are shifted to employees, there is an increasing risk that turnover at the City may increase.

**Performance Management and Accountability**

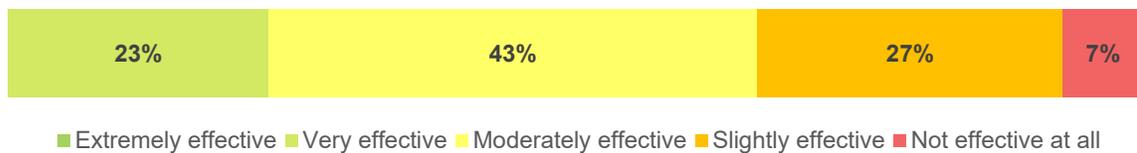
We identified the following concerns related to the City’s performance management process:

- The City uses digital forms (in Adobe), but the process is not automated or supported by software that uses a seamless performance management environment. An automated performance management system can streamline the process, promote confidentiality, and improve transparency and accountability.



- Performance appraisals do not incorporate a process for employees and supervisors to set goals and support employees' accountability and growth. While many survey respondents reported the effectiveness of the performance evaluation process was at least moderately effective (66%), about one-third (34%) rated the process as only slightly effective or not effective at all. Without clear goals and expectations, employees may not know what is expected of them or how they can improve their performance, which can lead to employee disengagement and a loss of productivity.
- There are no formal opportunities to provide upstream or 360 evaluations, so management may not receive feedback from the staff they supervise. Some survey respondents mentioned that the City would benefit from the opportunity to provide upstream evaluations. Administrative Services is piloting a 360-degree evaluation program this year.

**Q: How would you rate the effectiveness of the current performance evaluation system?**

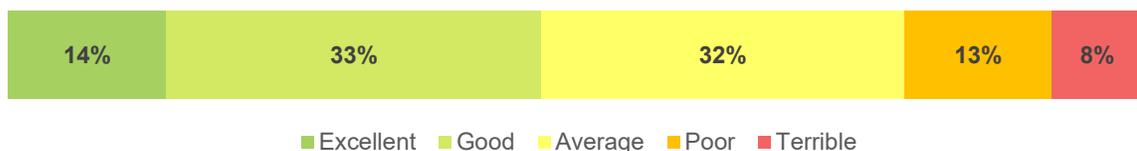


### Training

The City provides mandatory training to all new employees and additional ongoing annual required training. City-provided training includes fraud, waste, and abuse; anti-harassment; cybersecurity; and required Occupational Safety and Health Administration (OSHA) training for Public Works Service Center employees. The City does not provide formal management training to new supervisors or managers, which is important to support new supervisors in understanding policies, policies, and legal requirements. Some efforts are being made to support the development of future leadership, including the City's involvement with the San Mateo County Next Gen Committees and the Leadership Academy of Santa Clara.

The FY24 adopted budget included the reduction of professional development opportunities as an expenditure-cutting measure, including reduced Citywide training and conference attendance. Surveyed employees had mixed responses when asked to rate their access to training and professional development resources needed to grow their careers. Limited training and development opportunities can lead to decreased employee morale and job satisfaction, which can ultimately impact employee retention and productivity.

**Q: How would you rate your access to the training and professional development resources you need to grow your career?**





Training compliance is also contributing to the risk rating in this area. HR is currently developing a process to track mandatory compliance-related training Citywide. It is ideal to use a centralized training management system to track training requirements, schedules, and completions throughout the City. Such a system could be particularly helpful to support the City in tracking these trainings given the small size and limited resources of the HR team. Without such a system, the City is more susceptible to potential noncompliance with legal and regulatory requirements.

### ***Succession Planning***

As of January 2024, 36.4% (71) of the FTEs at the City were eligible for retirement in five years. While eligibility for retirement does not necessarily indicate the likelihood of retiring, it's important to continually monitor this metric. A growing proportion of retirement-eligible employees can present an increased risk to the City's staffing and operational continuity. The City has not yet institutionalized succession planning or cross-training efforts, contributing to risk in this area. Without a deliberate, institutionalized program for effective knowledge management and transfer, a significant amount of institutional knowledge and technical expertise Citywide is at increased risk of being lost.

The recent slowdown in hiring personnel and possible future reductions to services have highlighted the importance of succession planning, cross-training, and ensuring that essential documentation is in place. Cross-training is currently at the discretion of individual managers.

### ***Staff Demographics***

Existing staff demographics tend to be somewhat reflective of the local community, but ideally, staff demographics would more closely mirror community demographics. Given the small size of the City's staff, the percentage of staff diversity can be easily influenced by the hiring or departure of a small number of employees. A diverse staff can help to build trust and understanding between the City and the community and help ensure the City is providing equitable services to all residents. The data presented below is from the City's website and the U.S. Census Bureau.<sup>4</sup>

REPORTED GENDER	COUNT	PERCENTAGE	SANTA CLARA COUNTY
Female	71	37.6%	48.9%
Male	118	62.4%	51.1%

REPORTED RACE	COUNT (MALE)	COUNT (FEMALE)	COUNT (TOTAL)	PERCENTAGE	SANTA CLARA COUNTY
Asian	22	27	49	25.9%	41.4%
Black	3	0	3	1.6%	2.9%
Decline to Answer	4	3	7	3.7%	Not available

<sup>4</sup> U.S. Census Bureau, Quick Facts Santa Clara County, California. Accessed May 22, 2024: <https://www.census.gov/quickfacts/fact/table/santaclaracountycalifornia,CA/SEX255222#SEX255222>



Hispanic	31	12	43	22.8%	24.7%
Two or More Races	4	1	5	2.6%	4.3%
White	54	28	82	43.4%	28.3%

Source: FY2024 Adopted Budget

## Planning and Strategy

OVERALL RISK LEVEL: MODERATE TO HIGH			
 Impact	 Likelihood	 Preparedness	 Trajectory
MODERATE	MODERATE TO HIGH	MODERATE	INCREASING – LOW
 Risk Mitigation	<ul style="list-style-type: none"> <li>Develop a multi-year strategic plan to identify long-term objectives, align resources, and provide greater organizational direction to both employees and residents.</li> <li>Promote tenure and stability in key leadership positions.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with how the organization plans for operations, strategy, and the future, including both short-term and long-range planning.

**Scope:** A comprehensive planning framework builds upon the strategic goals, and dives into the next layer of planning, which looks at the strategic objectives for not only the enterprise, but sets objectives for the departments, divisions, programs, and individual roles.

Planning documents are critical tools for guiding growth and development in a way that meets the needs of current residents while also preserving resources and opportunities for the future. The City has developed several guiding planning documents, including the City Work Program, which informs the major efforts of the City in any given year and the following year and the City’s General Plan 2015–2040, which describes the long-term goals for the City’s future related to land use and community design, transportation, housing, environmental resources, and health and safety. The City also has several emergency management-related plans, which include an Innovation Technology Disaster Recovery Plan, Emergency Operations Plan (EOP), and Local Hazard Mitigation Plan. These plans provide the City with multi-year guidance and direction to help achieve Citywide goals, initiatives, and strategies.

To clarify priorities and inform decision-making, the City Council establishes overarching City goals every two years. Departments then develop associated work programs that supports those goals. These work programs serve as guiding plans for departments, and outline project scopes, next steps, timelines, budgets, and responsibilities. In March 2023, City Council held a Goal Setting Workshop to



discuss Citywide goals and priorities that would be used as a roadmap for the next two years. At this workshop, Council reaffirmed their commitment to the following five goals first adopted in February 2020: Public Engagement and Transparency, Sustainability and Fiscal Strategy, Housing, Transportation, and Quality of Life.

Council goals are meant to lead Citywide strategic thinking. However, staff report there is not a strong sense of strategic direction and there is a lack of clarity on Citywide initiatives. In the 2020 ERA, the City's lack of a multi-year strategic plan was identified as a significant gap in planning and strategy. The City still has not developed a strategic plan that encompasses long-term initiatives, goals, and strategic decision-making. This limits the City's ability to effectively plan and allocate resources and achieve its long-term vision; it also creates a risk that priorities will shift dramatically while medium- and long-term initiatives are still in progress. In a resource-constrained environment, careful strategic planning is even more important. Without a multi-year strategic plan, the City may be more vulnerable to short-term thinking and competing priorities, which can make it difficult to achieve its goals and objectives over the long term.

While the current City Manager has been in their role since August 2022 and the City is working toward increased leadership stabilization, turnover of key leadership positions can impact the effectiveness of planning efforts and disrupt the continuity of projects. Without stable leadership and a consistent vision, there is a heightened risk of strategic drift, where the City gradually veers off course from its long-term goals. This may lead to inefficiencies, missed opportunities, and a lack of alignment with community needs. When asked to rate the quality of organizational planning that happens at the City, responses varied with most participants responding average (40%). This may reflect a desire from staff to strengthen the City's organizational planning environment.

**Q: How would you rate the quality of organizational planning (strategic planning, annual operations planning, financial planning, etc.) that happens at the City?**



*Total equals 101% due to rounding.*

### Key Performance Indicators

The City has key performance indicators (KPIs) for each department. These KPIs include an overall goal, the effects of that goal, and the purpose that goal may serve for residents. The City reports on these KPIs annually in the mid-year report and provides data comparison for two prior years. KPIs are crucial for cities in reducing risks because they enable early issue detection and data-driven decision-making. By monitoring KPIs, the City can efficiently allocate resources, hold departments accountable, and proactively address risks.



## C. MODERATE RISK CATEGORIES

### Asset Management

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
MODERATE TO HIGH	MODERATE	MODERATE	FLAT
 Risk Mitigation	<ul style="list-style-type: none"> <li>Continue to encourage standard use of Cityworks for asset management.</li> <li>Develop a plan to address deficiencies for facilities that received a poor rating in the Facility Condition Assessment.</li> <li>Develop a plan to address City Hall's seismic deficiency, or to otherwise mitigate the risk of a seismic event.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with the ongoing maintenance, management, tracking, reporting, accountability, accounting, and physical safeguarding of assets, including the organization's assets used in support of business processes (i.e., vehicles, mobile devices, IT equipment, etc.).

**Scope:** Asset management includes the supply, deployment, and maintenance of the organization's resources. It also includes physical or logical access to data and locations (offices, warehouses, etc.). Asset management is inclusive of the connected strategies, processes, people, and technology that make up the foundation of enabling the organization to meet service levels and minimize the overall cost of asset ownership.

### Asset Management

City operational divisions use Cityworks for asset management, based on a GIS-centric approach. Although the tracking of small items such as tools and equipment was a concern in the 2020 ERA, staff report that progress has been made in this area, particularly the Citywide adoption of its asset management system. Improvements are ongoing and the focus has now moved to standardizing the asset and maintenance information that is being tracked and modifying the data input process to simplify operations.

Surveyed employees generally feel the City's assets are well-tracked and accounted for and rated the condition and management of non-IT equipment highly.



**Q: How well do you feel the assets of the City are tracked and accounted for?**



Total equals 99% due to rounding.

**Q: How would you rate the condition of the non-IT equipment you use for your job?**



To reduce expenditures, staff are exploring options to defer non-essential asset management activities, such as increasing the standard fleet replacement schedule and reducing the level of sidewalk maintenance. While these changes may be necessary to balance the City’s budget, strategies like these may also put the City at risk for increased maintenance costs, decreased asset reliability, and public safety concerns, if the appropriate balance is not maintained.

**Facility Conditions**

The City’s facility conditions are the primary driver of the risk rating for this area. The City contracted with Kitchell Corporation to conduct a Facility Condition Assessment of City-owned and operated buildings in 2022. The assessment identified \$4.8 million in Priority 1 capital renewal costs and \$2.3 million in Priority 2 costs. This represented about 21% of the total capital renewal costs identified (\$34.3 million). Included in the Priority 1 projects are \$1.6 million in projects at City Hall, which received a poor condition rating, and \$1 million in projects at the library.

City Hall received a poor condition rating in the 2022 assessment described above, and as noted in the 2020 ERA, previous engineering studies have indicated that City Hall’s structure is deficient in seismic force resistance. Additionally, concerns about the seismic safety of City Hall were a major theme in the staff survey. The City is in a seismically active region with several active earthquake faults. One of the longest and most active faults in the world, the San Andreas fault, crosses the western portion of the City. Interviewed City leadership reported that awareness of this issue is high, but building replacement is estimated between \$60 million and \$80 million, and a seismic upgrade is estimated between \$20 million and \$30 million. There are no projects planned to address the seismic deficiency, which impacts the City’s preparedness rating in this area.

City pavement and sidewalks are generally kept in good condition. The City inspects sidewalks regularly and catalogs required maintenance, which is addressed through an annual sidewalk maintenance program.



Deferred maintenance contributes to the risk rating in this area. The City reportedly has \$63 million in deferred maintenance projects, but this may not include all deferred maintenance needs due to the City’s lack of a long-term CIP (see [Capital Improvement Program](#)). Over time, the total cost of deferred maintenance will grow proportional to inflation and increased cost of goods and services. This will make it more difficult for the City to effectively reduce its deferred maintenance.

## Governance

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>DECREASING – LOW</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>Uphold implementation of recently developed or revised governance-related documents, including the City Council Procedures Manual and the new ethics code.</li> <li>Continue implementing recommendations from the 2022 Grand Jury Report and 2023 Enterprise Leadership Assessment.</li> <li>Continue work to improve effectiveness and productivity of City Council meetings.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with ongoing oversight; ethics and values; control environment; policy management; risk management; accountability; performance management; coordination and communication; and defined roles, responsibilities, and authorities.

**Scope:** Governance incorporates all governance-related groups, processes, policies, and operations.

City residents elect officials to provide community leadership and govern the administration of public services. The City operates under a Council-Manager form of government, directed by a five-member City Council. Under this form of government, the City Council sets policy, while a professional City manager is responsible for implementing those policies and managing day-to-day operations of the City.

Council elections take place every two years, with Council members serving staggered four-year terms. The City established a [City Council Procedures Manual](#) (the Manual) in 2023 to define bylaws and procedures related to Council operations and activities. The Manual supports clarity in Council processes, roles, and responsibilities and reflects the City’s ongoing efforts to enhance governance. The City Council approved additional revisions to the Manual in March 2024 to clarify procedures related to attendance, reporting, consent calendar, and Council questions and deliberations.

The duration of City Council meetings has historically been a challenge for Council members, City staff, and community participants alike. Long meetings, characterized as those extending greater than five hours, or past midnight, that impact staff capacity and productivity, are less accessible to members of the public, and may signal a governing body that operates at a tactical level rather than



in a strategic or policy level. Between 2021 and 2023, the average City Council meeting lasted between 4 and 5.7 hours.

YEAR	TOTAL # OF MEETINGS	AVERAGE MEETING LENGTH	# OF MEETINGS PAST MIDNIGHT
2021	59	5.7 hours	1
2022	64	5.2 hours	5
2023	37	4.0 hours	2

To address the strain of the length of meetings and focus the Council on priorities and policy, the Manual referenced above included supplementary guidance for the conduct of City Council meetings. In Section 8.9, meeting length is addressed. The Manual asserts that City Council meetings are to adjourn by 11:00 p.m., unless a motion to extend is passed. In the event of a meeting extension, further guidelines are provided. Interviewed staff report that the implementation of additional policies and procedures regarding City Council meetings has contributed to an improvement in the overall length of the meetings.

### ***Grand Jury Report***

Historically, relationships between Council and City staff have been strained. In 2022, following a series of complaints regarding the behavior and practices of City Council members, the Santa Clara County Civil Grand Jury (Civil Grand Jury) conducted an investigation of City Council, *A House Divided: Cupertino City Council and City Staff*. This report “confirmed the existence of adversarial and dysfunctional behavior toward City staff exhibited by some City councilmembers,” and suggested that “the behavior of councilmembers may need to be reviewed and good government practices implemented to remediate the dysfunction that currently exists.” Following these findings, the City undertook an independent investigation and conducted an Enterprise Leadership Assessment as part of its internal audit program. Several of the recommendations in the Enterprise Leadership Assessment were already in progress at the time of the study. As a result of these reports and a commitment to improve City governance, the City has taken several actions to improve governance:

- A new ethics code was adopted and implemented.
- As previously noted, the Manual was created and implemented.
- The City updated qualifications for certain Commissioner appointments to improve the recruitment process and increase accessibility for interested, eligible community members.
- Continued efforts are underway to revise the Commission Handbook.

While the City has acted quickly to improve the governance environment, trust and relationship building takes time, which contributes to the moderate risk rating in this category. As trust continues to build, the risk rating will likely decrease.

### ***Commissions***

The City has established various committees and commissions to address specific areas of focus. There are 10 commissions tasked with advising the City Council in the formation of policy. With the



exception of the Planning Commission, all other commissions function in a strictly advisory role to the City Council, as is appropriate and consistent with best practices. Commissions include:

- Arts and Culture Commission
- Bicycle Pedestrian Commission
- Housing Commission
- Library Commission
- Parks and Recreation Commission
- Planning Commission
- Public Safety Commission
- Sustainability Commission
- Technology, Information, and Communications Commission
- Teen Commission

The City also has three bodies that review specific topics affecting the City and make recommendations to City Council: the Audit Committee, Disaster Council, and Sister City Committee. In addition, the Administrative Hearings Committee reviews select planning and zoning actions. Generally, one or two Council members are assigned as members, and the committees may include members from the public or staff.

As outlined in the 2023 Enterprise Leadership Assessment, while the foundational duties of most governance groups are codified in the City's Municipal Code, the City has not yet established the process of developing individual charters to outline each group's purpose and member roles and responsibilities. It was frequently reported that certain group members believe they have the authority to direct staff on administrative matters or assign work tasks. This is a breach of the group's actual authority and can create tension when staff members are put in a position to deny or redirect the work requests. The report also notes that several groups often do not have significant volumes of work, which can create challenges to keeping members productively engaged.

To address risks in this area, the City should work collaboratively to further review, adopt, and implement relevant recommendations from the Enterprise Leadership Assessment.



## Internal Controls

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>FLAT</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>• Conduct targeted internal controls reviews and testing to assess compliance with updated policies and procedures.</li> <li>• Ensure that decentralized accounting and finance processes are accompanied by clear procedures and adequate training.</li> <li>• Continue efforts to update policies and procedures.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with preventive controls (e.g., tone at the top, policies and procedures, and passwords), detective controls (e.g., segregation of duties, reconciliations, and variance reports), and corrective controls (e.g., changes to policies and procedures, training, and loss of privileges).

**Scope:** Control activities are the processes and procedures that help ensure that management's risk responses are carried out; they are not performed simply for their own sake or because it seems to be the "right" or "proper" thing to do. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

Internal controls are processes, procedures, and mechanisms implemented within an organization to ensure the achievement of objectives, safeguard assets, maintain accurate financial reporting, and ensure compliance with laws and regulations. The City's internal control environment represents the processes designed to provide reasonable assurance about the reliability of financial reporting, efficiency and effectiveness of operations, and compliance with applicable laws and regulations. Internal controls also safeguard the City's assets from unauthorized acquisition, use, or disposition.

An external firm conducted an internal controls review prior to the establishment of the City's internal audit function. As noted in the [Accounting and Finance](#) section of this report, many financial transactions are somewhat decentralized, which can impact the effectiveness of internal controls. While decentralization has some benefits, it increases risks of inconsistent financial practices, noncompliance with laws and regulations, fraud, errors, and monitoring difficulty.

In a decentralized environment, strong policies and procedures are particularly important. It is recommended that policies and procedures are updated every one to three years. In accordance with best practices, the City's financial and procurement policies have been updated within the last year. As noted in other sections throughout this report, the City has policy gaps related to Human Resources and IT. Policy gaps represent internal control deficiencies and increased risks of waste, financial impact, and legal consequences (see also [Policies and Procedures](#)).



In 2022, the City underwent a single audit as required by the federal government, which assessed the City’s internal controls and compliance for the prior FY (FY22) related to federal funding. The audit did not uncover any internal control deficiencies within the City that would meet the criteria for material weaknesses, as defined in the report, but did note that unidentified deficiencies or material weaknesses may exist. As a result of the audit, it was recommended that the City revisit its control design and revise its procedures to ensure proper controls over preparation, review, and submission of ARPA reports and to ensure timely submission of all reports (see also [Compliance and Financial Reporting](#)). In response, the City developed the following plan:

- Added an additional staff person
- Filed its late report
- Added a Finance team group email to ensure various staff would receive reminder emails on reporting to support improved reporting compliance

## Management and Leadership

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE</b>	<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>FLAT</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>• Continue to promote stability and tenure in management positions (see also <a href="#">Human Resources</a>).</li> <li>• Provide formal management training to new managers and supervisors (see also <a href="#">Human Resources</a>).</li> <li>• Continue to solicit feedback from staff on communication practices and use the results to strengthen internal communication practices.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with organizational leadership, management practices, leadership strategic activities, and operating styles.

**Scope:** Management's philosophy and operating style affect the way an organization is managed, including the kinds of risks accepted. The attitude and daily operating style of top management affect the extent to which actions are aligned with risk philosophy and appetite.

Strong management structures and leadership help ensure that a city operates efficiently and effectively. Leaders are responsible for decision-making that provides clear direction as well as providing a foundation for governance, policies, and programs. Good leadership within a city promotes stability for employees, residents, and stakeholders.

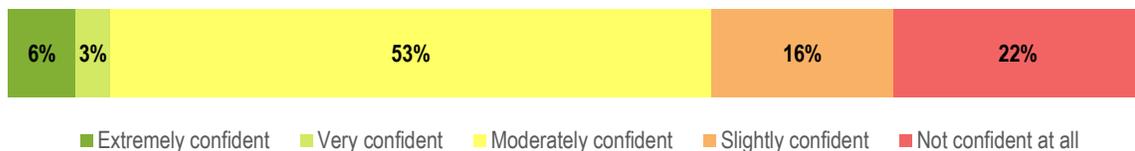
The City has experienced changes in senior management personnel in recent years, including frequent turnover in the City Manager role. As noted previously, the City Manager’s Office has made a concerted effort to stabilize leadership. Change in management-level positions can create a sense of instability throughout the organization and impede the continuity of Citywide initiatives and actions. In 2021, the City’s management level turnover rate was 7%. In 2022, it was 18%, and in 2023, it was



13%. While the City’s recent turnover rate has largely aligned with industry averages, staff reported that directives, goals, and expectations have changed over time as each leader has their own unique leadership style. Constant changes in directives, goals, and expectations due to shifting leadership styles can create confusion among staff members. This inconsistency can lead to a lack of clarity regarding priorities and objectives, hindering productivity and effectiveness.

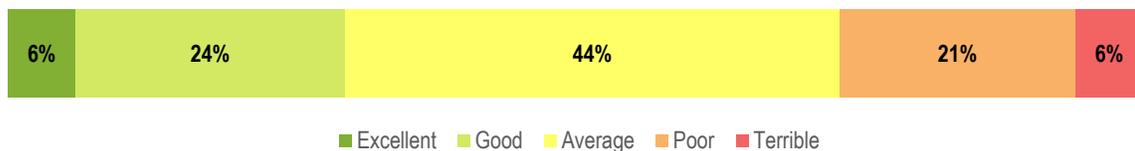
When asked how confident they were in senior leadership, the majority of staff (53%) responded moderately confident. Notably, 38% said either slightly confident or not confident at all with only 9% saying very confident or extremely confident. Staff also note that there is a rise in stability among leadership and a clearer understanding of expectations with the growing tenure in pivotal leadership roles.

**Q: How confident are you in the senior leadership team of the City?**



Given recent turnover in leadership roles, there's an increased need for robust and standardized management onboarding and training procedures (see also [Human Resources](#)). When new leaders enter positions, it is important to have strong management onboarding and training procedures in place to ensure they can quickly adapt to their roles, understand organizational processes, and effectively lead their teams. Robust and standardized training helps to mitigate the negative impacts of turnover by enabling new leaders to become productive and efficient in their positions more quickly, thus reducing disruptions and maintaining continuity in operations. When managers were asked to rate the quality of training they received, the majority (71%) said either average (44%), poor (21%), or terrible (6%).

**Q: How would you rate the quality of the management training you have received?**



*Total equals 101% due to rounding.*

**Internal Communication**

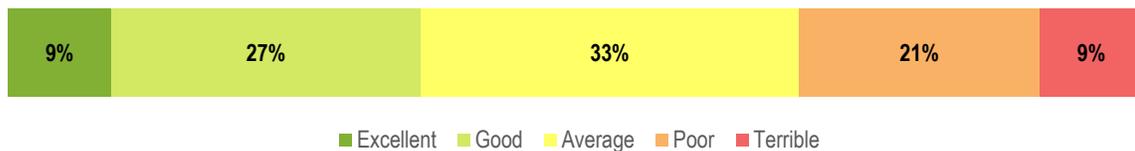
Communication remains a perennial challenge for the City as people, processes, and technology continue to change. In interviews and the all-staff survey, manager-level staff reported feeling disconnected and uninformed, experiencing challenges staying in the right communication loops. Staff reported a lack of clarity in internal communication regarding the City’s budget challenges due to the CDTFA audit, particularly concerning its implications for staffing and service delivery. The City uses several methods to communicate information to staff, including department meetings, leadership



team meetings, email distributions lists, and posts through the City’s intranet. While having a variety of communication modalities is encouraged, there are some associated challenges and risks to having an abundance of communication modalities. As staff reported, it is difficult ensure that information is updated across all channels, and there are challenges for newer individuals to effectively use established channels, either to distribute or receive information.

When asked how they would rate the quality of communication received from leadership, only 36% of respondents said excellent (9%) or good (27%), with the remaining 63% responding average (33%), poor (21%), or terrible (9%).

**Q: How would you rate the quality of the communication you receive from leadership?**



Total equals 99% due to rounding.

Effective internal communication is important as it facilitates coordination and collaboration among different departments, teams, and individuals. This enables employees to work together seamlessly, share information, and coordinate efforts to achieve common goals. More communication is not always the most effective method to mitigate risk related to communication, rather evaluating each modality for quality and effectiveness can help keep individuals informed of important updates.

### Operations and Service Delivery

OVERALL RISK LEVEL: MODERATE			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>FLAT</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>• Make proper adjustments and preparations for anticipated reductions on operations and service delivery.</li> <li>• Provide staff with necessary information and guidance to prepare for future constraints on operations and service delivery.</li> <li>• Commit to consistent, recurring resident satisfaction surveys.</li> </ul>		
RESIDUAL RISK: MODERATE			



**Risk Areas:** Risks associated with community expectations, level of service commitments, scheduling, program/service delivery, sustainability, quality, process efficiencies, and resource allocation.

**Scope:** Day-to-day operations across the organization, and efficient and effective delivery of the organization's programs and services in alignment with goals, vision, and mission.

Operations and service delivery in a city refer to the day-to-day activities and functions that municipal governments undertake to provide essential services and maintain the functioning of a city. A city's general plan provides a framework and guidance for how these services are planned, delivered, and maintained. As defined in the City's 2015–2040 General Plan, the City aspires to be a balanced community with quiet and attractive residential neighborhoods; exemplary parks and schools; accessible open space areas, hillsides, and creeks; and a vibrant mixed-use "Heart of the City."

The mission of the City is to provide exceptional service, encourage all members of the community to take responsibility for one another, and support the values of education, innovation, and collaboration. At the most fundamental level, the City's mission is to direct the efficient and effective delivery of municipal services. The City provides a broad range of services to residents, including:

- Community Development (planning, building permits and plans, code enforcement)
- Finance (billing and payment processing)
- Public Works (infrastructure and streets maintenance)
- Recreation and Senior Services
- Public Information

City planning documents, especially ones that are designed with consideration of residents, enable cities to be responsive and transparent in action. Using a general plan as a guide, the City can help inform decisions that align with community priorities and goals, leading to outcomes that resonate with residents and enhance their satisfaction.

### ***Staffing Levels***

As noted in [Organization and Staffing](#) section, staffing concerns were noted in both interviews and survey responses in Community Development, Parks and Recreation, and Public Works, all departments who provide resident-facing services. Understaffing in these areas can impact the quality and availability of services provided to the community. If staffing levels are insufficient to meet the demand for services, there may be longer wait times, reduced service hours, or a decrease in the quality of services provided, which can lead to decreased resident satisfaction and a negative impact on the City's reputation.

### ***Service Delivery***

The City's staffing reductions will impact service delivery in the future as community expectations often do not keep up with resource constraints in cities. However, few issues related to service delivery were reported in interviews. The main challenge noted was related to permitting delays due to limited staff resources and a high volume of applications. In addition to reducing economic activity in the City or delaying construction projects, which can lead to frustration from residents and businesses, permitting delays can negatively impact the City's reputation (see also [Reputation and Public Perception](#)).



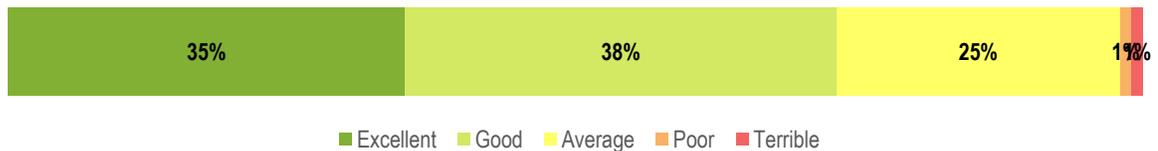
Staff report that City residents are often vocal, with high expectations for the services the City provides, which can make it difficult to fulfill all demands. When staff were asked to rate how well the City is able to deliver core services to the public, the majority of survey respondents (73%) said either excellent or good. While this is a large majority, it is a notable 14% decrease from 2020. In 2020, when asked to rate how well the City is able to deliver core services to the public, 87% of respondents said either excellent or good. This decrease may be in anticipation of the City's impending budgetary restrictions. A risk associated with the reduction in revenue is that the City anticipates the need to adjust levels of service accordingly. City staff report that levels of service provided to the community are high and that changes to service levels are likely to be noticed.

**Q: How would you rate the City's overall ability to deliver core services to the public in an effective manner?**

2020



2024



Total equals 101% due to rounding.

To gain further insight into resident satisfaction, the City conducts a resident satisfaction survey every few years. The City did not conduct a resident satisfaction survey in 2020 due to the COVID-19 pandemic and conducted a Community Budget Survey in 2023 instead of the resident satisfaction survey. The City is currently working to relaunch the community satisfaction survey, which will provide more recent insight into community member satisfaction with City services.



## Organization and Staffing

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>INCREASING – LOW</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>• Evaluate staffing in Community Development, Parks and Recreation, and Public Works and ensure the staffing model is adequate for the services provided.</li> <li>• Review and update job descriptions, and the associated roles and responsibilities, to improve clarity.</li> </ul>		
RESIDUAL RISK: MODERATE			

**Risk Areas:** Risks associated with how personnel are organized, as well as staffing levels and skills.

**Scope:** An entity’s organizational structure provides the framework to plan, execute, control, and monitor its activities. Organization and staffing encompass hierarchy, chain of command, span of control, and staffing levels. Staffing includes specific positions, counts, and capacity. A relevant organizational structure includes defining key areas of authority and responsibility and establishing appropriate lines of reporting.

The City’s organizational structure is composed of six main departments: Administration (City Manager’s Office, City Attorney’s Office), Administrative Services, Community Development, Innovation and Technology, Parks and Recreation, and Public Works. Span of control typically varies depending on the function<sup>5</sup>; however, based on a review of organizational charts, span of control appears to be appropriate across the organization. Additionally, no concerns about organizational structure were identified in interviews.

The ratio of City staff to residents has increased since FY20, meaning there are now fewer residents per City staff member. This is because both the City’s population has decreased, and the total number of staff has increased. In FY20, Cupertino had a population of 66,762 with a total of 203.75 authorized positions. This is a ratio of one City staff for every 327.7 residents. In FY24, Cupertino has a population of 60,869 with 212 authorized positions. This is a ratio of one City staff for every 287.1 residents.

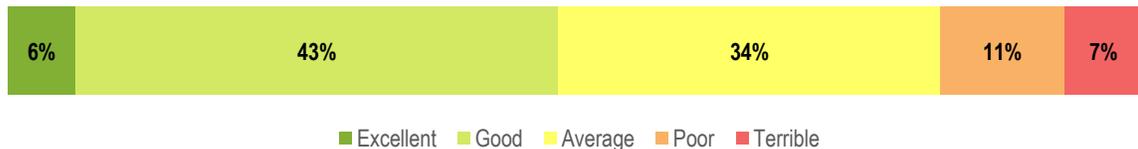
<sup>5</sup> McKinsey & Company. “How to Identify the Right ‘Spans of Control’ for Your Organization.” Accessed April 25, 2024: <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/how-to-identify-the-right-spans-of-control-for-your-organization>



FISCAL YEAR	FTE	POPULATION	RATIO OF CITY STAFF TO RESIDENTS
2020	203.75	66,762	327.7
2024	212	60,869	287.1

Overall, staff reported adequate staffing in most areas. However, staffing concerns were noted in both interviews and survey responses in Community Development, Parks and Recreation, and Public Works (see also [Operations and Service Delivery](#)). To address the City’s budget deficit, a total of 14 positions were cut in FY24, including staffing in these three departments and Administrative Services. When vacant positions are removed or not filled, the responsibilities of that position are often transferred onto existing positions. This can result in increased workloads, fear of burnout, and confusion regarding roles and responsibilities, which are all concerns that are likely to increase. While eliminating vacant positions may be necessary to address the City’s structural deficit, the City must continue to practice responsible workload management, such as through reassigning tasks, adjusting deadlines, or streamlining processes to reduce risks in this area. As positions change and responsibilities shift, clarity surrounding job descriptions has decreased. When asked to rate the quality of job descriptions, staff reported varying levels of satisfaction. While 49% reported the quality of job descriptions as either excellent (6%) or good (43%), 52% reported either average (34%), poor (11%), or terrible (7%). When job descriptions are inadequate and roles and responsibilities are unclear, risks related to process inefficiency, poor staff performance, and low employee morale increase.

**Q: How would you rate the quality of the current job descriptions used by the City in terms of defining roles, responsibilities, qualification criteria, and position goals?**



Total equals 101% due to rounding.



## Policies and Procedures

OVERALL RISK LEVEL: MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>FLAT</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>Continue efforts to update personnel policies and procedures.</li> <li>Prioritize addressing other key policy gaps in IT and grants management, as well as implementation of recommendations from the Citywide policy review and gap analysis.</li> <li>Develop and implement a policy on policies to promote a centralized and standardized approach to reviewing and updating policies and procedures.</li> <li>Establish a centralized location for policies and procedures to make them more easily accessible to staff.</li> <li>Ensure staff are provided training when policies and procedures are implemented or updated.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with policies, processes, and procedures, including efficiency, effectiveness, and level of documentation.

**Scope:** Policies and procedures play a critical role in providing the guidance required to ensure all functions operate efficiently, effectively, safely, and consistently across the organization. A policy establishes what should be done, and procedures affect the policy. Policies and procedures also play an important role in protecting against the loss of institutional knowledge.

Policies and procedures guide internal operations and help ensure that every employee knows the rules and expectations. Policies and procedures should be dynamic documents that employees can reference with regularity. Keeping policies and procedures up to date is an essential part of risk mitigation as policies and procedures help ensure that management's directives to mitigate risks are carried out consistently at all levels of the organization and at various stages within different business processes.

In the City's 2020 ERA, the City's outdated policies and procedures were identified as a risk area. Since then, the City has updated some policies and procedures, including several financial policies and procedures as well as policies and procedures related to purchasing. Additionally, the City has committed to incremental updates to policies and procedures and has undertaken a Citywide policy review and gap analysis in the current internal audit program. This review will provide a more comprehensive and detailed analysis of the current state of the City's policy and procedure environment.

As noted in other sections throughout this report, the City has key policy gaps related to the following:

- Personnel policies and procedures have not been updated since 2013, though they are in the process of being updated (see [Human Resources](#)).



- The City is in the process of documenting grants management policies and procedures (see [Compliance and Financial Reporting](#)).
- Key information technology policies and procedures have not been updated since 2018 (see [Information Technology](#)).

According to best practice, the City should review policies and procedures to ensure they are consistent with laws, regulations, advances in technology, and operating practices at least every three years. Outdated policies and procedures can contribute to reduced efficiency and effectiveness as well as communication and accountability challenges. In the absence of up-to-date documented policies, staff rely on historical practices and verbal directions, which requires significant institutional knowledge to perform and could be inconsistent with management expectations over time. To date, policy and procedure updates have largely been led by managers at the individual department level. While many updates have been made, the lack of a consistent, standardized Citywide policy update process creates a gap in the review process as there is limited assurance that regular reviews and updates will be conducted.

Additionally, the City has yet to establish a centralized location for policies and procedures making it difficult for staff to locate the most up-to-date guidance. A key component to effectively adopt updated policies and procedures is ensuring that they are communicated and accessible to staff. This may also lead to different departments or individuals maintaining their own versions of policies and procedures, leading to inconsistencies across the organization. This can also result in confusion and errors in implementation. Policies and procedures should be stored centrally in a searchable format. When new versions are published, alerts should be communicated, and training should be provided.

## Procurement and Contracting

OVERALL RISK LEVEL: MODERATE			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE</b>	<b>MODERATE TO HIGH</b>	<b>MODERATE</b>	<b>DECREASING – LOW</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>• Continue to plan and provide training related to updated procurement and contracting policies and procedures.</li> <li>• Formalize procurement card (P-Card) training requirements and establish rules for who may carry a P-Card.</li> <li>• Consider providing contract-related training for employees who manage their department's contracts.</li> <li>• Continue to plan for an eventual transition to centralized procurement and contracting functions.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			



**Risk Areas:** Risks associated with purchasing processes and contract administration for goods and services, including cost-savings, efficiencies and effectiveness, transparency, adherence to laws and regulations, monitoring costs and vendor payments, supply chain risks, and vendor performance and service delivery.

**Scope:** Procurement and contracting includes purchasing processes (e.g., purchase requisitions, due diligence, approvals, purchase orders, and receiving) and contract administration (e.g., compliance with terms and conditions, payments, and change orders) for goods and services.

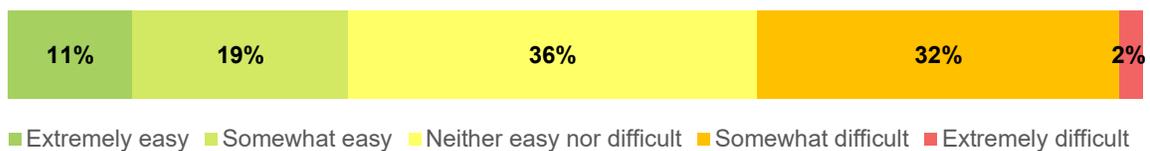
In any public organization, procurement processes are the means through which critical and strategic services, supplies, and construction are purchased to support essential functions. The City’s risk profile in this area has decreased since the 2020 risk assessment due to the City’s work on updating policies and procedures and committing resources to updating the City’s approach to procurement. That work is still in progress, which is what largely informs the City’s moderate risk rating.

A Procurement Operational Review conducted in 2022 found that the City’s decentralized procurement activities led to inefficiencies as departments created customized processes for common procurement practices. To address this, the City has recently begun the process of moving toward a hybrid procurement model (where policies, procedures, and systems are centralized but operations are decentralized), and eventually will move to a centralized model. A full-time procurement manager was hired in 2023.

To support a hybrid procurement model and move toward an overall more strategic approach to procurement, the Purchasing Manager has started an interdepartmental effort to begin updating related policies, procedures, and templates and strengthening internal controls. For example, the City’s Purchasing Policy and accompanying Purchasing Matrix was updated in February 2024. This effort has decreased the likelihood of risk and increased the City’s preparedness for risk in this area.

Updating policies is important, but it represents change for the employees who are responsible for departmental purchasing tracking and reporting. Most surveyed staff felt positive about the upcoming change and were looking forward to additional clarity and stabilization around the purchasing process, but some shared that the procurement process feels like it is in a constant state of change. While training for City staff on new purchasing policies is in development for this calendar year, there is an inherent risk of creating confusion or encountering resistance to change when updating a significant process or policy.

**Q: How easy is it to acquire the goods and services your division/department needs?**





**Q: How would you rate the usefulness of documented policies and procedures in terms of providing adequate guidance on purchasing?**



***P-Cards***

The P-Card program also contributes to risk in this area. The Finance Division currently administers the P-Card program and is responsible for ensuring only current employees have active cards. The 2020 risk assessment noted that the City did not have clear policy requirements or an accountability mechanism to ensure that individuals in positions with purchasing-related responsibilities attend both initial training and ongoing refresher courses. Therefore, credit card use, including users and approvals of purchases, was noted as being occasionally unclear for staff. Although Finance has since developed a Credit Card Policy that governs the credit card request process, proper use, and internal controls, this is still an issue as P-Card training requirements have not yet been formalized and rules for who may carry a P-Card have not been determined. Finance staff intend to develop guidelines about who may carry a City P-Card this year.

***Contracting***

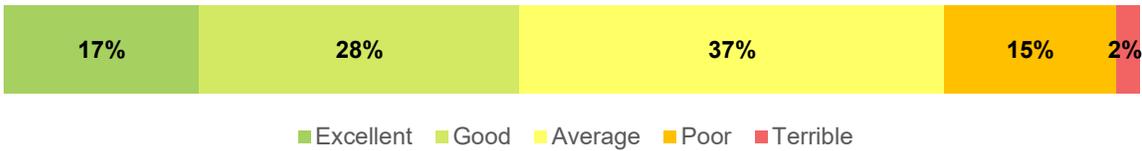
Contract management remains decentralized and departmental staff are responsible for managing contracts, which is driving the City’s preparedness rating in this area. Oversight of the contracting process was a concern in the 2020 risk assessment, and some progress has been made since then, including the following:

- The City recently reduced the competitive procurement threshold from \$60,000 to \$5,000, since most City contracts are relatively small.
- The City Attorney’s Office developed standardized templates that staff can choose from to support contracting activities.
- The IT team developed a bid management application for publishing City RFPs and bids and providing the capability for vendors to submit bids electronically.

Surveyed employees identified the need for more contract management-related training as well as a desire for more detailed guidance on contracting processes. Because the City outsources a variety of functions and activities, it is essential that employees have sufficient training and guidance to carry out contracting processes consistently and in compliance with regulatory requirements and standards.



**Q: How would you rate the usefulness of documented policies and procedures in terms of providing adequate guidance on contracting?**



Total equals 99% due to rounding.

Finally, the City uses CobbleStone, an electronic contract processing software and document repository. CobbleStone does not easily integrate with New World, the City’s Enterprise Resource Planning (ERP) system. This results in duplicative and manual efforts between the two systems and puts the City at risk of reporting errors. As mentioned in [Accounting and Finance](#), the City was previously pursuing an ERP update but deprioritized that effort as an expenditure-saving measure.

### Reputation and Public Perception

OVERALL RISK LEVEL: MODERATE			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE</b>	<b>MODERATE</b>	<b>MODERATE</b>	<b>INCREASING – LOW</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>Strengthen proactive communication to the public, specifically concerning the City’s budget and subsequent effects on service delivery.</li> <li>Clarify roles and responsibilities regarding communication from the City to public.</li> <li>Continue to re-establish the resident satisfaction survey to track public perception over time and engage a broader portion of the community.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with the organization’s reputation and the public’s perception of the organization, including its competency (financial performance, safety and security, and responsiveness), transparency (openness and integrity), and guardianship (demonstrating care and consideration).

**Scope:** The reputation of an organization refers to how a broad group of stakeholders perceive the accumulated decisions, actions, and behaviors of the people within an organization. This social judgement is influenced both directly and indirectly by interactions with employees, with programs and services, and by commentary in the public domain (e.g., news stores, press release, and social media).

The operations of a local government like the City are complex, multifaceted, and impact the lives of residents, either directly or indirectly, every single day. In essence, the City’s reputation directly influences the effectiveness of the City’s governance overall function, and ability to recruit and retain employees.



Recent challenges at the City have created obstacles in preserving a strong and positive public reputation, including challenges related to:

- The relationship between the City Council and staff (see also [Governance](#))
- The CDTFA audit decision and its expected impact on City services (see also [Funding and Economics](#) and [Operations and Service Delivery](#))
- Affordable housing, including the City’s delayed Housing Element (see also [Planning and Strategy](#))
- Permitting process delays due to a high volume of permit applications and limited staff resources

Such challenges can impact the City’s reputation and attractiveness to residents, businesses, and investors.

It is important for cities to take proactive steps to manage their reputation, including investing in public relations and marketing efforts and promoting transparency and accountability. The City hired a new Communications Coordinator to fill a longstanding vacancy in the beginning of 2024. This position is intended to improve proactive communication to the public, as well as refine the City’s approach to branding.

### ***Resident Perception and Satisfaction***

As noted in [Operations and Service Delivery](#), the City did not conduct its regularly planned resident satisfaction survey in 2020 due to the COVID-19 pandemic. Revitalizing the community satisfaction survey will be an important mechanism as the City navigates community response to changes in services and expectations. In general, staff report that the City has a good relationship with the City’s residents. When asked what type of reputation they felt the City had within the community, the majority (51%) of respondents said good, with a notable 10% saying excellent. In interviews, staff reinforced this sentiment referencing a long-standing history of providing quality services and attentiveness to the community. However, the City faces increased risk trajectory in this area given the potential friction between service delivery expectations and the reality of what the City can provide and fund. There is an increased risk that diminished service levels and staffing will contribute to a poor perception of the City, which can impact residents, businesses, local economy, and recruitment and retention efforts.

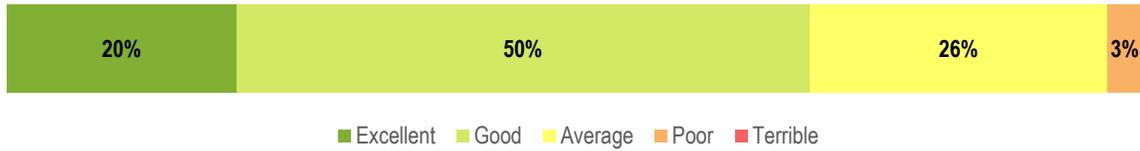
**Q: What kind of reputation do you think the City has within the community?**



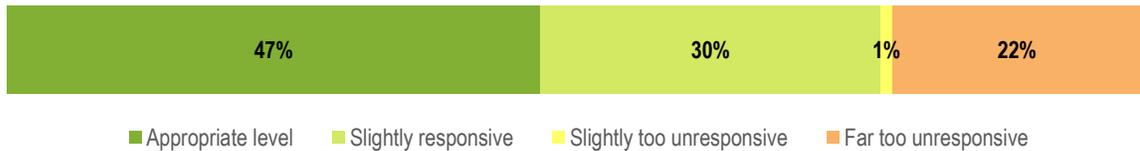
The majority of survey respondents (70%) also reported that the City’s overall consistency of communication with the public was either good or excellent. Moreover, when asked how responsive the City is to resident feedback, 47% said the City is appropriately responsive and 30% said slightly responsive. This feedback reflects the sentiment that a majority of respondents view the City’s communication with the public positively.



**Q: How would you rate the City’s overall consistency of communication with the public?**



**Q: How responsive is the City to resident feedback?**



**Risk Programs**

OVERALL RISK LEVEL: MODERATE			
Impact	Likelihood	Preparedness	Trajectory
MODERATE TO HIGH	MODERATE	MODERATE	FLAT
Risk Mitigation	<ul style="list-style-type: none"> <li>Continue efforts to update the City’s EOP.</li> <li>Prioritize regular updates to the City’s Continuity of Operations Plan (COOP).</li> <li>Increase staff participation in and awareness of available emergency response training, particularly related to staff roles and responsibilities in emergencies.</li> <li>Consider strategies to increase employee’s feeling of physical safety at work, such as proactive plans to protect public-facing employees in the event of a security threat.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with the organization’s formal/structured risk management programs, such as employee health and safety programs, operational risk management programs, and incident response and emergency management efforts.

**Scope:** Risk programs include administration of the general liability, workers’ compensation, safety, disability management, and property programs. Risk efforts also include contract/insurance certificate review, insurance procurement, emergency preparedness programs, and continuity of operations planning.

HR is responsible for administering the City’s risk management, safety, and wellness programs. HR also oversees the City’s workers’ compensation program, unemployment insurance program, OSHA



safety and training programs, and the Risk Management Committee. The City Attorney's Office works with HR to administer the City's general liability and property insurance programs.

### ***Insurance Premiums***

Insurance claims have been steady for the past three years, while workers' compensation claims have decreased. There have been 31 workers' compensation claims in the past three years. Of those claims, 21 were in 2021, and the number of claims dropped sharply in 2022 and 2023. There have been 39 insurance claims in the past three years, at relatively flat rates. This contributes to the flat risk trajectory in this area.

As mentioned in the [Human Resources](#) section, insurance premiums are rising industry-wide for general liability, excess workers' compensation, and employment practices liability, making it difficult to maintain affordable rates. In addition, employee medical fees were sharply increased last year, and the City covered the cost.

### ***Emergency Management and Business Continuity***

The Office of Emergency Management (OEM) is staffed with two full-time positions, including an Emergency Manager who is responsible for leading and directing the City in prevention, preparation, mitigation, response, and recovery activities and a Management Analyst who is primarily dedicated to emergency planning. The office is also staffed with two part-time positions.

OEM is responsible for maintaining, reviewing, and updating the City's EOP, which was last published in June 2019. The EOP should be reviewed on a regular basis (every two to three years) to ensure it remains relevant and effective and should be updated more often if there are significant changes to the emergency management landscape (such as high turnover at the City Manager position, which the City has experienced in recent years). The City is currently finalizing an assessment and revision of the existing plan.

The City's COOP, which is a core component of business continuity planning, was last updated in June 2021. The COOP outlines how the City will continue to provide services in the event of an emergency until full operations are restored. The Federal Emergency Management Agency (FEMA) recommends COOPs be updated at least annually, or whenever there is a significant change in the organization's structure, mission, or operating environment to ensure the plan remains current and relevant to the organization's needs and capabilities.

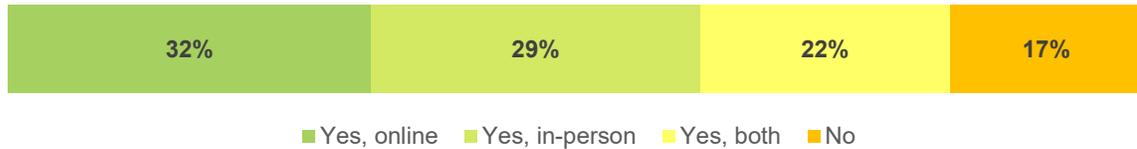
The City offers several emergency-related trainings for staff. OEM provided training to 25 City staff with roles in staffing disaster emergency shelters in 2023, recently initiated a new training program for City Emergency Operations staff and set completion dates for Disaster Service Worker training for all staff. Planned training updates are underway as well. OEM hopes to provide Citywide training covering roles and responsibilities during emergency protocols in 2024.

Most employees (83%) report that they have received training related to emergency preparedness within the last year, and most employees (89%) report that they feel extremely (8%), very (43%), or somewhat (38%) prepared to respond to or handle an emergency situation within their department or office. It is important that all employees receive training on emergency preparedness to create a culture of safety and preparedness and ensure everyone is equipped to handle emergencies when they arise. Many surveyed employees mentioned confusion surrounding a recent incident at City Hall



involving a phoned-in security threat; this may indicate a need to require that employees attend training related to roles and responsibilities and communication during emergencies.

**Q: Have you received training focused on emergency preparedness provided by the City within the last year?**



**Q: How prepared do you feel to respond to or handle an emergency situation within your department or office?**



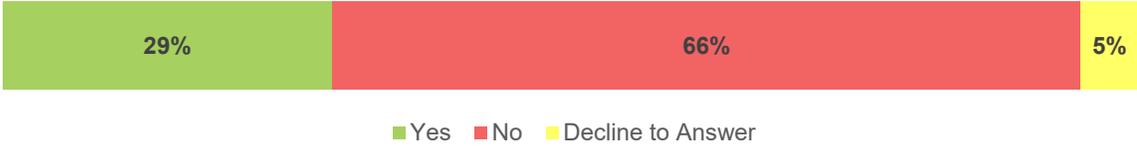
The City developed an Alert, Warning, and Notification (AWN) Program to provide critical alert and warning to the public while also allowing for effective information sharing across City departments and partner agencies. The AWN Program provides the framework for alert, warning, and notifications before, during, and after any emergency or situation. The framework documents the recommended criteria for issuing public alerts and warnings, types of alerts and warnings, governance, training, and technical requirements for activating alerts. This document provides best practices for crafting effective alert and warning messages, choosing appropriate alerting technology, and providing public education to ensure the people understand how to obtain, use, and respond to information from the City. This is a strong control to promote effective communication during a crisis or emergency and reduce associated reputational risks.

### ***Employee Safety***

About one-third of surveyed employees (29%) reported they have experienced an incident where they felt physically unsafe while working at the City in the last two years, a 20% increase from the 2020 ERA. Over half of surveyed employees (60%) rated the physical security of their workplace as average (39%), poor (13%), or terrible (8%). This is driven by ongoing concerns over the physical structure of City Hall and a one-time acute threat. The safety of employees, and their perception of safety, can have significant impacts on City operations. It is important for the City to consider strategies to increase each employee’s feeling of physical safety at work, such as proactive plans to protect public-facing employees in the event of a security threat.



**Q: In the last two years, have you experienced an incident or time where you've felt physically at risk or unsafe while working at the City?**



**Q: How would you rate the overall level of physical security within the facility and/or location in which you work?**



**D. LOW TO MODERATE RISK CATEGORIES**

**Accounting and Finance**

OVERALL RISK LEVEL: LOW TO MODERATE			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE</b>	<b>LOW TO MODERATE</b>	<b>MODERATE</b>	<b>FLAT</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>Ensure that updated accounting procedures are accompanied by clear communications to staff about the changes.</li> <li>Ensure that decentralized accounting and finance processes are accompanied by clear procedures and adequate training.</li> <li>Prioritize continuing to address the recommendations for improvement in budget development and monitoring training, document storage efficiency, and budget review communications contained in the 2022 Budget Process Review.</li> <li>Continue to prioritize improvements to the City's financial systems to increase process efficiency where possible.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			



**Risk Areas:** Risks associated with fiscal control, budgeting, ongoing information tracking and management, revenue capture, and transaction processing.

**Scope:** The role of accounting and financial functions in risk mitigation is focused on recordkeeping and compliance through recording, classifying, summarizing, and reporting financial transactions. Financial reporting includes deliverables such as the Annual Comprehensive Financial Report (ACFR), monthly financials for budgetary comparison, and other compliance reports such as an organization’s Single Audit. Reliable financial information is fundamental to planning, budgeting, pricing, evaluating vendor performance, assessing partnerships, and a range of other operational and strategic activities.

The City’s Finance Division operates under the Administrative Services department. The Finance Division has a total staffing of 11.4 FTEs and is responsible for overseeing all financial accounting and treasury functions for the City. Administrative Services also houses a Budget Manager and Purchasing Manager outside of Finance who are involved in the accounting and finance function. Because the structure and functions of the Finance Division can vary significantly among jurisdictions, there is not a one-size fits all suggested staffing ratio. However, almost all survey respondents in the Finance Division rated staffing levels in the department as either good or excellent. Additionally, over two-thirds of surveyed employees (71%) rated the quality of internal customer service provided by the Finance team as excellent or good, suggesting there are not significant gaps in services.

**Q: How would you rate the quality of the internal customer service provided by the Finance team?**



*Total equals 102% due to rounding.*

The City updated its financial policies and procedures in 2023. Policies and procedures are in place pertaining to accounting and financial reporting, capital assets, budgeting, cash receipts and handling, City Council grants, payroll, accounts payable, and revenue and accounts receivable. Up-to-date policies and procedures reduce risks of noncompliance, increase accountability, and promote consistency and efficiency. However, some staff shared that Finance employees sometimes give inconsistent direction to outside departments regarding policies and procedures. Recent updates to most accounting procedures are likely the driver of this feedback. Procedure changes often make it difficult for staff to understand which information is most up to date.

Staff report several accounting and financial processes are decentralized at the City. As noted in [Internal Controls](#), there are concerns about financial transactions such as deposits and refunds being handled in a decentralized manner and non-Finance staff, who may lack financial expertise to process transactions without effective oversight or clear procedures. While decentralization can have some benefits, it increases risks of inconsistent financial practices, noncompliance with laws and regulations, fraud, errors, and monitoring difficulty. Clear procedures and a strong training environment can help mitigate these risks.

The City typically aims to complete its Annual Comprehensive Financial Report (ACFR) within six months after the close of each FY (i.e., by December). However, the City’s ACFR has been delivered



between March and May in the last three years. The City switched auditors this year and is hoping to deliver more timely ACFR's moving forward.

### **Budgeting**

The City's annual budget is prepared on a July 1 to June 30 FY, with ongoing processes throughout the year, including budget development, proposals, adoption, monitoring, amendments, and resident participation.

Overall, the City's budget process is well-established and runs smoothly. The City maintains budget policies aligned with best practices in the adopted budget book, including a Balanced Budget Policy, Pension and Retirement Funding Policy, and Investment Policy. The City received the Operating Budget Excellence Award from the California Society of Municipal Finance Officers and the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for its FY23 budget. A review of the budget process conducted in 2022 as part of the City's internal audit program found that the City was in alignment with most budget best practices developed by the GFOA, but that there were opportunities for improvement in budget development and monitoring training, document storage efficiency, and budget review communications. The City is currently working with a consultant to validate its budget forecasting processes. Such validation can help promote the accuracy of budget projections and support the City's decision-making moving forward.

### **Financial Systems**

There are some shortcomings to New World, the City's current ERP system. The system does not easily integrate with the City's other systems, including CobbleStone, ACTIVENet, and Accela. This has contributed to process inefficiencies and a high level of manual intervention to effectively manage data and reporting across systems. The City had initially planned to replace its ERP; however, this initiative was paused while the City focused on balancing its budget. Instead, the Innovation & Technology (IT) Department is now working to improve the functionality of New World. This will not be a permanent solution. The City will need to eventually replace its ERP, but this should help ease the burden of data management and reporting across unintegrated systems.

### **Ethics and Fraud, Waste, and Abuse**

<b>OVERALL RISK LEVEL: LOW TO MODERATE</b>			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
<b>MODERATE</b>	<b>LOW TO MODERATE</b>	<b>MODERATE TO HIGH</b>	<b>DECREASING – LOW</b>
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>Continue ongoing activities that support a robust fraud, waste, and abuse program, including regular training and consistent reporting.</li> <li>Update the City's Harassment, Discrimination, Retaliation, and Workplace Violence Policy.</li> <li>Clearly communicate and enforce non-retaliation policies.</li> </ul>		



## RESIDUAL RISK: LOW TO MODERATE

**Risk Areas:** Risks associated with misappropriation of funds, extravagant spending, using one's position to accomplish a specific outcome, the intent to deceive, or behavior that is not aligned with the organization's ethical values and policies.

**Scope:** The employees of the organization have a duty to use funds economically, efficiently, effectively, and ethically. When employees do not honor this obligation, it could result in instances of fraud, waste, abuse, or unethical behavior.

All City employees share the common purpose of serving the public in an ethical and transparent manner. Fraud, waste, and abuse are defined as:

- **Fraud:** A dishonest and deliberate course of action that results in obtaining money, property, or an advantage to which employees or an official committing the action would not normally be entitled
- **Waste:** The needless, careless, or extravagant expenditure of funds; incurring of unnecessary expenses; or mismanagement of resources or property
- **Abuse:** The intentional, wrongful, or improper use or destruction of resources, or highly improper practices that do not involve prosecutable fraud

The City's 2020 ERA noted the absence of a robust fraud, waste, and abuse program was an area of risk for the City. Even without a robust program in place, the 2020 ERA rated the likelihood of an incident occurring as low to moderate. Meaning that it is unlikely that an incident of fraud, waste, or abuse will occur. Since 2020, the City has implemented measures to further mitigate risk by establishing a Fraud, Waste, and Abuse Program in October 2022. This program includes a Fraud, Waste, and Abuse Policy; confidential reporting mechanisms; a whistleblower policy; and mandatory training for all staff.

According to the Fraud, Waste, and Abuse Policy, reporting methods include a toll-free number, mail, phone, or in-person reporting, and several methods are available 24 hours a day, seven days a week, 365 days a year. This hotline is coordinated by the City's internal auditor and administered by third-party vendor Lighthouse through an off-site reporting system. By offering a confidential reporting mechanism, the program encourages open communication and allows staff and the public to share sensitive information without fear of retaliation or judgment. This program signifies the City's ongoing commitment to strengthening its ethics infrastructure and environment, as well as providing staff with the appropriate resources. When asked if they know what action(s) to take if they were to become aware of unethical or fraudulent activity, 77% of survey respondents said yes compared to 65% of respondents in 2020.



**Q: Do you know what action(s) to take if you were to become aware of unethical or fraudulent behavior?**

2020



■ Yes - I know what I would do   ■ Maybe - I would have to research a bit   ■ No, not really sure

2024



■ Yes - I know what I would do   ■ Maybe - I would have to research a bit   ■ No, not really sure

*Total equals 99% due to rounding.*

While the program is a notable contribution to the City’s ethics environment, it is important to note that the City’s Harassment, Discrimination, Retaliation, and Workplace Violence Policy, which is a section of the City’s overarching Administrative Rules and Regulations of the Personnel Code, has not been updated since July 2013. Regularly updating and reviewing ethics policies and procedures are imperative to guarantee that the City’s infrastructure adequately promotes ethical integrity.

Having confidence in the City’s ethics and reporting framework is essential for staff in building trust, promoting compliance, enabling risk management, and detecting and preventing misconduct. The majority of respondents (76%) responded management definitely or probably would make an effort to stop wrongdoing if reported.

**Q: What are the chances that management above you would make efforts to stop wrongdoing if you reported it?**



■ Definitely would   ■ Probably would   ■ Might or might not   ■ Probably not   ■ Definitely not

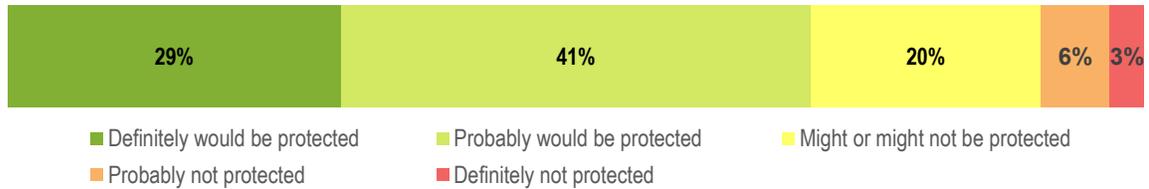
*Total equals 99% due to rounding.*

While there is a strong sense of confidence in how a reported incident would be handled, there is hesitancy related to potential retaliation. Only 29% of respondents to the survey indicated they would definitely be protected from retaliation if they reported wrongdoing, which is similar to the 2020 survey results. Both actual and perceived retaliation erode trust, discourage reporting, and can make it more challenging to realize the full benefit of the robust program in place.

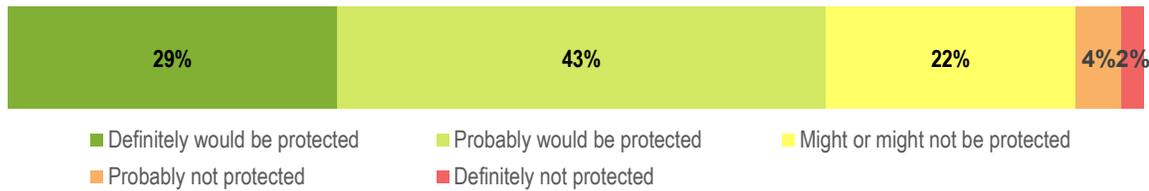


**Q: What are the chances that you would be protected from retaliation if you reported wrongdoing?**

2020



2024



## Information Technology

OVERALL RISK LEVEL: LOW TO MODERATE			
 <b>Impact</b>	 <b>Likelihood</b>	 <b>Preparedness</b>	 <b>Trajectory</b>
MODERATE TO HIGH	LOW TO MODERATE	MODERATE TO HIGH	FLAT
 <b>Risk Mitigation</b>	<ul style="list-style-type: none"> <li>Continue to prioritize cybersecurity resiliency efforts, including employee training and collaboration with other local government agencies.</li> <li>Ensure IT policies and procedures are updated at least every three years.</li> <li>As the City explores expenditure mitigation strategies, consider developing a feedback mechanism to track employee satisfaction with technology and prioritize opportunities for improvement.</li> <li>When possible, prioritize the adoption of a new ERP.</li> <li>Consider adopting key systems that would increase efficiency and effectiveness like an HR information system, learning management system, grants management, and performance management system. Prioritize system interoperability between these systems and the City's ERP.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with the design, development, implementation, administration, operations, and maintenance of information systems, including change management and system development life cycle. Also includes risks to infrastructure, system performance, data architecture and management, integration, backup, security, and controls.

**Scope:** The importance and pervasiveness of information technology and information systems continues to rapidly expand, regardless of organization.



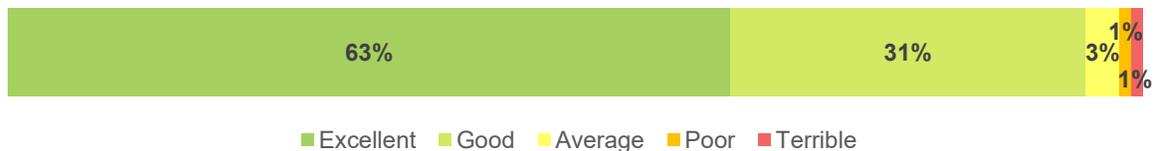
The City's IT Department consists of 14 full-time positions, four part-time positions, and one intern position. There are three divisions within the department: Applications, GIS, and Infrastructure. The Applications Division supports the City's enterprise applications like its ERP, Land Management System, Recreation System, Laserfiche, as well as the many e-services custom applications like bid management, permit parking, business licenses, and the City's mobile apps. The GIS Division builds web applications for staff and the public to use as a tool in their daily workflows. The Infrastructure Division is responsible for the acquisition, maintenance, and support of all computer hardware necessary for the City's network (server, storage, switch, security, and appliance) and end user services (PC, tablet, VoIP devices, and smartphones).

The City has a history of being technologically forward and progressive, and its focus on technology translates to an overall low to moderate risk rating in this category. The IT Department is considered the root of that reputation and is critical to the continued optimization and efficiency of service delivery Citywide. The risk in this area is largely driven by the inherent cybersecurity risks to any public-facing organization, the acknowledged need to replace the City's ERP, some outdated policies and procedures, and opportunities to systematize HR, including training and performance management, as well as grants to further support operational efficiency and effectiveness.

### IT Internal Service

Staff are generally pleased with IT internal service. Employees across the City consistently rated the IT Department highly and highlighted that the department is a model for other cities. Staff reported that trust and communication is high between IT and other departments. This is likely driven in part by frequent cross-departmental collaboration. For example, the Applications Division meets with departments monthly to discuss needs, and recently worked with the CIP team to build an application that tracks day-to-day operations.

**Q: How would you rate the quality of the internal customer service provided to staff by the IT team?**



*Total equals 99% due to rounding.*

The internal management of the department appears strong. The Chief Technology Officer plans to retire at the end of this FY and has accordingly prioritized succession planning efforts.

IT adheres to a department-specific standard replacement schedule as defined by the Information Technology Replacement and Capitalization Policy. Though there is not a dedicated IT replacement fund, IT budgets for replacements according to the life cycles of hardware. Generally, laptops are replaced every four years and cell phones every three years.

The likelihood of risk occurring with regard to internal service and hardware is driven by current and future impacts to the budget. Among the strategies to reduce expenditures identified in the FY24 budget are reductions to technology purchases and pursuing fewer pilots of technology in the future. The IT team has already cut some of the applications that were previously procured from a third



party. While surveyed employees were generally satisfied with the quality of the information technology hardware provided by the City, there were some concerns that extending equipment life cycles due to budget cuts would cause equipment to become outdated.

**Q: How would you rate the quality of the information technology hardware (computers, accessories, etc.) that you currently have and use in your role?**



### *IT Security*

The likelihood of risk in this area is driven by the inherent risk related to cybersecurity in any modern organization. In addition, the City does not have control over the rising cost of cybersecurity insurance. As that cost continues to increase, there is an associated risk that more of the City’s resources will need to be allocated to this area.

Cybersecurity was identified as a high-risk area in the 2020 risk assessment. Since then, the IT Department has made investments to mitigate that risk, including the following:

- The City providing end user education through semi-annual training. The focus on training is reflected by 100% of survey respondents reporting that they received high-quality cybersecurity training within the past year. Because of the growing complexity of cyberattacks, it will remain imperative that the City continue to prioritize its cybersecurity resiliency efforts.
- The City continues to focus on strengthening the IT Disaster Recovery Plan and other contingency efforts, including the Business Continuity Flow Chart and EOP (a unified cyber command incident response process that clarifies processes and roles and responsibilities for cyber incidents).
- The City works with a contractor to monitor the cyber environment 24/7 and isolate anomalies that occur at night to prevent viruses or encryption from spreading throughout the environment.

The City maintains the following IT Security policies and procedures:

- A detailed EOP Annex with processes to respond to cyber incidents (last updated in 2021)
- An Innovation Technology Disaster Recovery Plan and Business Continuity Flow Chart for IT response to natural disasters, hardware failures, and cybersecurity events (undated)
- A Technology Use Policy setting acceptable use of City technology resources that covers data and information security and cybersecurity (last updated in 2018)
- A Photo Identification Policy governing acceptable photo use (last updated in 2018)
- A Redaction Policy concerning private information in public records (last updated in 2018)

While these policies and procedures are important controls for the City to reduce IT-related risks, they fall outside of the recommended review cycle of three years. All policies and procedures should



include the date they were created as well as revision or review dates to ensure policies are kept up to date and provide clarity to staff.

The City takes a hybrid approach to data storage, with some data stored on premises and some stored in the Cloud. In alignment with best practice, the on-premises environment and applications are backed up in an off-site location. Though on-site storage typically presents greater risks, the on-premises environment is being updated within the coming months after a recent audit noted that the server room is shared with the Finance Division and is accessible by non-IT personnel.

### City Systems

The City uses Zendesk as its CRM and New World as its ERP. Although these are commonly used systems, City staff report integration challenges between New World and other major systems as described in [Accounting and Finance](#). While staff generally reported that New World’s inefficiencies were frustrating, they shared that the workarounds that have been developed are ultimately operational. One of the needs employees identified related to IT was a desire for IT to continue to strengthen system integration and data flow automation to reduce manual processes.

The City lacks some key systems that would contribute to increased efficiency and effectiveness. Examples include a comprehensive HR information system, learning management system, grants management, and a performance management system to automate performance evaluations. Otherwise, employees rated the quality of the hardware and software systems currently in use at the City highly.

**Q: How would you rate the quality of the information technology systems (software, applications, programs, etc.) that you currently have and use in your role?**



### IT Governance

IT governance plays an important role in local governments to optimize technology purchases, systems integration, and access to information to support decision-making. The City has established an Innovation & Technology IT Governance Framework, which is responsible for the strategic planning, governance, and policy-setting related to the use of digital services for the City. In accordance with industry standards, asset decision-making is centralized—the IT Department approves all software and hardware purchases.



## Public Safety and Security

OVERALL RISK LEVEL: LOW TO MODERATE			
 Impact	 Likelihood	 Preparedness	 Trajectory
<b>MODERATE</b>	<b>LOW TO MODERATE</b>	<b>MODERATE</b>	<b>FLAT</b>
 Risk Mitigation	<ul style="list-style-type: none"> <li>Explore opportunities to establish a formal agreement with the Santa Clara County Fire Department for fire services.</li> <li>Work with the Santa Clara County Sherriff's Department to understand why some types of crime have been increasing and jointly develop mitigation strategies.</li> <li>Consider allocating resources to the Unhoused Task Force to support proactive public communication around the City's efforts to address homelessness in the community.</li> </ul>		
RESIDUAL RISK: LOW TO MODERATE			

**Risk Areas:** Risks associated with public safety services, including level of services, funding, and community issues.

**Scope:** Public safety includes emergency services such as law enforcement, fire, dispatch, and community disaster response programs.

The City's public safety and security environment is relatively strong, but there are risks associated with the City's lack of direct control over its contracted and outsourced police and fire services. In addition, the City does not currently dedicate any money to homelessness related issues or services.

### *Public Safety*

The OEM leads and directs the City in prevention, preparation, mitigation, response, and recovery from all emergencies, hazards, incidents, and events. OEM also maintains the City's contract for law enforcement services with the Santa Clara County Sheriff's Office.

The City contracts its law enforcement with the Santa Clara County Sherriff's Department, and its fire services are provided by the Santa Clara County Fire Department. Outsourcing law enforcement and fire services can result in cost savings for the City and reduce administrative burdens on the City, such as those related to hiring, training, and managing law enforcement and fire service personnel. However, there are also some risks to this approach:

- The City has less control over law enforcement and fire services and less input into how services are provided and how resources are allocated.
- Santa Clara County may have other priorities, which can impact responsiveness or limit the customizability of services to local needs.

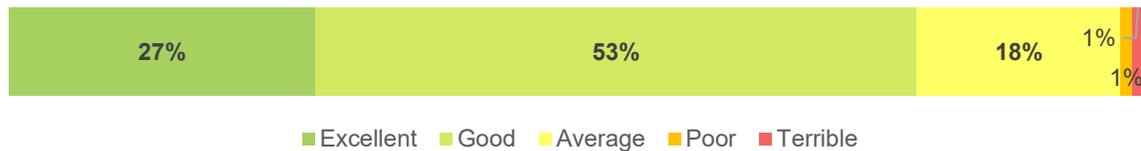
While the City has a formal contract with Santa Clara County for law enforcement services, the City does not have a formal agreement for fire services and staff reported they were not able to meaningfully participate in Santa Clara County's Fire Department's strategic planning efforts last



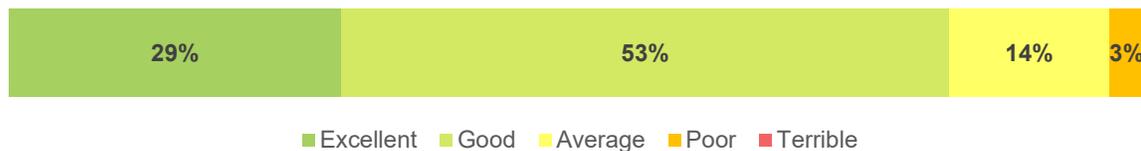
year. This represents risk for the City because if the City notices deficiencies in fire services, there is not a defined process to address those concerns. However, the likelihood of this occurring is relatively low, and services appear to be sufficient. This is evidenced by positive responses to the employee survey (respondents did not report any significant concerns regarding the effectiveness of the public safety services delivered to the City and the sense of safety was reported as good or excellent by 82% of respondents) and by Sheriff and Fire response data:

- The average County Sheriff response time in 2022 (the most recent year available) in the City was 5.33 minutes for Priority 1 calls, 6.94 minutes for Priority 2 calls, and 11.73 minutes for Priority 3 calls—all well under the established target response times for the department.<sup>6</sup>
- The average Fire response time for emergency events in the City in December 2023 was 4:47 minutes in urban areas and 5:49 minutes in rural areas. Incidents responded to by Fire in the City decreased slightly during the COVID-19 pandemic and have been climbing back to pre-pandemic levels, which leveled off in 2023. Most responses are EMS (63%) or service (17%).

**Q: How would you rate the effectiveness of the public safety services delivered to the City?**



**Q: How would you rate the overall feeling of safety in the community?**



*Total equals 99% due to rounding.*

The risk level in this area is also informed by crime rates. Crime rates in the City have fluctuated between 2021 and 2023, most recently decreasing between 2022 and 2023. However, some types of crime have been increasing between 2021 and 2023, including simple and aggravated assaults (50%), identity theft and forgery fraud (22%), commercial burglary (33%), and robbery (22%). The 2022 relative crime rate (the most recent comparison available) within the Santa Clara County Sheriff’s Office jurisdiction is among the highest between California agencies that shared data. Crime rates are another area that the City has limited control over due to its contractual service relationship with the Sheriff’s Office.

Public safety and security is also influenced by the public’s perception of homelessness in the community. Homelessness is not as prominent an issue in the City as it is in surrounding areas, and

<sup>6</sup> Santa Clara County Sheriff’s Office. 2022 Annual Statistics. Accessed April 25, 2024: <https://countysheriff.sccgov.org/sites/g/files/exjcpb406/files/reports/2022%20SCCSO%20Report%20ToC.pdf>.



the number of people experiencing homelessness in the City appears to be decreasing (the City's 2022 Point-In-Time count observed 102 people experiencing homelessness, a 36% decrease from the 2019 count).<sup>7</sup> However, staff report a sense of increased public concern about the unhoused population in the City and the management of encampments, evidenced by a reported 20 to 30 encampment-related complaints that are received per week. To address concerns in this area, the City created the Unhoused Task Force, comprising multiple City departments. The task force's primary purpose is to track encampments and ensure that services are provided to people who are unhoused in the City, as well as to communicate with the public and coordinate encampment resolutions with Sheriff, Fire, Public Works, and the City Attorney's Office. The cost of addressing homelessness is absorbed into standard operating costs across departments, including Public Works.

### ***Code Enforcement***

The City employs three FTE Code Enforcement Officers who enforce non-emergency and preventative life-safety issues around zoning, building, housing, and fire code compliance. Code enforcement functions serve a critical role and are responsible for supporting the health, safety, and economic well-being of the community. Code enforcement is budgeted for 4 FTE, and staff shared that vacancies are currently unfilled due to budget conditions, which has impacts on service delivery in this area.

### ***Community Emergency Preparedness***

The City has developed community emergency preparedness programs. Such programs are helpful to reduce risks related to disasters and emergencies by helping promote community preparedness. The City runs a Community Emergency Response Team Program, which is sponsored by FEMA. The City provides ongoing community preparedness training through the Personal and Neighborhood Emergency Preparedness Program, which is operated through the Neighborhood Block Leader Public Safety Program.

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<sup>7</sup> County of Santa Clara. 2022 Point-In-Time Report on Homelessness. Accessed April 25, 2024: <https://osh.sccgov.org/sites/g/files/exjcpb671/files/documents/2022%20PIT%20Report%20Santa%20Clara%20County.pdf>



# APPENDIX A: EMPLOYEE SURVEY RESULTS

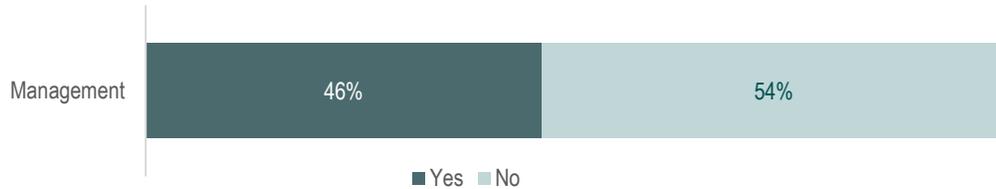
We distributed a confidential online questionnaire to City employees on January 2, 2024, and collected data through February 8, 2024. Out of the 198 full-time employees invited to take the survey, 92 individuals submitted responses, a participation rate of 46%. Some totals may not equal 100 due to rounding.

## A. SURVEY RESPONDENT PROFILE

### Years of Tenure

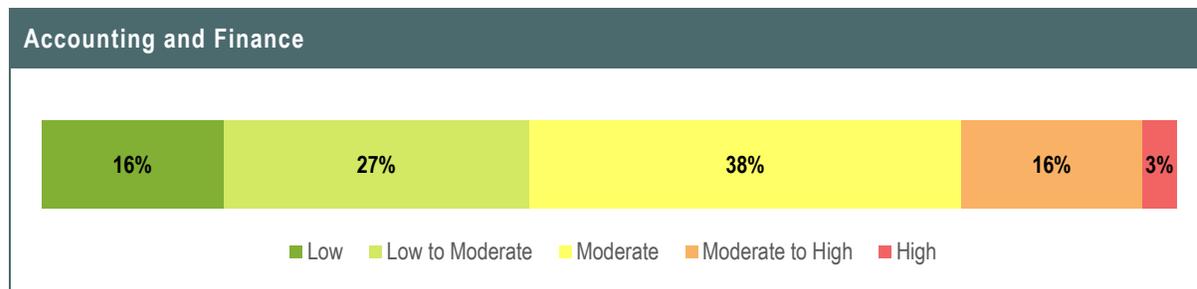


### Employee Level<sup>8</sup>

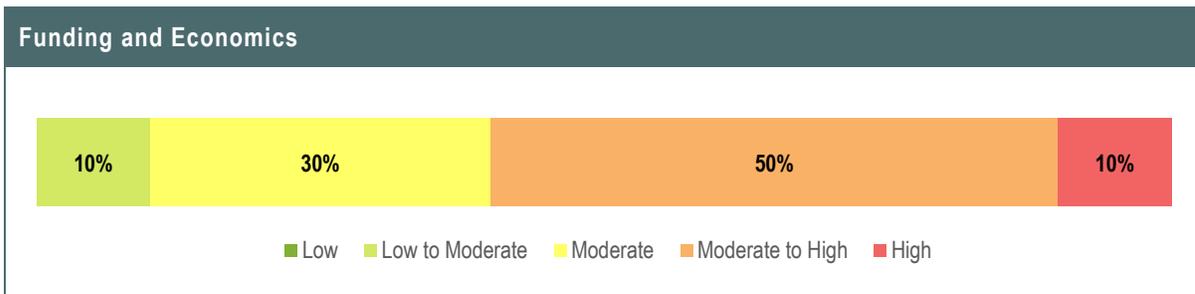
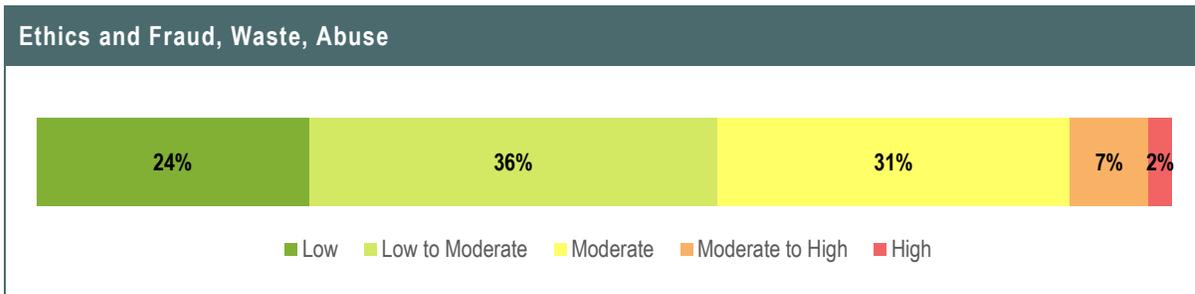
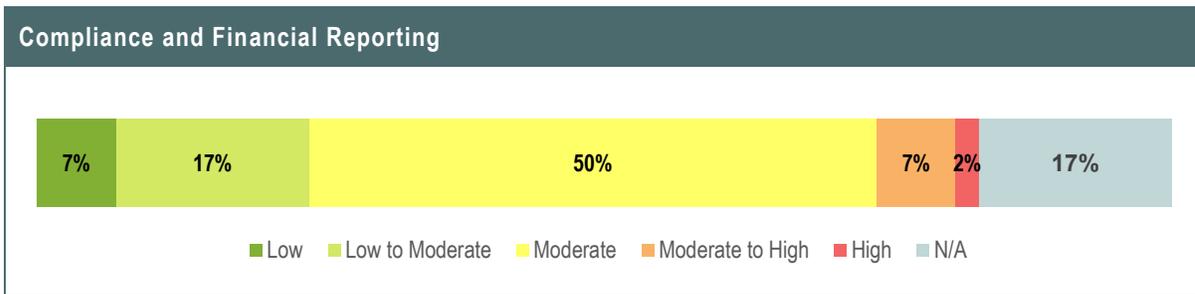
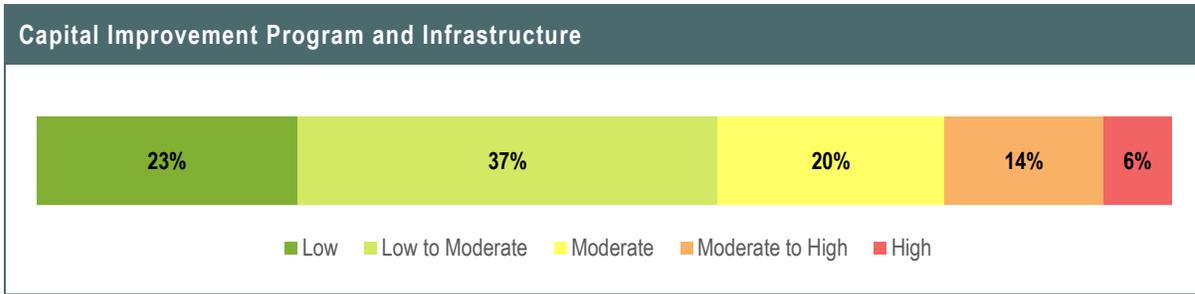
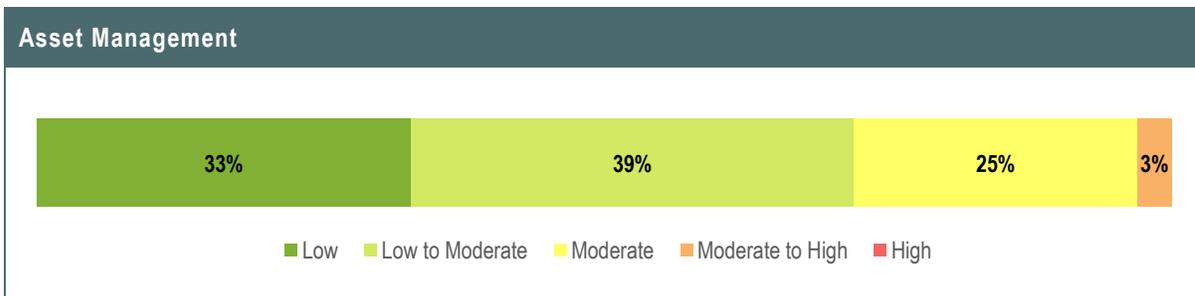


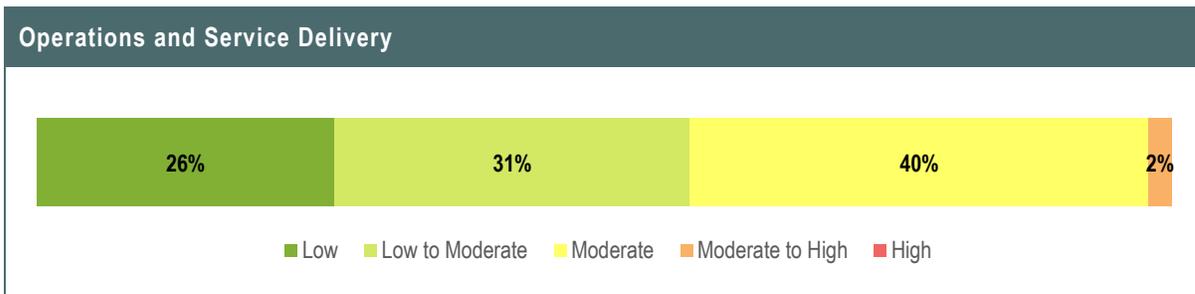
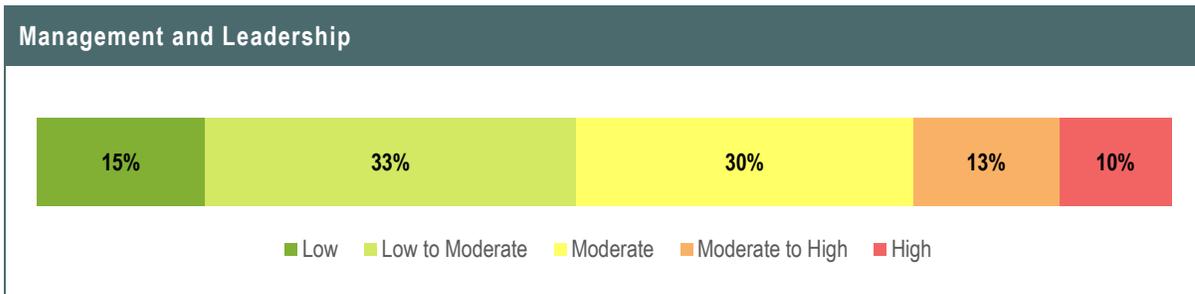
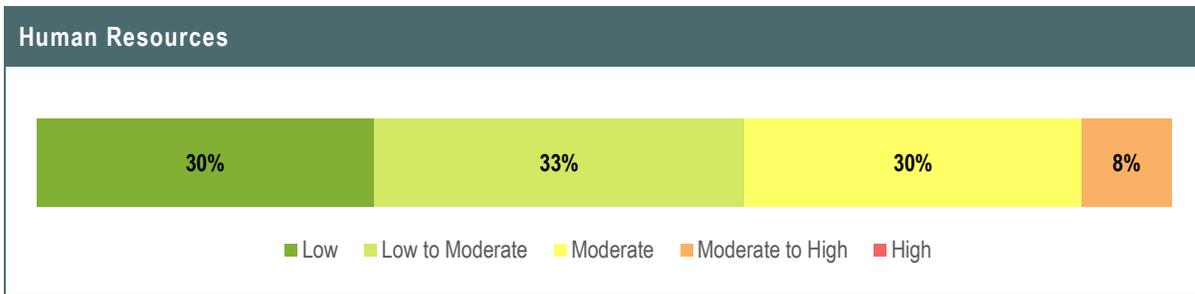
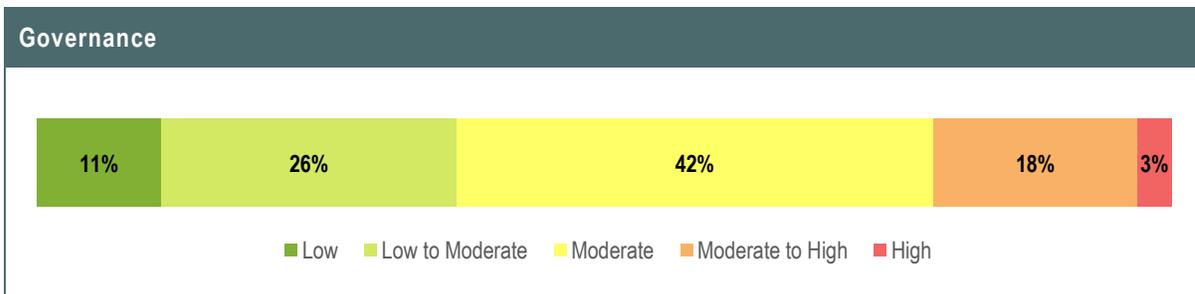
## B. RISK CATEGORY RATINGS

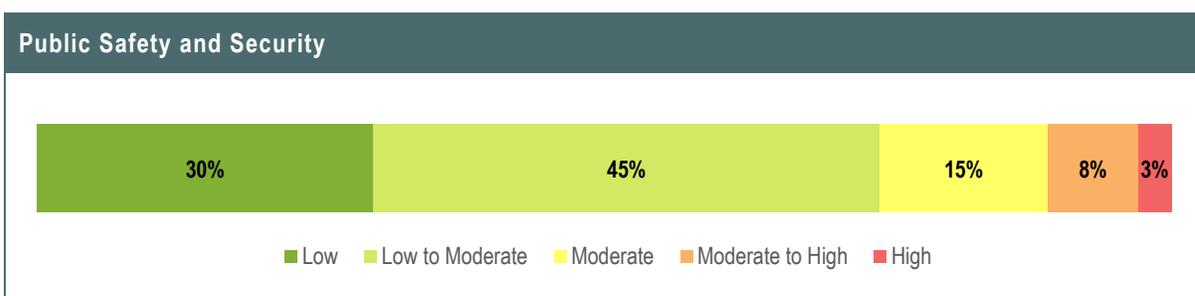
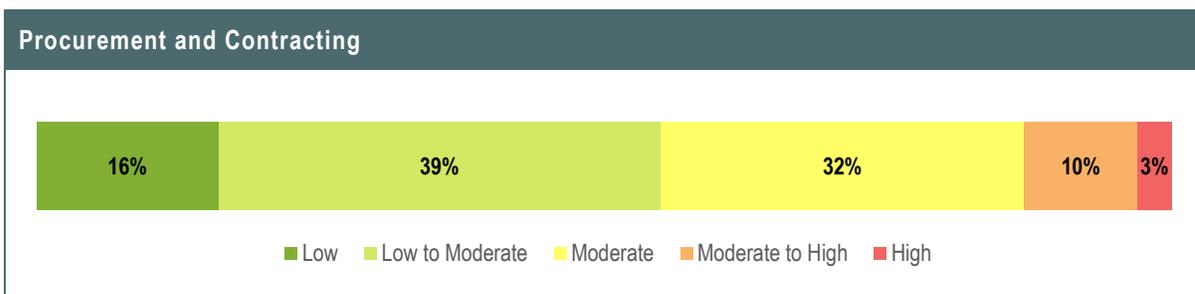
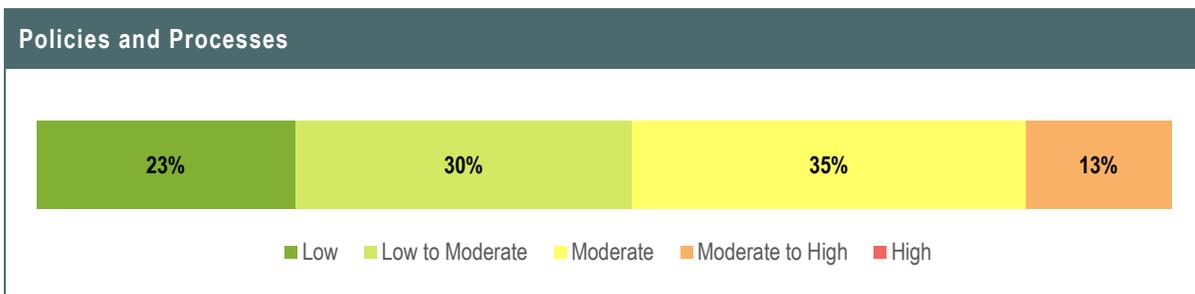
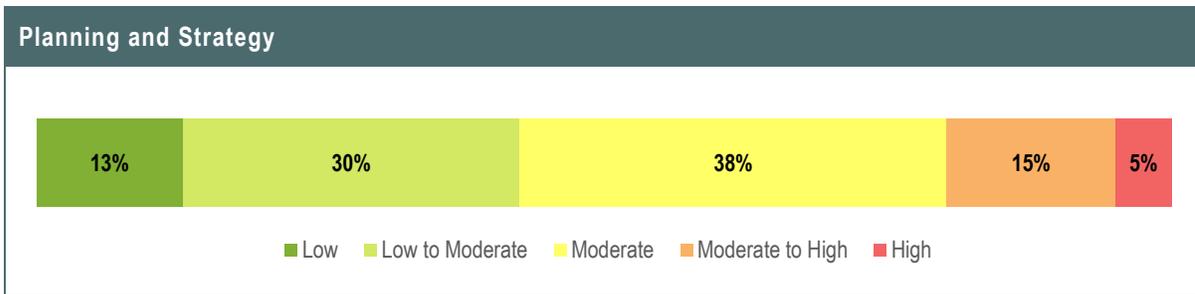
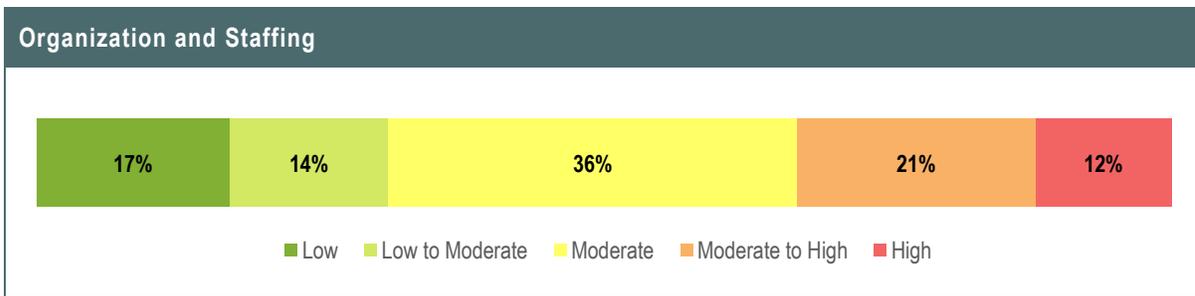
### How would you rate the organization’s level of overall risk?

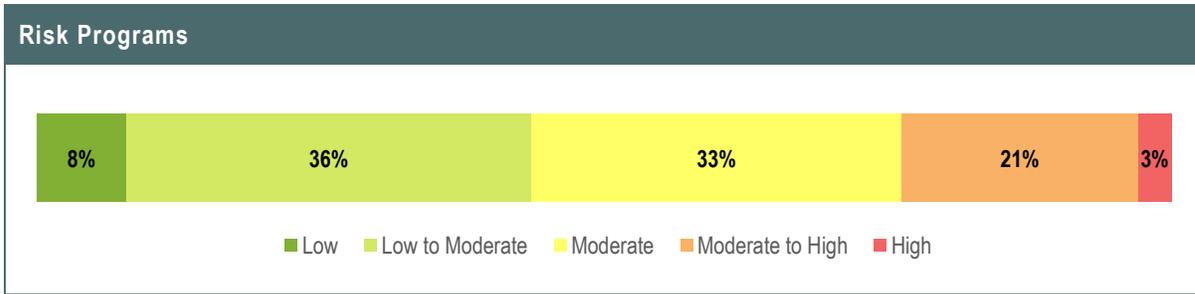
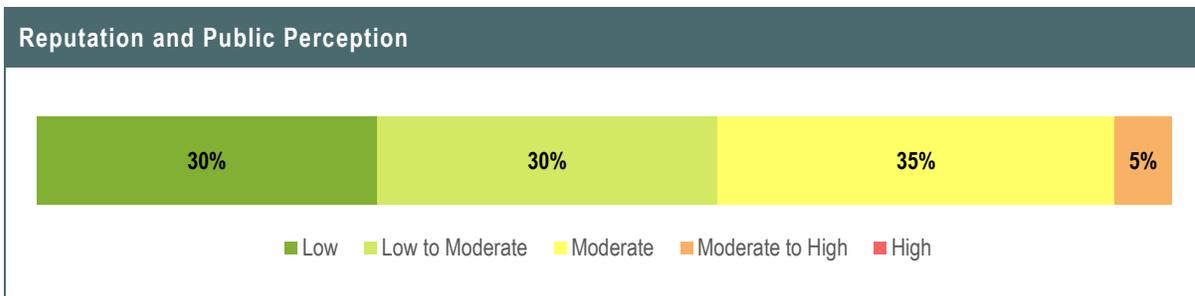


<sup>8</sup> Only management-level employees were asked to rate overall level of risk for each category.











MOSSADAMS



# City of Cupertino FY 24-25 Internal Audit Program

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**Audit Committee Meeting**  
**June 2024**



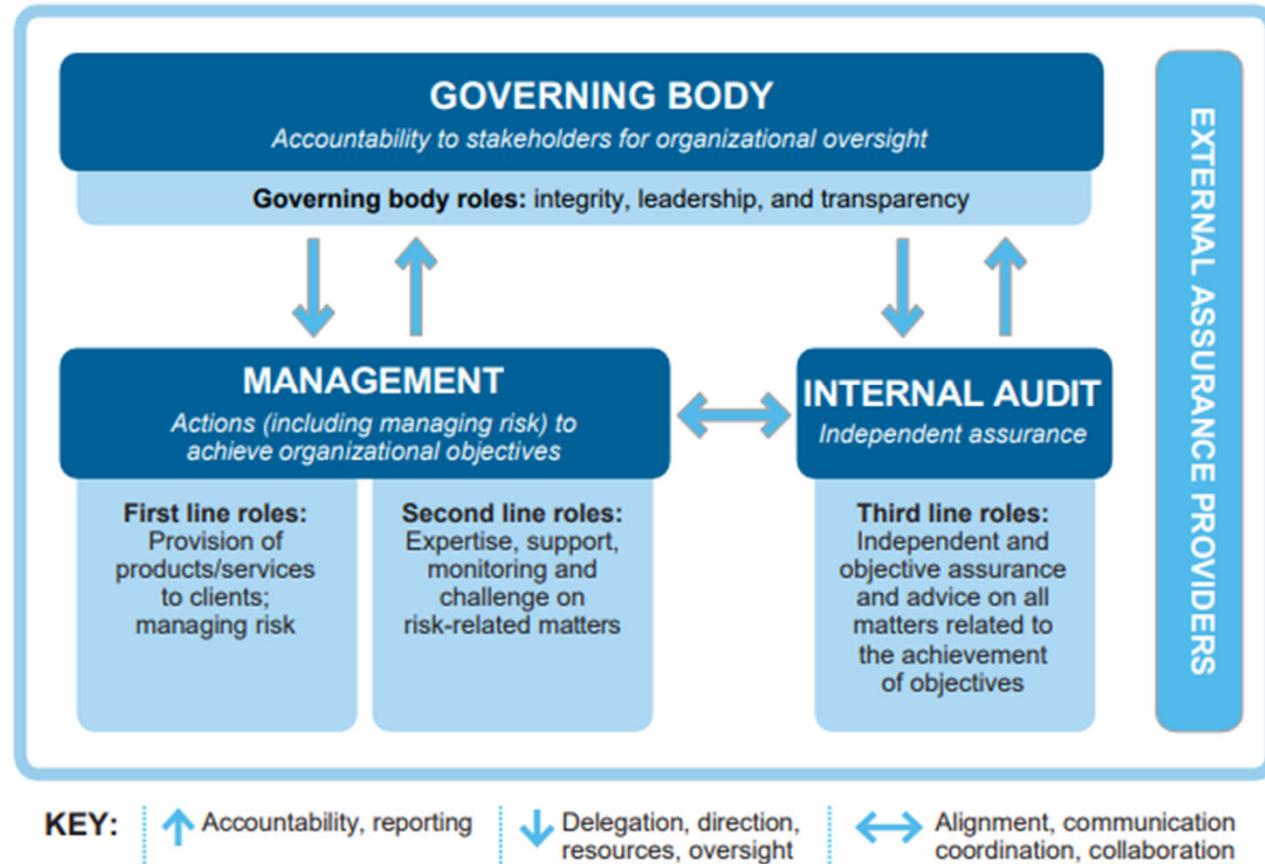
## Internal Audit Overview

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- The City retained Moss Adams to serve as the designated Internal Auditor and conduct projects focusing on:
  - Risks
  - Internal controls
  - Efficiency and effectiveness
  - Best practices
  - Compliance
- Work is being completed under appropriate industry standards (IIA, GAGAS, AICPA)

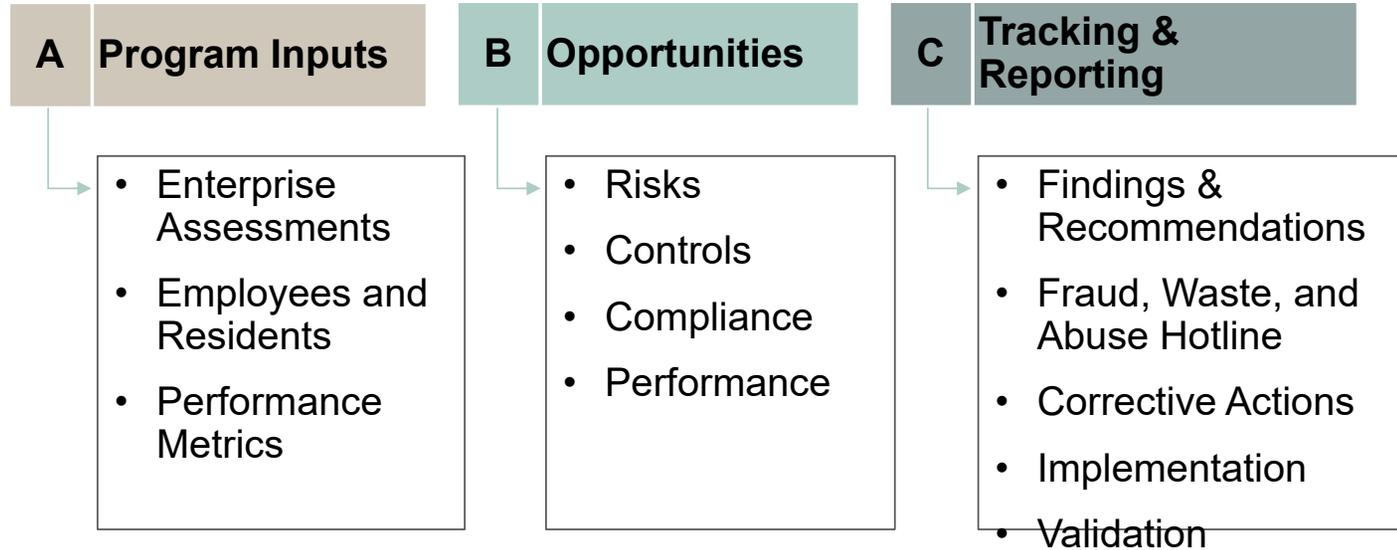
# Role of Internal Audit

## The IIA's Three Lines Model

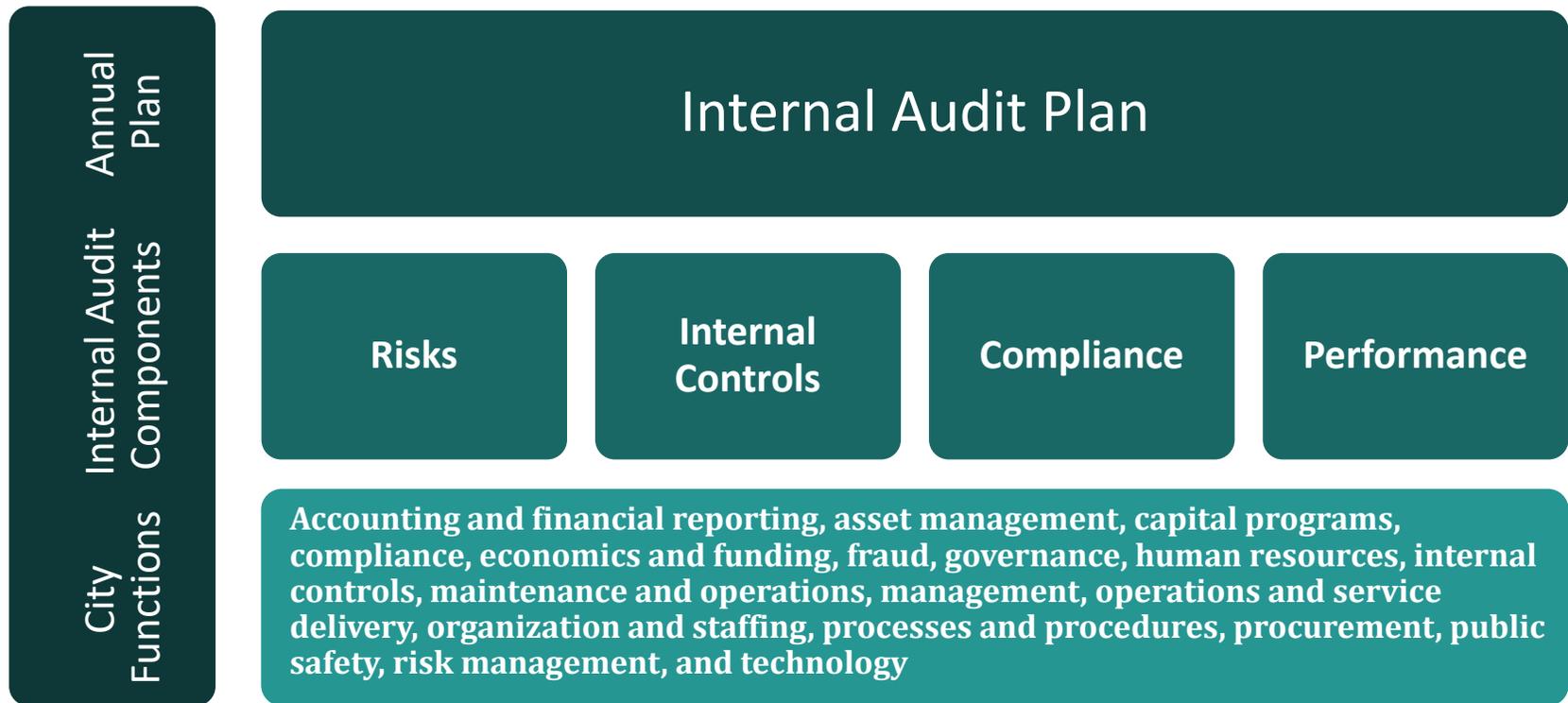


Source: IIA

# Holistic Internal Audit Program Components



# Internal Audit Program Components



# Program Review

<u>Focus</u>	<u>Accomplishments</u>
• Enterprise Risk Assessments	2021
• Internal Controls Projects Completed	2
• Performance/Efficiency Projects Completed	5
• Policies Reviewed	133
• Recommendations Delivered	52
• Ethics Hotline Reports Received	21 reports
• Recommendations Validated	<i>To Come</i>



# Departments Covered

Department	Projects
Administrative Services	Procurement (22) Finance P&Ps (22) Budget Process Review (23)
City Clerk	
City Manager's Office	FWA Program (22)
Community Development	
Communications	
Innovation & Technology	
Parks & Recreation	
Public Works	Capital Program (22) Library Construction Audit (23)

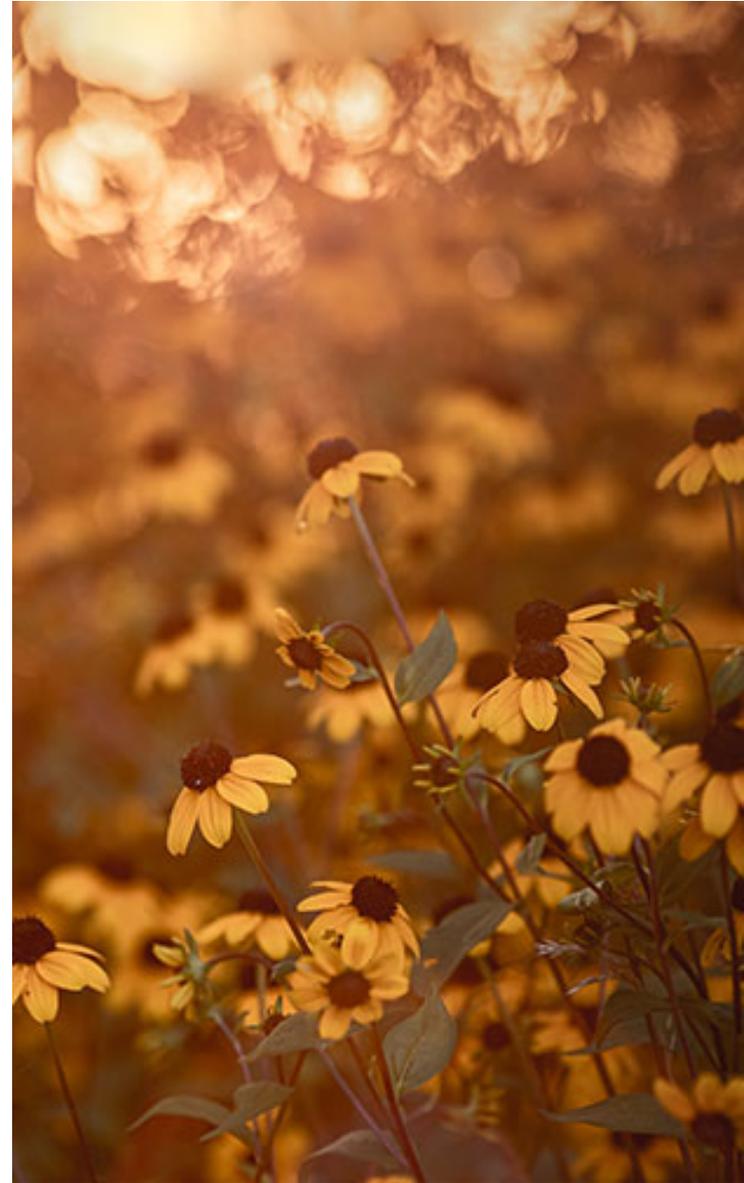
- Enterprise Projects: Risk Assessment (21, 24), Enterprise Leadership (23), Policies and Procedures (24)



# Recommended Internal Audit Projects

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- 1. Grants Management Internal Controls Review** Assess the internal controls in place over the City's grants management activities (including applications, review, administration, and reporting). (16 weeks, \$25,000)
- 2. Special Revenue Fund Process Review** Document the process used for special revenue fund accounting, identify gaps compared to best practices, and conduct testing of prior years' accounting. (16 weeks, \$18,000)
- 3. Recommendation Validation Process Establishment** Inventory prior internal and external audit recommendations, collaborate with City staff to develop a tracking mechanism and process to report and validate recommendation implementation. (20 weeks, \$10,000)
- 4. Ongoing Internal Audit Services** Attend Audit Committee and Council meetings, prepare status reports, manage internal audit program, and monitor FWA hotline. (\$7,000)





The material appearing in this presentation is for informational purposes only and is not legal or accounting advice. Communication of this information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although these materials may have been prepared by professionals, they should not be used as a substitute for professional services. If legal, accounting, or other professional advice is required, the services of a professional should be sought.

## + × - Resources

- Government Finance Officer's Association (GFOA)
  - GFOA Best Practices Guide on Audit Committees
- Institute of Internal Auditors
  - IIA Publication "The Audit Committee: Internal Audit Oversight"
- U.S. Government Accountability Office (GAO)
- American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners



10





# CITY OF CUPERTINO

## Agenda Item

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**24-13241**

**Agenda Date: 6/24/2024**  
**Agenda #: 3.**

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Subject: ACTION ITEM Status update for prior Internal Audit Work Plans in Fiscal (FY) 2021-22 and FY 2022-23

**Receive status update report for prior Internal Audit Work Plans in FY 2021-22 and FY 2022-23 and forward to City Council**

**Presenter: Toni Oasay-Anderson**

**3:25(10)**



## ADMINISTRATIVE SERVICES DEPARTMENT

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CUPERTINO.ORG

### AUDIT COMMITTEE STAFF REPORT

Meeting: June 24, 2024

#### Subject

Status update for prior Internal Audit Work Plans in Fiscal (FY) 2021-22 and FY 2022-23

#### Recommended Action

Receive status update report for prior Internal Audit Work Plans in FY 2021-22 and FY 2022-23 and forward to City Council

#### Discussion

##### *Background*

In Fiscal Year FY 2019-20, the City began an internal audit program and issued a Request for Proposal (RFP) for internal audit services. After reviewing the proposals, the evaluation committee, which was a subcommittee of consisting of staff and audit committee members selected Moss Adams as the City's Internal Auditor. Moss Adams serves as the City's designated Internal Auditor and conducts projects focusing on:

- Risks
- Internal controls
- Efficiency and effectiveness
- Best practices
- Compliance

Moss Adams serves as the City's Internal Auditors and presents annual audit plans and final audit reports to the Audit Committee. Once reviewed by Audit Committee the plans and audits are forwarded to the City Council who approves the annual internal audit work plan and receives the final completed audits. The City is in contract with Moss Adams until June 2026.

In 2020, Moss Adams conducted an Enterprise Risk Assessment (ERA) to analyze the City's risk areas. For each risk category assessed, the risk assessment included an overview of the risk condition in the City, including the current risk level, likelihood, impact, preparedness, and trajectory. This assessment was used as a guide to the internal audits recommended in FY 2022-24.

**Prior Year Internal Audit Work Plans**

Moss Adams recommended staff begin updating both Audit Committee and City Council on the status of audit recommendations about two to three years after the first audit was completed. This would provide staff enough time to work through recommendations and provide a meaningful update. After this initial update, Moss Adams recommends updating Audit Committee and City Council on an annual basis.

In 2021, 2022, and 2023, Moss Adams developed an Internal Audit Work Plan to guide activities for each respective fiscal year. All prior year internal audits can be found online at <https://www.cupertino.org/our-city/departments/finance/internal-audit>.

The chart below provides a summary of each Internal Audit Work Plan. The FY 2023-24 Audit Work Plan was approved by City Council on July 24, 2023. It is anticipated that final audits from the current fiscal year’s work plan will be presented to City Council in July and September 2024.

<b>Fiscal Year</b>	<b>Internal Audit Work Plan and Items</b>	<b>Internal Audit Work Plan and Final Audits Received by Audit Committee</b>	<b>Internal Audit Work Plan Approved and Final Audits Received by City Council</b>
FY 2021-22	Internal Audit Work Plan: <ul style="list-style-type: none"> <li>• Procurement Operational Review</li> <li>• Policy Inventory and Plan (Fiscal)</li> <li>• Capital Program Effectiveness Study</li> <li>• Fraud, Waste, and Abuse Program</li> </ul>	May 24, 2021  February 24, 2022  May 23, 2022  May 23, 2022  June 27, 2022	July 2020, 2021  April 19, 2022  July 19, 2022  July 19, 2022  July 19, 2022
FY 2022-23	Internal Audit Work Plan: <ul style="list-style-type: none"> <li>• Budget Process Review</li> <li>• Enterprise Leadership Effectiveness Study</li> <li>• Library Construction Audit</li> </ul>	June 27, 2022  February 27, 2023  July 24, 2023  April 24, 2023	September 6, 2022  March 21, 2023  September 6, 2023  May 16, 2023

Attachments A through G of this staff report provide further information including the internal auditor’s specific observations, recommendations, and status of all prior year audit recommendations as of June 30, 2024.

Each of the internal audits and recommendations are at different stages of completion. The following internal audits and recommendations are fully completed:

- Fiscal Policy Inventory and Plan (100% completion of high-risk policy areas)
- Fraud, Waste, and Abuse
- Budget Process Review
- Library Construction Audit

The other internal audits and recommendations are currently in progress and/or ongoing. Administrative Services staff will begin annual reporting of statuses of internal audits and recommendations beginning in FY 2024-25, which will include FY 2023-24 Internal Audit Work Plan recommendations.

### **Next Steps**

The status of prior year internal audits are expected to be included in the July 2, 2024 City Council Meeting Agenda.

### Sustainability Impact

No sustainability impact.

### Fiscal Impact

Internal Audit is budgeted in 100-41-405 700-702. To date the City has spent approximately \$392,000 in internal audit costs since FY 2020-21. In FY 2024-25, \$60,000 is budgeted down from the previously budgeted amount of \$100,000 due to a service level reduction approved as part of the final budget.

### California Environmental Quality Act

Not applicable.

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Prepared by: Toni Oasay-Anderson, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

### Attachments:

A – Procurement Operational Review - Audit Recommendation Update

B – Fiscal Policy Inventory & Gap Analysis - Audit Recommendation Update

C – Capital Program Effectiveness - Audit Recommendation Update

D – Fraud, Waste, and Abuse Program - Audit Recommendation Update

E – Budget Process Review - Audit Recommendation Update

F – Enterprise Leadership Assessment - Audit Recommendation Update

G – Library Expansion Construction - Audit Recommendation Update

## 2022 Procurement Operational Review

		As of 4/19/2022			Update as of 6/2024	
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
2/24/2022	4/19/2022	The City's current procurement activities are highly decentralized, leading to increased inefficiencies as departments create customized processes for common procurement practices.	Take steps towards greater centralization of procurement activities and elevate procurement to a strategic function with the installation of a Procurement Officer or Procurement Division.	Yes	Completed	5/1/23 - hired Purchasing Manager and developed Purchasing Division
		Procurement roles and responsibilities are not clearly understood among City staff and the Council, which can hinder organizational effectiveness.	Develop a matrix outlining the roles and responsibilities for all stakeholders engaged in procurement at various levels.	Yes	Completed	2/14/24 - Purchasing Policy and Purchasing Matrix approved. 2/21/24 - CMC Ordinance 3.22 & 3.23 approved by Council 4/5/24 - Ordinance revised formally into CMC
		The City does not provide consistent, regular training on purchasing activities to all employees engaged in purchasing activities.	A. Develop an onboarding program for staff who are responsible for procurement within the City. B. Supplement the current training catalog published by Human Resources (HR) with procurement-specific training opportunities. C. Evaluate the current training program content, audience, and frequency to maximize the impact of current training activities.	Yes	In progress	A. Est. Comp. Date - 1/1/25 B. Est. Comp. Date - 11/1/24 C. Est. Comp. Date - 11/1/24
		The City's procurement processes often rely on a single individual to maintain continuity of operations. This places the City at an increased risk of institutional knowledge loss if those individuals are not present.	Establish and document backups for processes managed by a single individual. Conduct cross-training among employees to ensure adequate and consistent coverage of key functions and duties.	Yes	Ongoing	There is a current policy and procedure on stretch assignments for current staff to become cross-trained in other areas for growth and support. Estimated completion date 6/30/25
		There are gaps in the City's ability to effectively manage and communicate change related to procurement within the organization.	Adopt a standardized change management process to promote communication, adoption, and accountability.	Yes	Completed	2/1/2024. The revised Purchasing Policy, new PW Purchasing Policy and City Council approval of Municipal Code improvements will standardize process and these changes were discussed with each department. In addition monthly meetings with the Purchasing Manager and department purchasing liaisons were initiated in July 2023 and continue to occur. Future trainings on conducting a solicitation and contract development are planned for citywide staff.
		There are instances where procurement practices do not align with established policies or City values regarding inclusion and sustainability.	Standardize and communicate assistance opportunities for small businesses to meet the City's insurance requirements; where possible, update templates to modify insurance requirements for small business contracts.	Yes	Completed	8/1/23 - Guidance provided to staff for when and how insurance requirements can be modified. Recreation day vendors have unique contracts and insurance requirements. New contract templates for small businesses specifically were not developed.
		Increased complexity within the operating environment, along with the COVID-19 pandemic, have presented the City with an opportunity to evaluate and modernize its procurement processes to suit its current operating conditions.	A. Explore and implement modern procurement processes and supporting technologies. B. Conduct robust training with all employees and establish annual refresher training for employees who are highly involved with these business processes. C. Formalize and develop procurement toolkits and comprehensive self-service guidance for all business functions. D. Establish targeted coordination meetings for employees who are highly involved in specific functions to proactively resolve issues and support continuous improvement.	Yes	In progress	A. In progress - 9/1/24 - City's Business Opportunity Website; 4/1/25 - Enterprise Resource Planning (ERP) efficiencies B. In progress - 11/1/24 C. In progress - 1/1/25 D. Completed. 7/20/23
		The City's procurement methods and thresholds have not been updated since 2013.	A. Review and update City purchasing method guidance as appropriate. B. Assess the efficacy of the current purchasing methods and thresholds; assess opportunities to streamline processes and generate clarity.	Yes	Completed	2/14/24 - Purchasing Policy, with Purchasing Matrix, and Public Work Purchasing Policy approved. 2/21/24 - CMC Ordinance 3.22 & 3.23 approved by Council

## 2022 Procurement Operational Review

As of 4/19/2022						Update as of 6/2024	
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date	
2/24/2022	4/19/2022	Although procurement data, including budget data, is generally available to City staff, some users report difficulty in properly accessing and/or interpreting this data. Additionally, some procurement-related data is inconsistently named.	Consider surveying staff to determine common and essential project information and create improved self-serve options, such as report templates or user training guides. Ensure ongoing data accuracy, completeness, and consistency through developing a data management strategy and processes.	Yes (response not included the original staff report).	In progress	1/1/2025. The approved Purchasing Policy (February 2024) includes details and expectations for standardization and consistency. Beginning July 2023, the Purchasing Manager approves all PO's. A Business Analyst Report for identifying PO and invoice information was created and distributed to citywide analysts in March 2024.  Ongoing efforts include revising SOP's for purchase orders, developing solicitation documents with guidance for staff, revising finance-related citywide policies (p-card, travel and gifts/gratuities) and creating and administering training for purchasing activities and contract development.	
		Many procurement processes at the City are not well documented and are subsequently performed inconsistently across City departments. Current purchasing policies and procedures are out of date, hindering a consistent employee understanding of requirements, processes, and protocols.	Develop a prioritization plan for updating or developing comprehensive, clear, and concise procurement policies and procedures.	Yes (response not included the original staff report).	Completed	6/15/24 - Purchasing Manager established plan for identifying, coordinating and communicating citywide updates to policy and procedures for procurement-related activities. Monthly purchasing meetings were established to communicate, train and implement ongoing improvements.	

## 2022 Fiscal Policy Inventory & Gap Analysis Report

		As of 7/19/2022		Update as of 6/2024	
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
5/23/2022	7/19/2022	<b>Update or Create Policies for the following areas:</b>			
<b>High-Risk Areas: Inherently high risk area where full or major gaps are identified and area is a high priority for the City's operations and structure</b>					
		Accounting and Financial Reporting	Yes	Completed	July 2023.
		Accounts Payable	Yes	Completed	April 2023.
		Budgeting	Yes	Completed	April 2023.
		Capital Assets	Yes	Completed	April 2023.
		Cash Management	Yes	Completed	April 2023.
		Payroll and Timekeeping	Yes	Completed	April 2023.
		Procurement	Yes	Completed	February 2024.
		Revenue and Accounts Receivable	Yes	Completed	April 2023.
<b>Medium-Risk Areas: Inherently medium risk area where full or major gaps are identified and area is a high priority for the City's operations and structure</b>					
		Debt Management/Tax Bond Compliance	Yes	In progress	Estimated completion September 30, 2024.
		Gifts and Donations	Yes	Completed	Estimated completion June 30, 2024.
		Grant Management	Yes	Completed	City Council adopted the Council Grants Policy on July 6, 2023.
		Investment Management	Yes	Completed	Adopted by Council on May 14, 2024.
<b>Low-Risk Areas: Inherently low risk area where minor gaps are identified and area is a low priority for the City's operations and structure</b>					
		Credit Cards	Yes	In progress	Estimated completion September 30, 2024. Revised policy currently in development.
		Inventory	Yes	In progress	Estimated completion September 30, 2024. Initial review process began in January 2024.
		Travel and Expense Reimbursement	Yes	In progress	Estimated Completion September 30, 2024. Implementation will occur in FY25 due to meet and confer requirements with bargaining units.

## 2022 Capital Program Effectiveness Study

As of 7/19/2022						Update as of 6/2024
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
5/23/2022	7/19/2022	The City primarily relies on the Annual CIP Budget document to guide yearly operations but has not yet developed a long-range CIP plan.	A. Develop long-range CIP plan to strategically guide capital improvement investments. B. Increase the standardization and transparency of the CIP project prioritization process.	Yes	Completed	Multi-year forecasts for the CIP plan are proposed annually. Annually, the prioritization of each project is noted, using standardized categories. (ongoing item)
		The CIP financial forecasting process is short-term and prone to yearly variability. Long-term planning and stability in the program are hindered by fluctuations in annual budget allocation and City priorities.	A. Implement a multi-year financial forecast for CIP projects to analyze CIP and budget implications for future operating years. B. Create a citywide grant strategy to fully leverage grant funding opportunities.	Yes	Completed	Multi-year forecasts for the CIP plan are proposed annually. Grant administration and management staffing is under consideration. (ongoing item)
		A Facility Condition and Use Efficiency Assessment was completed in December 2018 and identified more than \$78 million dollars of required maintenance. However, this assessment is not meeting current needs and is out of date.	Continue efforts to commission a new facility conditions assessment.	Yes	Completed	The Assessment report was updated. (12/2/2022)
		The City's CIP team is sufficiently staffed to meet the needs of its current workload. However, the team is not staffed to provide backup for key roles and relies heavily on select individuals for essential institutional knowledge.	Consider the following staffing changes: A. Pursue retaining the two limited-term project managers as full-time City employees. B. Immediately hire support for the Public Works senior management analyst. C. Establish a senior project manager position. D. Hire a grant management position to support City operations.	Yes	In progress	Senior staff was added to CIP. Other positions are being considered. However, there have been recruitment issues in finding candidates with the necessary skillsets.
		The CIP team has yet to develop updated and comprehensive policies and procedures, hindering the team's ability to execute operational activities quickly and consistently.	Inventory current policies and procedures and create a prioritized schedule for policy and procedure development.	Yes	Ongoing	Policies are under review.
		The CIP Division has strong expertise in managing procurements and contracts. However, as a result of the City's decentralized procurement model, the CIP team is experiencing similar challenges within their purchasing processes as other departments across the City.	Maintain strong collaboration with the City's Finance department to remain up to date on procurement changes resulting from the 2022 Procurement Operational Review.	Yes	Completed	The City created the Purchasing Manager position in 2023. Purchasing Manager meets with CIP team monthly and on an as-needed basis.
		The CIP Division's systems are insufficient to meet the team's need for comprehensive project and budget management.	Continue current efforts to develop a comprehensive CIP Management solution and clarify expectations for use of the current systems until the new solution is implemented.	Yes	Ongoing	The CIP system is in use and continually updated. (ongoing item)
		While the CIP Division uses a variety of tools to report project progress, staff note that there are barriers to effectively communicating program needs and trade-offs to City leadership.	A. Establish an annual CIP report detailing project progress, prior year expenditures, and CIP accomplishments to effectively communicate opportunities and challenges to stakeholders, including City leaders, internal staff, and the public. B. Correct the data accuracy issues in the community-facing dashboard to ensure public information is always current and accurate.	Yes	Ongoing	Quarterly reports are included as an attachment to the City's Q1, Mid-Year, and Q3 financial reports. Annual reports have been included as part of the CIP study session item. (ongoing item)

## 2022 Fraud, Waste, Abuse Program (FWA)

As of 7/19/2022					Update as of 6/2024	
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
6/27/2022	7/19/2022 (first reading)	The City has not implemented a robust fraud, waste, and abuse program to educate employees on potential red flags or a whistleblower hotline to report allegations of wrongdoing that could detect issues sooner.	Develop and implement a comprehensive fraud, waste, and abuse program.	Yes	Completed	October 2022. The City has a policy in place and conducted a recorded training on the FWA program including the anonymous hotline. All new hires are required to view the training and policy. Employees must sign a document to confirm.
		The City needs an anonymous method for employees or members of the public to submit complaints.	Implement an anonymous whistleblower hotline and standardized complaint management processes.	Yes	Completed	September 2022. The City entered into contract with a FWA hotline provider.
		The City needs to have regular ethics or fraud, waste, and abuse training. Training is imperative to a robust ethics and fraud, waste, and abuse program by reinforcing the City's values, describing suspicious activity, and providing information on the organization's reporting environment (i.e., how to report concerns, complainant protections, complaint responses).	Develop and schedule fraud, waste, and abuse training to all City employees, including mechanisms in place to protect employees from retaliation.	Yes	Completed	In October 2022, all employees were required to attend or view the recorded training. Employees had to sign a document to confirm. All new hires are required to view the training and policy.

## 2022 Budget Process Review

As of 3/21/2023

Update as of 6/2024

Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
2/27/2023	3/21/2023	<p>Cupertino’s budget process acts in accordance with the significant majority of budget best practices developed by the GFOA (76 of 80 criteria in total); however, there are four elements of the City’s budget process that lacked documentation to support alignment with best practices:</p> <ol style="list-style-type: none"> <li>1) Develop policy on balancing the operating budget</li> <li>2) Performance measures are linked to financial outcomes</li> <li>3) Monitor, measure, and evaluate stakeholder satisfaction</li> <li>4) Adjust broad goals, if appropriate (The City may have an informal process for evaluating and, if necessary, adjusting its goals and/or performance measures during the budget cycle. However, there is not a written policy or procedure that defines how the City would adjust these goals).</li> </ol>	<p>Develop a prioritized implementation plan to support progress towards full alignment with GFOA best practices in the four categories that are not aligned.</p>	Yes	Completed	<ol style="list-style-type: none"> <li>1) May 2023 Added balanced budget policy.</li> <li>2) Performance measures linked to financial outcomes in FY 2023-24 budget document.</li> <li>3) City Manager's Office to explore conducting a community survey within the next 6-12 months. (ongoing item)</li> <li>4) In early 2023, Council re-affirmed five strategic goals to provide a framework for city's priorities. These goals have been prominently displayed on the city's website here: <a href="https://www.cupertino.org/our-city/city-council/city-council-goals">https://www.cupertino.org/our-city/city-council/city-council-goals</a>. As part of the Council Prioritization and FY 25-27 Work Program Adoption Workshop that will take place in early 2025, Council will have an opportunity to review existing strategic goals, and either re-affirm, or adopt new ones. After the workshop, staff will update the website to reflect newly adopted strategic goals. The new goals will also be included in the budget document.</li> </ol>
		<p>Although budget development and monitoring training is provided by Finance during onboarding and revisited at a high level during budget kick-offs, departmental staff engaged in budgeting desire more in-depth and regular training to keep up with continuous changes within the City.</p>	<p>Develop regular training and refresher courses for staff engaged in budget development and monitoring across City departments.</p>	Yes	Completed	<p>May 2023 Budget training added to the HUB. Annual training will be required for staff working on the budget each July. Continue to provide regular training for base, proposed, and quarterly budgets as part of quarterly kick-off meetings.</p>
		<p>Finance has developed several guides, tools, and instructions to support staff across all phases of the development process that are stored in several places across the City’s systems. This has led to inefficiencies finding and using the most updated documents.</p>	<ol style="list-style-type: none"> <li>A. Create a dedicated space on the HUB to consolidate budget guides, instructions, and tools.</li> <li>B. Create a budget lifecycle overview outlining each phase of the budget development and monitoring process with links to tutorials or systems used to support deliverables across each phase.</li> </ol>	Yes	Completed	<p>Jan 2023 Budget page added to Hub with budget guides, instructions, tools and budget calendar. In addition, short Budget 101 videos have been created and uploaded to the City's website.</p>
		<p>The City uses OpenGov to submit, review, and approve budgets; however, the status of budget reviews and approvals occurs via email, leading to challenges effectively communicating budget progress.</p>	<p>Evaluate opportunities to provide more relevant status indicators in OpenGov, and train staff on OpenGov' s budget status and notifications features</p>	Yes	Completed	<p>Jan 2023 OpenGov automatically sends email notifications to staff when budget status is updated.</p>

## 2023 Enterprise Leadership Assessment

As of 9/6/2023

Update as of 6/2024

Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
7/24/2023	9/6/2023	While the City has established many policies that are aligned with best practices, there are opportunities to increase the effectiveness of current policies.	Continue current efforts to implement the City Council Procedures Manual and hold meeting participants accountable.	Yes	Completed	Council Procedure Manual (Resolution No. 24-024) reviewed/updated in March 2024
		With the adoption of the City Council Procedures Manual and other recent changes, the City has made positive progress toward increasing the effectiveness of City Council meetings. However, ongoing challenges remain to ensure that meetings are productive and timely.	Continue current efforts to implement the City Council Procedures Manual and hold meeting participants accountable.	Yes	Ongoing	Council Procedures Manual (Resolution No. 24-024) reviewed/updated in March 2024. Implemented 5 minutes per item per Council member for discussion and deliberation. (Procedures Manual Section 8.83)
		There is a well-documented history of mistrust and poor communication between the Council and management.	A. Continue current efforts to implement recommendations from the 2023 Internal Review, with a focus on expanding the use of 1:1 pre-meetings with Council members B. In alignment with Municipal Code guidelines, consider developing and implementing a set of practical criteria to determine when requests for information will require a significant allocation of staff time or otherwise exceed the code guidelines. C. Continue current efforts to clarify roles and responsibilities and build productive working relationships by providing regular governance trainings and retreats.	Yes	Ongoing	Recommendation A: City Manager has Bi-Weekly one-on-one meetings with each Council member. In addition, significant Council reports City Manager and City Staff have Council briefings on the Friday before each Council meeting to review the items and answer questions.  Recommendation B: currently in the muni code section 2.17.043 Timely Response; and the Council Procedures Manual Section 6.6 Councilmember Access to Information.  Recommendation C: City Council Procedure Manual adopted in February 2023 and reviewed/updated in March 2024 (Resolution No. 24-024) addresses Council-staff relations. City Council Training Session 1/12/24 and Council Governance Workshop 11/14/23.
		The City Council onboarding and orientation process has recently been updated to increase its effectiveness. This process could be further strengthened by focusing additional attention on roles, responsibilities, and practical application of guidelines.	Take steps to expand and strengthen the orientation process for new Council members.	Yes. City staff prepared a more in-depth onboarding process as part of the onboarding of Council members in 2023. Staff will continue to review this process and make changes as necessary.	Ongoing	Implemented after 2022 election; conducted full 2-day orientation in 12/13/22 for incoming and sitting Councilmembers.
		The City has established many best practice elements of a comprehensive ethics program. However, there are gaps in the City's compliance enforcement.	Strengthen internal processes for tracking and holding elected and appointed individuals accountable to timely completion of Form 700 Disclosures.	Yes. City staff will work toward strengthening the internal process for tracking and holding elected and appointed individuals accountable.	Completed	Revised Ethics Code adopted in November 2023; Resolution No. 24-022 Governing Recruitment of Advisory Bodies which mandates legally required training or reporting requirements.
		A core function of any governing body is to set and monitor the strategic direction of the organization. While the City Council has adopted a two-year Work Program to prioritize annual initiatives, it has not yet developed a long-range strategic plan.	A. Consider developing a long-range strategic plan to increase the City's ability to strategically plan and advance initiatives. B. Continue current efforts to utilize and refine the annual Work Program prioritization practice. C. Consider expanding the City's reporting processes to more effectively track progress toward strategic goals over time	Yes. The City will explore creating a long-range strategic plan and continue current efforts on the work plan.	In progress	City Manager's Office will lead the council prioritization workshop in early 2025. This will provide an opportunity for Council to revisit strategic goals. Following this, the City Manager's Office will engage with the Council to develop a long-term strategic plan for the City and a mechanism to track progress.

## 2023 Enterprise Leadership Assessment

As of 9/6/2023

Update as of 6/2024

Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
7/24/2023	9/6/2023	While the City has established some strong community engagement practices, interviewees noted that Council members may have an overreliance on anecdotal evidence and/or public comment that may not be representative of the wider community perspective.	A. Consider setting clearer expectations for the intended scope of community engagement at the start of City initiatives. B. Continue current efforts to implement a statistically significant, representative community survey. C. Consider providing media and crisis communication training to all Council members.	Yes. As recommended in the report on compliance with the recommendations in the May 2023 Fact Finding Report, Council may consider additional procedural measures to attempt to focus Councilmembers on their policy and decision-making responsibilities, as well as considering procedural provisions or improvements to public engagement processes to ensure community engagement is more representative. In addition, staff will be conducting a community survey in late fall/early winter timeframe.	In progress	City Manager's Office to lead the development of community engagement standards for departments to follow. This is underway through the Citywide Communications Group. City Manager's Office to explore conducting a community survey within the next 6-12 months. Media training was provided to all council members and the executive team in November 2023.
		The City utilizes multiple commissions and committees to support Council decision-making. There are opportunities to increase the effectiveness of some of these groups.	A. Establish charters, including clear roles and responsibilities, for each commission and committee that outline the group's purpose and member roles and responsibilities. B. Review additional opportunities to streamline governance groups. C. Consider reviewing the names of governance groups to introduce a consistent naming convention for commission versus committee.	Yes. City staff will bring recommendations regarding commissions and committees to increase their effectiveness.	In progress	Revisions to Commissioners' Handbook and updates to commissioner appointment process adopted in March 2024; A. Resolution No. 24-022 Governing Recruitment of Advisory Bodies and 2024 Commissioners' Handbook. (Resolution No. 24-023)
		The City has documented processes to select and appoint community members to governance groups. This process could be strengthened by adding relevant qualification criteria.	Review and establish the qualification criteria for each commission and committee member to determine if the City would benefit from adjustments	Yes	In progress	Per Council direction in March 2024, City Manager's Office to develop qualifications criteria for commission appointments, consistent with March 2024 policy changes.
		Commission and committee operations including onboarding, meeting procedures, work plans, and reporting—are not always consistent or effective	A. Continue efforts to expand and formalize onboarding and training expectations for both commissions and committees. B. Clarify the process and expectation for cancelling unnecessary meetings. C. Consider adopting the practice of requiring annual work plans for each commission and committee	Management agrees with the observation and recommendations A and B and will continue efforts were recommended and work toward clarifying meeting cancellation procedures.  City staff does not agree with (recommendation C) that adopting annual work plan for the committees and commissions would be effective. As previously the City did have this process and it led to confusion and misalignment with the Council workplan.	Ongoing	Recommendation A: 2024 Commissioners' Handbook (Resolution No. 24-023) page 5 Quorum, Attendance, training, and reporting.  Recommendation B: 2024 Commissioners' Handbook (Resolution No. 24-023) page 6 Regular Meetings cancellation provision.
		The staff time used to support governance groups represents a significant investment of City resources.	A. Review the practice of requesting department directors attend commission and committee meetings. B. Provide training for staff liaisons annually and when a new individual takes on the liaison role.	Department directors play a critical role in the function of their department and necessarily need to understand the recommendations of Commissions and Committees on department functions.  Staff agrees with recommendation B (added for clarity as it was not clearly identified in the original staff report).	In progress	Implemented annual/semiannual training for staff liaisons conducted by the City Clerk/City Attorney/City Manager.

## 2023 Enterprise Leadership Assessment

As of 9/6/2023

Update as of 6/2024

Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date
7/24/2023	9/6/2023	City staff continue to experience a high degree of organizational change and uncertainty. Within this context, it is critical for the City's management team to provide active communication and change management to increase support of staff.	Identify and implement expanded communication and change management practices to improve workplace culture	Yes. Management will begin discussions on strategies for active communication and change management as part of the Department Head retreat on August 30, 2023.	Ongoing	Implemented with quarterly all employee town halls with CM. Leadership Team meets every month for strategic conversations around organizational development and communication. DCM and department heads are meeting with department staff on a regular basis. Citywide employee appreciation events have been planned and executed. HR is bringing mid-managers together each quarter.

## 2023 Library Expansion Construction Audit

This Capital Improvement Project was a design build project which is not a typical approach for the City.

		As of 5/16/2023				Update as of 6/2024	
Audit Report Received by Audit Committee	Audit Report Received by City Council	Moss Adams Observations	Moss Adams Recommendations	Did the City Agree?	Status	Completion Date/ Estimated Completion Date	
4/24/2023	5/16/2023	Questioned Non-Compliant Change Order, Foreman Rate	The City should implement change order management controls to prevent charging change order labor rates in excess of contractually allowable amounts, as required by the Contract terms. The City should consider seeking credit for excess labor charges.	Yes	Completed	The City implemented change order cost management controls that align with the City's assessment of risk. September 2023.	
		Contract Compliance – Excessive Change Order Markups	The City should review change order management controls and associated contract language to prevent incurring excessive fee markups. The City should consider whether it is worthwhile to pursue cost recovery of markups associated with the PCOs identified.	No	City not in agreement	The change orders expenses were in alignment with the agreement between the contractor and the City and thus no additional exchange of funds is warranted.	
		Contract Compliance – Skilled Labor Documentation Control	The design build entity should implement billing controls to ensure adequate skilled labor documentation, as required by the Contract terms. For example, the City should ensure that all Skilled and Trained Workforce documentation is consistently reported in the monthly application for payment with the appropriate level of detail required to ensure compliance with Public Contract Code. Compliance with this requirement should be tracked by the City and Project Management for compliance.	Yes	Completed	Compliance with California Department of Industrial Relations requirements lies with the design build entity. CIP has implemented the practice of requesting/filing the monthly certified payroll throughout the life of the project to confirm compliance. (ongoing item)	
		Contract Compliance – Select payment applications reviewed were not fully executed	The design build entity should implement billing controls to ensure adequate sign-offs, as required by the Contract terms. The City and its project managers should require the design build entity to fully execute all payment applications prior to submission.	Yes	Completed	All payment applications are fully executed with signatures by Construction Manager and City (Capital Improvement Program Manager or Director of Public Works). (ongoing item)	
		Contract Compliance – Inadequate Conditional Waiver Controls	As a best practice and consistent with contractual language, the design build entity should obtain and provide to the City conditional waivers from each subcontractor and material supplier once payment is made to support the City ensuring all parties are being paid timely and there are payment issues which may be an indicator of performance issues. At the end of a subcontractor's work, or at the Project's completion, conditional waivers for all subcontractors should be obtained to validate full payment for performance of the Contract and mitigate potential exposures for the City. Additionally, the City should consider updating policies and procedures to develop a methodology with project management personnel to determine which subcontractors are required to provide conditional waivers based on initial subcontracting plan including attributes such as contract size and or scope complexity.	Yes	Completed	As part of CIP's payment approval procedure, CIP requests conditional waiver releases and final waiver releases throughout the payment process. (ongoing item)	
		Contract Compliance – Flow Down Contract Provisions Not Included in Subcontracts	The City should consider implementing contract administration controls to ensure flow down contract provisions, are included within contracts, as required by the Contract terms. For example, the City should request a copy of a typical subcontract agreement template ahead of the design build entity's buyout process to confirm compliance with flow down requirements.	Yes	Completed	As part of CIP procedures, City requests a copy of design build entity's typical subcontract agreement template to confirm compliance with flow down requirements. (ongoing item)	
		Contract Compliance Self-Performed Work Change Order Delivery Method	The City should evaluate the time and materials and allowance use within the change orders identified for cost substantiation and reasonableness as required by the Contract. The City should consider developing change order forms and update as needed to include information such as change type (e.g., cost plus not to exceed, time and materials, lump sum, unit price, etc.), itemized change amounts, percentages, descriptions, change responsibilities, schedule impacts, dates of approval, subtotals, and totals to enhance internal change order controls and to support contract compliance.	Yes	Completed	The City implemented change order cost management control procedures that align with the City's assessment of risk. September 2023.	
		Contract Compliance – Drawing Rights Secured Confirmation	The City should consider including more specific contract language regarding the right of use and ensuring that all parties involved in the Project's design understand their responsibilities regarding their design documents. If deemed necessary at this point in the Project, the City should request that the design build entity obtain the necessary documentation from its subcontractors and subconsultants to secure the rights of use for the City.	No	City not in agreement	Section 2.3(D) of the General Conditions broadly confers that all ownership rights, including copyrights and possessory rights, in the Design Documents as well as additional documents accrue to the City.	
		Contract Compliance – Incorrect Payment Application Calculations	Billing controls should be implemented to ensure accurate calculations within payment application submissions, as required by the Contract terms payment applications with material calculation errors should be revised prior to finalization and processing to avoid overbillings and overpayment.	Yes	Completed	The City implemented cost management controls that align with the City's assessment of risk. September 2023.	



# CITY OF CUPERTINO

## Agenda Item

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**24-13242**

**Agenda Date: 6/24/2024**  
**Agenda #: 4.**

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Subject: ACTION ITEM Receive the FY 2022-23 Annual Comprehensive Financial Report (ACFR)

**Receive the FY 2022-23 ACFR and forward to City Council**

**Presenter: Jonathan Orozco, Finance Manager and The Pun Group**

**3:35(25)**



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

## Memo

To: Audit Committee  
From: Kristina Alfaro, Director of Administrative Services  
Subject: Annual Comprehensive Financial Report Update  
Date: June 20, 2024

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The City and The Pun Group (TPG) have been diligently working on completing the ACFR, and the draft financial section is attached to this item. The reconciliation of the City records and the changes proposed by TPG is a meticulous but necessary process to ensure accuracy. Once this is completed, the City can draft the Management Discussion and Analysis and the Staff report. In the meantime, the draft financials are provided for your review, as this constitutes the detailed portion of the report.

Please note that the report structure and content has remained largely the same with the exception of the following three key points:

1. **Prior Period Adjustment:** This adjustment is necessary to record interest receivable due to two housing development loans that the City has historically not recorded. This adjustment ensures that all financial activities are accurately reflected in the City's financial statements. Information on the Loan Receivable can be found in Note 3 – Loans Receivable, and details of the adjustment are provided in Note 14 – Prior Period Adjustment. This adjustment aims to improve transparency and accuracy in our financial reporting.
2. **GASB 96 – Subscription-Based Information Technology Arrangements:** This standard, which became effective for the City in Fiscal Year (FY) 2022-23, defines and establishes the accounting and financial reporting guidelines for subscription-based IT arrangements. It includes the recognition of the right-to-use subscription assets and corresponding liabilities, capitalization criteria, and required note disclosures. Implementing GASB 96 ensures that the City's

financial statements accurately reflect these modern technology arrangements and their financial impact.

3. **GASB 77 – Tax Abatement Disclosures:** Although this statement was effective for the City beginning with FY 2015-16, the City did not disclose information on the lopsided tax-sharing agreement. This decision was made by the City’s auditors at that time, Crowe, after discussions with HdL, the City’s sales tax consultants. After discussions with TPG and HdL, appropriate language was proposed and agreed upon to meet the reporting requirements. This ensures that the City complies with disclosure requirements, providing transparency about tax abatements and their effects on the City's revenue.

During the June 24th meeting, we will briefly discuss these three points and what to expect in the coming weeks regarding the completion of the ACFR and its presentation, tentatively scheduled for July 8th. Your feedback and insights during this meeting will be invaluable to ensure the accuracy and completeness of our financial reporting.

**CITY OF CUPERTINO, CALIFORNIA**

**ANNUAL COMPREHENSIVE  
FINANCIAL REPORT**

**WITH REPORTS ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE YEAR ENDED  
JUNE 30, 2023**

**Prepared by:**  
The City of Cupertino Administrative Services Department  
Finance Division

DRAFT 06.20.2024

**City of Cupertino**  
**Annual Comprehensive Financial Report**  
**For the Year Ended June 30, 2023**

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**For the Year Ended June 30, 2023**

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**City of Cupertino**  
**Annual Comprehensive Financial Report**  
**For the Year Ended June 30, 2023**

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Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Cupertino  
California**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2022

*Christopher P. Morill*

Executive Director/CEO

DRAFT 06.20.2024

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinions*

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 City of Cupertino, California (the "City") as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Other Matters*

##### *Change in Accounting Principle - Implementation of GASB 96*

As discussed in Note 1 to the basic financial statements, the City adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 96, *Subscription-based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

##### *Prior Period Adjustments*

As discussed in the Note 14 to the basic financial statements, the City also recorded prior period adjustment in the governmental activities in the amount of \$1,562,736 due to correction of recording loans related interest receivable. The City also recorded prior period adjustments in the General Fund and the Housing Development Special Revenue Fund in the amount of \$509,278 and \$4,725,458, respectively, due to correction of recording loans related interest receivable and the restatement of unavailable revenue related to the loans receivable to the fund balance.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors’ Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis, the Budgetary Comparison Schedules – General Fund and Major Special Revenue Funds, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedules of Contributions – Pensions, the Schedules of Changes in Net Other Postemployment Benefits Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to 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 accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

To the Honorable Mayor and the Members of the City Council  
of the City of Cupertino  
Cupertino, California  
Page 4

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated **NEED DATE**, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s 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.

Santa Ana, California  
**NEED DATE**, 2024

DRAFT 06.20.2024

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# **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

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DRAFT 06.20.2024

**City of Cupertino**  
**Statement of Net Position**  
**June 30, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 205,571,569	\$ 11,372,546	\$ 216,944,115
Receivables:			
Accounts	15,591,022	267,136	15,858,158
Interest	732,160	39,832	771,992
Leases, due within one year	221,644	-	221,644
Inventories	21,383	-	21,383
Prepaid items	8,243	-	8,243
Other assets	3,884	-	3,884
Total current assets	<u>222,149,905</u>	<u>11,679,514</u>	<u>233,829,419</u>
<b>Noncurrent assets:</b>			
Restricted cash and investments	19,088,859	-	19,088,859
Lease receivable, due in more than one year	2,271,395	-	2,271,395
Loans receivable, net	6,373,278	-	6,373,278
Capital assets:			
Capital assets, not being depreciated	112,996,509	358,231	113,354,740
Capital assets, being depreciated and amortized	106,171,455	1,751,361	107,922,816
Total noncurrent assets	<u>246,901,496</u>	<u>2,109,592</u>	<u>249,011,088</u>
<b>Total assets</b>	<u>469,051,401</u>	<u>13,789,106</u>	<u>482,840,507</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on refunding	159,478	-	159,478
Related to pensions	17,294,067	831,986	18,126,053
Related to other postemployment benefit liability	5,858,718	311,282	6,170,000
<b>Total deferred outflows of resources</b>	<u>23,312,263</u>	<u>1,143,268</u>	<u>24,455,531</u>

**City of Cupertino**  
**Statement of Net Position (Continued)**  
**June 30, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accruals	8,094,159	475,433	8,569,592
Accrued payroll and benefits	602,421	289	602,710
Deposits payable	8,645,547	-	8,645,547
Interest payable	53,550	-	53,550
Unearned revenues	167,673	1,097,879	1,265,552
Compensated absences, due within one year	501,158	10,492	511,650
Claims payable, due within one year	382,000	-	382,000
Subscription liabilities, due within one year	783,067	-	783,067
Long-term debt, due within one year	2,035,000	-	2,035,000
<b>Total current liabilities</b>	<b>21,264,575</b>	<b>1,584,093</b>	<b>22,848,668</b>
Noncurrent liabilities:			
Compensated absences, due in more than one year	4,580,402	209,749	4,790,151
Claims payable, due in more than one year	1,840,786	-	1,840,786
Subscription liabilities, due more than one year	1,244,223	-	1,244,223
Long-term debt, due in more than one year	16,814,711	-	16,814,711
Aggregate net pension liabilities	53,277,801	2,563,097	55,840,898
Net other postemployment benefit liability	552,638	29,362	582,000
<b>Total noncurrent liabilities</b>	<b>78,310,561</b>	<b>2,802,208</b>	<b>81,112,769</b>
<b>Total liabilities</b>	<b>99,575,136</b>	<b>4,386,301</b>	<b>103,961,437</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Leases	2,379,733	-	2,379,733
Related to pensions	131,066	6,305	137,371
Related to other postemployment benefit liability	2,168,769	115,231	2,284,000
<b>Total deferred inflows of resources</b>	<b>4,679,568</b>	<b>121,536</b>	<b>4,801,104</b>
<b>NET POSITION</b>			
Net investment in capital assets	198,450,441	2,109,592	200,560,033
Restricted for:			
Public works	35,408,750	-	35,408,750
Affordable housing	11,492,607	-	11,492,607
Pension trust	19,088,859	-	19,088,859
Other postemployment benefit	3,137,311	166,689	3,304,000
Debt service	1,750	-	1,750
<b>Total restricted</b>	<b>69,129,277</b>	<b>166,689</b>	<b>69,295,966</b>
Unrestricted	120,529,242	8,148,256	128,677,498
<b>Total net position</b>	<b>\$ 388,108,960</b>	<b>\$ 10,424,537</b>	<b>\$ 398,533,497</b>

**City of Cupertino**  
**Statement of Activities**  
**For the Year Ended June 30, 2023**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Administration	\$ 8,947,709	\$ 3,098,916	\$ 6,125,745	\$ -
Law enforcement	15,716,299	612,993	1,255,790	-
Public and environmental affairs	1,955,038	-	-	-
Administrative services	6,241,443	5,419,347	-	-
Recreation services	6,020,526	621,587	-	-
Community development	12,463,257	5,361,837	407,090	-
Public works	38,696,234	3,290,506	3,092,813	1,593,910
Interest and fiscal charges	369,502	-	-	-
<b>Total Governmental Activities</b>	<b>90,410,008</b>	<b>18,405,186</b>	<b>10,881,438</b>	<b>1,593,910</b>
<b>Business-Type Activities:</b>				
Resource recovery	2,038,313	1,772,252	-	-
Cupertino sports center	3,456,539	3,117,580	-	-
Recreation programs	1,661,686	1,742,442	-	-
Blackberry farm	799,168	616,461	-	-
<b>Total Business-Type Activities</b>	<b>7,955,706</b>	<b>7,248,735</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 98,365,714</b>	<b>\$ 25,653,921</b>	<b>\$ 10,881,438</b>	<b>\$ 1,593,910</b>

**City of Cupertino**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2023**

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>			
<b>Governmental Activities:</b>			
Administration	\$ 276,952	\$ -	\$ 276,952
Law enforcement	(13,847,516)	-	(13,847,516)
Public and environmental affairs	(1,955,038)	-	(1,955,038)
Administrative services	(822,096)	-	(822,096)
Recreation services	(5,398,939)	-	(5,398,939)
Community development	(6,694,330)	-	(6,694,330)
Public works	(30,719,005)	-	(30,719,005)
Interest and fiscal charges	(369,502)	-	(369,502)
<b>Total Governmental Activities</b>	<b>(59,529,474)</b>	<b>-</b>	<b>(59,529,474)</b>
<b>Business-Type Activities:</b>			
Resource recovery	-	(266,061)	(266,061)
Cupertino sports center	-	(338,959)	(338,959)
Recreation programs	-	80,756	80,756
Blackberry farm	-	(182,707)	(182,707)
<b>Total Business-Type Activities</b>	<b>-</b>	<b>(706,971)</b>	<b>(706,971)</b>
<b>Total Primary Government</b>	<b>(59,529,474)</b>	<b>(706,971)</b>	<b>(60,236,445)</b>
<b>General Revenues:</b>			
Taxes:			
Property taxes	21,807,628	-	21,807,628
Property tax in lieu of motor vehicle fee	10,082,011	-	10,082,011
Sales taxes	35,328,620	-	35,328,620
Transient occupancy tax (TOT)	7,062,150	-	7,062,150
Utility user tax (UUT)	4,103,906	-	4,103,906
Franchise tax	3,995,018	-	3,995,018
Other taxes	2,363,292	-	2,363,292
Motor vehicle license fee	62,072	-	62,072
Investment earnings	2,801,930	155,921	2,957,851
Miscellaneous	444,339	-	444,339
<b>Total General Revenues</b>	<b>88,050,966</b>	<b>155,921</b>	<b>88,206,887</b>
Transfers	(296,481)	296,481	-
<b>Changes in Net Position</b>	<b>28,225,011</b>	<b>(254,569)</b>	<b>27,970,442</b>
<b>Net Position - Beginning, as restated (Note 14)</b>	<b>359,883,949</b>	<b>10,679,106</b>	<b>370,563,055</b>
<b>Net Position - Ending</b>	<b>\$ 388,108,960</b>	<b>\$ 10,424,537</b>	<b>\$ 398,533,497</b>

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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In the Fund Financial Statements only individual major funds are presented, while nonmajor 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 the fiscal year 2022-23. Individual nonmajor funds can be found in the Supplementary Section.

**General Fund** - This fund is the general operating fund of the City and is used to pay for core services such as public safety, parks and recreation, community development, public works, and a host of other vital services. The revenue used to pay for these services comes primarily from local taxes such as sales tax, property tax, franchise fees, charges for services, and a variety of other discretionary sources. It also accounts for activities related to the City's investment portfolio. 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** - This 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** - This fund accounts for the Federal Housing and Community development Grant Program activities administered through the County, including rehabilitation loans. 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  
Balance Sheet  
Governmental Funds  
June 30, 2023**

	Special Revenue Funds		
	General	Transportation	Housing Development
<b>ASSETS</b>			
Cash and investments	\$ 116,051,281	\$ 11,425,764	\$ 6,095,719
Restricted cash and investments	19,088,859	-	-
Receivables:			
Accounts	13,762,883	255,483	97,332
Interest	550,744	40,067	21,334
Loans, net	970,962	-	5,402,316
Leases	2,493,039	-	-
Due from other funds	1,395,657	-	-
Advances to other funds	3,000,000	-	-
Inventories	21,383	-	-
Prepaid items	8,243	-	-
Other assets	3,884	-	-
<b>Total assets</b>	<b>157,346,935</b>	<b>11,721,314</b>	<b>11,616,701</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable and accruals	6,206,007	1,134,640	124,094
Accrued payroll and benefits	602,349	-	-
Advances from other funds	-	-	-
Deposits	8,645,547	-	-
Unearned revenue	158,400	-	-
<b>Total liabilities</b>	<b>15,612,303</b>	<b>1,134,640</b>	<b>124,094</b>
<b>Deferred inflows of resources:</b>			
Leases	2,379,733	-	-
Unavailable revenue	798,561	-	-
<b>Total deferred inflows of resources</b>	<b>3,178,294</b>	<b>-</b>	<b>-</b>
<b>Fund balances:</b>			
Nonspendable	4,000,588	-	5,402,316
Restricted	19,088,859	10,586,674	6,090,291
Committed	34,127,891	-	-
Assigned	9,735,187	-	-
Unassigned	71,603,813	-	-
<b>Total fund balances</b>	<b>138,556,338</b>	<b>10,586,674</b>	<b>11,492,607</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 157,346,935</b>	<b>\$ 11,721,314</b>	<b>\$ 11,616,701</b>

(Continued)

**City of Cupertino  
Balance Sheet (Continued)  
Governmental Funds  
June 30, 2023**

	Public Facilities Corporation Debt Service Fund	Capital Improvement Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 1,750	\$ 38,141,292	\$ 24,916,749	\$ 196,632,555
Restricted cash and investments	-	-	-	19,088,859
Receivables:				
Accounts	-	74,431	15,134	14,205,263
Interest	-	-	87,221	699,366
Loans, net	-	-	-	6,373,278
Leases	-	-	-	2,493,039
Due from other funds	-	-	-	1,395,657
Advances to other funds	-	-	-	3,000,000
Inventories	-	-	-	21,383
Prepaid items	-	-	-	8,243
Other assets	-	-	-	3,884
<b>Total assets</b>	<u>1,750</u>	<u>38,215,723</u>	<u>25,019,104</u>	<u>243,921,527</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	-	364,825	114,116	7,943,682
Accrued payroll and benefits	-	-	-	602,349
Advances from other funds	-	3,000,000	-	3,000,000
Deposits	-	-	-	8,645,547
Unearned revenue	-	9,273	-	167,673
<b>Total liabilities</b>	<u>-</u>	<u>3,374,098</u>	<u>114,116</u>	<u>20,359,251</u>
<b>Deferred inflows of resources:</b>				
Leases	-	-	-	2,379,733
Unavailable revenue	-	74,431	-	872,992
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>74,431</u>	<u>-</u>	<u>3,252,725</u>
<b>Fund balances:</b>				
Nonspendable	-	-	-	9,402,904
Restricted	1,750	-	24,747,645	60,515,219
Committed	-	-	-	34,127,891
Assigned	-	34,767,194	157,343	44,659,724
Unassigned	-	-	-	71,603,813
<b>Total fund balances</b>	<u>1,750</u>	<u>34,767,194</u>	<u>24,904,988</u>	<u>220,309,551</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 1,750</u>	<u>\$ 38,215,723</u>	<u>\$ 25,019,104</u>	<u>\$ 243,921,527</u>

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**City of Cupertino**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Government-Wide Statement of Net Position**  
**June 30, 2023**

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**Total Fund Balances - Total Governmental Funds** \$ 220,309,551

Amounts reported for governmental activities in the Statement of Net Position were reported differently because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Nondepreciable, net of \$119,408 reported in the Internal Service Fund	\$ 112,877,101	
Depreciable and amortizable, net of \$2,789,976 reported in the Internal Service Fund	103,381,479	216,258,580

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position:

Bonds payable	(16,065,000)	
Premium on bonds payable	(2,784,711)	
Deferred charges on refunding	159,478	
Subscription liabilities, net of \$198,494 reported in the Internal Services Funds	(1,828,796)	
Interest payable	(53,550)	
Compensated absences, net of \$388,890 reported in the Internal Service Fund	(4,692,670)	
Claims liability, net of \$1,654,000 reported in the Internal Service Funds	(568,786)	(25,834,035)

Net pension liabilities and the related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period or not available for current expenditures and are not reported in the governmental fund financial statements:

Pension related deferred outflows of resources, net of \$1,212,633 reported in the Internal Service Funds	\$ 16,081,434	
Aggregate net pension liability, net of \$3,735,756 reported in the Internal Service Funds	(49,542,045)	
Pension related deferred inflows of resources, net of \$9,190 reported in the Internal Service Funds	(121,876)	(33,582,487)

Net other postemployment benefit liability and the related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period or not available for current expenditures and are not reported in the governmental fund financial statements:

Other postemployment benefits related deferred outflows of resources, net of \$410,644 reported in the Internal Service Funds	\$ 5,448,074	
Net Other postemployment benefits liability, net of \$38,735 reported in the Internal Service Funds	(513,903)	
Other postemployment benefits related deferred inflows of resources, net of \$152,012 reported in the Internal Service Funds	(2,016,757)	2,917,414

Revenue reported as unavailable revenue in the governmental funds when it is not received soon enough after year-end to be considered available. The availability criteria does not apply to the Government-Wide Financial Statements and, therefore, the revenue is recognized when eligibility requirements are met and earned. 872,992

Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and equipment replacement to individual funds. The assets and liabilities of the Internal Service Funds were included in the governmental activities in the Government-Wide Statement of Net Position. 7,166,945

**Net Position of Governmental Activities** \$ 388,108,960

**City of Cupertino**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2023**

	Special Revenue Funds		
	General	Transportation	Housing Development
<b>Revenues:</b>			
Taxes	\$ 83,341,842	\$ -	\$ 170,824
Use of money and property	3,033,683	211,271	194,096
Intergovernmental	7,771,411	3,385,823	196,616
Licenses and permits	4,093,631	-	-
Charges for services	11,113,598	34,012	1,640
Fines and forfeitures	303,573	-	-
Other revenue	1,306,455	2,000	28,082
<b>Total revenues</b>	<b>110,964,193</b>	<b>3,633,106</b>	<b>591,258</b>
<b>Expenditures:</b>			
Current:			
Administration	7,716,525	-	-
Law enforcement	15,276,950	-	-
Public and environmental affairs	1,829,867	-	-
Administrative services	5,857,808	-	-
Recreation services	5,432,183	-	-
Community development	10,666,834	-	1,026,720
Public works	23,879,927	2,726,550	-
Capital outlay	1,263,412	4,950,786	-
Debt service:			
Principal	626,181	-	-
Interest and fiscal charges	18,540	-	-
<b>Total expenditures</b>	<b>72,568,227</b>	<b>7,677,336</b>	<b>1,026,720</b>
<b>Excess of revenues over expenditures</b>	<b>-</b>	<b>(4,044,230)</b>	<b>(435,462)</b>
<b>Other financing sources (uses):</b>			
Inception of subscription liability	964,745	-	-
Transfers in	861,140	3,000,000	25,000
Transfers out	(12,344,345)	(197,491)	-
<b>Total other financing sources (uses)</b>	<b>(10,518,460)</b>	<b>2,802,509</b>	<b>25,000</b>
<b>Net Change in Fund Balances</b>	<b>27,877,506</b>	<b>(1,241,721)</b>	<b>(410,462)</b>
<b>Fund balances:</b>			
Beginning of year	110,678,832	11,828,395	11,903,069
End of year	<u>\$ 138,556,338</u>	<u>\$ 10,586,674</u>	<u>\$ 11,492,607</u>

(Continued)

**City of Cupertino**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2023**

	Public Facilities Corporation Debt Service Fund	Capital Improvement Projects Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ 720,679	\$ 84,233,345
Use of money and property	(5,100)	(326,691)	314,847	3,422,106
Intergovernmental	-	515,814	-	11,869,664
Licenses and permits	-	-	-	4,093,631
Charges for services	-	51,675	1,541,027	12,741,952
Fines and forfeitures	-	-	23,371	326,944
Other revenue	-	56,522	-	1,393,059
<b>Total revenues</b>	<b>(5,100)</b>	<b>297,320</b>	<b>2,599,924</b>	<b>118,080,701</b>
<b>Expenditures:</b>				
Current:				
Administration	1,500	-	-	7,718,025
Law enforcement	-	-	-	15,276,950
Public and environmental affairs	-	-	-	1,829,867
Administrative services	-	-	-	5,857,808
Recreation services	-	-	-	5,432,183
Community development	-	-	-	11,693,554
Public works	-	-	1,615,379	28,221,856
Capital outlay	-	4,417,593	1,901,525	12,533,316
Debt service:				
Principal	1,955,000	-	-	2,581,181
Interest and fiscal charges	720,800	-	-	739,340
<b>Total expenditures</b>	<b>2,677,300</b>	<b>4,417,593</b>	<b>3,516,904</b>	<b>91,884,080</b>
<b>Excess of revenues over expenditures</b>	<b>(2,682,400)</b>	<b>(4,120,273)</b>	<b>(916,980)</b>	<b>26,196,621</b>
<b>Other financing sources (uses):</b>				
Inception of subscription liability	-	-	-	964,745
Transfers in	2,675,800	4,788,757	-	11,350,697
Transfers out	-	(823,600)	(1,711,140)	(15,076,576)
<b>Total other financing sources (uses)</b>	<b>2,675,800</b>	<b>3,965,157</b>	<b>(1,711,140)</b>	<b>(2,761,134)</b>
<b>Net Change in Fund Balances</b>	<b>(6,600)</b>	<b>(155,116)</b>	<b>(2,628,120)</b>	<b>23,435,487</b>
<b>Fund balances:</b>				
Beginning of year	8,350	34,922,310	27,533,108	196,874,064
End of year	<u>\$ 1,750</u>	<u>\$ 34,767,194</u>	<u>\$ 24,904,988</u>	<u>\$ 220,309,551</u>

(Concluded)

**City of Cupertino**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2023**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	23,435,487
Governmental activities in the Statement of Activities were reported differently because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.		
Capital outlay, net of \$527,793 reported in Internal Service Fund	\$	11,622,819
Depreciation amortization, net of \$904,610 reported in Internal Service Funds		(8,327,056)
Net effect on disposal of capital assets		(476,537)
		2,819,226
Net change in revenues that was considered unavailable in the governmental funds. These items have been reported as revenue in the Statement of Activities.		
		872,992
Bonds payable	\$	1,955,000
Subscription liabilities, net of \$109,339 reported in the Internal Service Funds		626,181
		2,581,181
Interest accrued on long-term debt is reported in the Statement of Activities, but does not require the use of current financial resources. Therefore, accrued interest is not reported as an expenditure in governmental funds. This amount represents the change in accrued interest from the prior year.		
		(53,550)
Amortization of bond premium and deferred charges were recognized in interest expense on the Government-Wide Statement of Activities, but did not require the use of current financial resources. Therefore amortization of bond discount was not reported as an expenditure in the governmental funds.		
		424,249
Inception of subscription liability, net of \$24,865 reported in the Internal Service Funds.		
		(964,745)
Compensated absences were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the governmental funds. Compensated absences is net of \$68,970 reported in the Internal Service Funds.		
		(322,269)
Certain claims expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds net of \$85,000 reported in Internal Service Funds.		
		(568,786)
Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, net of \$325,644 reported in Internal Service Funds.		
		(1,244,041)
Certain OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds net of \$21,395 reported in Internal Service Funds.		
		(4,686)
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities.		
		1,249,953
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>28,225,011</b>

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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Proprietary funds account for City operations financed and operated a in 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 year 2022-2023.

***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.

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

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**City of Cupertino  
Statement of Net Position  
Proprietary Funds  
June 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Resources	Recreation	Cupertino
	Recovery	Programs	Sports Center
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 5,351,316	\$ 3,484,602	\$ 1,639,687
Accounts receivable	222,326	41,981	1,000
Interest receivable	18,754	12,210	5,732
<b>Total current assets</b>	<b>5,592,396</b>	<b>3,538,793</b>	<b>1,646,419</b>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable	-	220,888	-
Depreciable and amortizable, net	-	492,149	1,241,170
<b>Total noncurrent assets</b>	<b>-</b>	<b>713,037</b>	<b>1,241,170</b>
<b>Total assets</b>	<b>5,592,396</b>	<b>4,251,830</b>	<b>2,887,589</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	326,269	241,077	163,134
Related to other postemployment benefit liability	104,839	106,877	81,087
<b>Total deferred outflows of resources</b>	<b>431,108</b>	<b>347,954</b>	<b>244,221</b>

**City of Cupertino**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**June 30, 2023**

	Business-Type Activities Enterprise Funds		Governmental Activities
	Nonmajor Enterprise Fund	Total	Internal Service Funds
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 896,941	\$ 11,372,546	\$ 8,939,014
Accounts receivable	1,829	267,136	1,385,759
Interest receivable	3,136	39,832	32,794
<b>Total current assets</b>	<b>901,906</b>	<b>11,679,514</b>	<b>10,357,567</b>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable	137,343	358,231	119,408
Depreciable and amortizable, net	18,042	1,751,361	2,789,976
<b>Total noncurrent assets</b>	<b>155,385</b>	<b>2,109,592</b>	<b>2,909,384</b>
<b>Total assets</b>	<b>1,057,291</b>	<b>13,789,106</b>	<b>13,266,951</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	101,506	831,986	1,212,633
Related to other postemployment benefit liability	18,479	311,282	410,644
<b>Total deferred outflows of resources</b>	<b>119,985</b>	<b>1,143,268</b>	<b>1,623,277</b>

**City of Cupertino**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**June 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Resources	Recreation	Cupertino
	Recovery	Programs	Sports Center
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accruals	98,762	244,711	112,984
Accrued payroll and benefits	289	-	-
Due to other funds	-	-	-
Compensated absences	3,062	4,623	2,349
Claims payable	-	-	-
Unearned revenue	-	488,175	517,481
Subscription liabilities	-	-	-
<b>Total current liabilities</b>	<b>102,113</b>	<b>737,509</b>	<b>632,814</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	61,214	92,416	46,962
Claims payable	-	-	-
Net pension liability	1,005,136	742,684	502,568
Net other postemployment benefit liability	9,889	10,081	7,649
Subscription liabilities	-	-	-
<b>Total noncurrent liabilities</b>	<b>1,076,239</b>	<b>845,181</b>	<b>557,179</b>
<b>Total liabilities</b>	<b>1,178,352</b>	<b>1,582,690</b>	<b>1,189,993</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	2,473	1,827	1,236
Related to other postemployment benefit liability	38,809	39,564	30,017
<b>Total deferred inflows of resources</b>	<b>41,282</b>	<b>41,391</b>	<b>31,253</b>
<b>NET POSITION</b>			
Net investment in capital assets	-	713,037	1,241,170
Restricted	56,141	57,232	43,421
Unrestricted	4,747,729	2,205,434	625,973
<b>Total net position</b>	<b>\$ 4,803,870</b>	<b>\$ 2,975,703</b>	<b>\$ 1,910,564</b>

(Continued)

**City of Cupertino**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**June 30, 2023**

	Business-Type Activities		Governmental
	Enterprise Funds		Activities
	Nonmajor Enterprise Fund	Total	Internal Service Funds
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accruals	18,976	475,433	150,477
Accrued payroll and benefits	-	289	72
Due to other funds	-	-	1,395,657
Compensated absences	458	10,492	38,354
Claims payable	-	-	292,000
Unearned revenue	92,223	1,097,879	-
Subscription liabilities	-	-	125,990
<b>Total current liabilities</b>	<b>111,657</b>	<b>1,584,093</b>	<b>2,002,550</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	9,157	209,749	350,536
Claims payable	-	-	1,362,000
Net pension liability	312,709	2,563,097	3,735,756
Net other postemployment benefit liability	1,743	29,362	38,735
Subscription liabilities	-	-	72,504
<b>Total noncurrent liabilities</b>	<b>323,609</b>	<b>2,802,208</b>	<b>5,559,531</b>
<b>Total liabilities</b>	<b>435,266</b>	<b>4,386,301</b>	<b>7,562,081</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	769	6,305	9,190
Related to other postemployment benefit liability	6,841	115,231	152,012
<b>Total deferred inflows of resources</b>	<b>7,610</b>	<b>121,536</b>	<b>161,202</b>
<b>NET POSITION</b>			
Net investment in capital assets	155,385	2,109,592	2,789,976
Restricted	9,895	166,689	410,644
Unrestricted	569,120	8,148,256	3,966,325
<b>Total net position</b>	<b>\$ 734,400</b>	<b>\$ 10,424,537</b>	<b>\$ 7,166,945</b>

(Concluded)

**City of Cupertino**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Resources Recovery	Recreation Programs	Cupertino Sports Center
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 1,673,401	\$ 1,591,303	\$ 2,756,264
Other	98,851	151,139	361,316
<b>TOTAL OPERATING REVENUES</b>	<b>1,772,252</b>	<b>1,742,442</b>	<b>3,117,580</b>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	487,020	482,651	355,109
Materials and supplies	284,671	261,484	448,263
Contractual services	1,266,109	870,494	2,541,729
Insurance and claims and premium	-	-	-
Depreciation	513	47,057	111,438
<b>TOTAL OPERATING EXPENSES</b>	<b>2,038,313</b>	<b>1,661,686</b>	<b>3,456,539</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(266,061)</b>	<b>80,756</b>	<b>(338,959)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income (loss)	58,933	45,346	14,356
Gain on sale of capital assets	-	-	-
Interest expense	-	-	-
<b>Total Nonoperating Income (Expenses)</b>	<b>58,933</b>	<b>45,346</b>	<b>14,356</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>(207,128)</b>	<b>126,102</b>	<b>(324,603)</b>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS:</b>			
Transfers in	-	376,000	-
Transfers out	-	(103,119)	-
<b>TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>272,881</b>	<b>-</b>
<b>CHANGES IN NET POSITION</b>	<b>(207,128)</b>	<b>398,983</b>	<b>(324,603)</b>
<b>NET POSITION:</b>			
Beginning of year	5,010,998	2,576,720	2,235,167
End of year	<b>\$ 4,803,870</b>	<b>\$ 2,975,703</b>	<b>\$ 1,910,564</b>

(Continued)

**City of Cupertino**  
**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Enterprise Funds		Activities
	Nonmajor Enterprise Fund	Total	Internal Service Funds
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 570,038	\$ 6,591,006	\$ 4,606,283
Other	46,423	657,729	1,385,759
<b>TOTAL OPERATING REVENUES</b>	<b>616,461</b>	<b>7,248,735</b>	<b>5,992,042</b>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	233,013	1,557,793	4,289,604
Materials and supplies	208,348	1,202,766	1,279,946
Contractual services	354,975	5,033,307	617,432
Insurance and claims and premium	-	-	1,086,999
Depreciation	2,832	161,840	904,610
<b>TOTAL OPERATING EXPENSES</b>	<b>799,168</b>	<b>7,955,706</b>	<b>8,178,591</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(182,707)</b>	<b>(706,971)</b>	<b>(2,186,549)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income (loss)	37,286	155,921	(22,193)
Gain on sale of capital assets	-	-	30,158
Interest expense	-	-	(861)
<b>Total Nonoperating Income (Expenses)</b>	<b>37,286</b>	<b>155,921</b>	<b>7,104</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>(145,421)</b>	<b>(551,050)</b>	<b>(2,179,445)</b>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS:</b>			
Transfers in	23,600	399,600	3,429,398
Transfers out	-	(103,119)	-
<b>TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>23,600</b>	<b>296,481</b>	<b>3,429,398</b>
<b>CHANGES IN NET POSITION</b>	<b>(121,821)</b>	<b>(254,569)</b>	<b>1,249,953</b>
<b>NET POSITION:</b>			
Beginning of year	856,221	10,679,106	5,916,992
End of year	<b>\$ 734,400</b>	<b>\$ 10,424,537</b>	<b>\$ 7,166,945</b>

(Concluded)

**City of Cupertino**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Resources Recovery	Recreation Programs	Cupertino Sports Center
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 1,596,163	\$ 1,795,593	\$ 3,099,825
Cash paid to suppliers for goods and services	(1,553,924)	(1,121,474)	(2,939,258)
Cash paid to employees for services	(664,327)	(705,749)	(491,404)
Recovery for insurance claims	-	-	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(622,088)</b>	<b>(31,630)</b>	<b>(330,837)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received from (paid to) other funds	-	272,881	-
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>-</b>	<b>272,881</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	-	(36,220)	(8,300)
Principal paid	-	-	-
Interest paid	-	-	-
Proceed from sale of capital assets	-	-	-
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>-</b>	<b>(36,220)</b>	<b>(8,300)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income (loss)	40,179	33,136	8,624
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>40,179</b>	<b>33,136</b>	<b>8,624</b>
<b>Net Change In Cash and Cash Equivalents</b>	<b>(581,909)</b>	<b>238,167</b>	<b>(330,513)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	5,933,225	3,246,435	1,970,200
End of year	<u>\$ 5,351,316</u>	<u>\$ 3,484,602</u>	<u>\$ 1,639,687</u>
<b>CASH AND CASH EQUIVALENTS:</b>			
Cash and investments	\$ 5,351,316	\$ 3,484,602	\$ 1,639,687
<b>Total cash and cash equivalents</b>	<b><u>\$ 5,351,316</u></b>	<b><u>\$ 3,484,602</u></b>	<b><u>\$ 1,639,687</u></b>

(Continued)

**City of Cupertino**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Business-Type Activities Enterprise Funds		Governmental Activities
	Nonmajor Enterprise Fund	Total	Internal Service Funds
	Fund	Total	Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 612,394	\$ 7,103,975	\$ 4,606,283
Cash paid to suppliers for goods and services	(582,924)	(6,197,580)	(2,952,729)
Cash paid to employees for services	(245,311)	(2,106,791)	(3,873,595)
Recovery for insurance claims	-	-	85,000
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(215,841)</b>	<b>(1,200,396)</b>	<b>(2,135,041)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received from (paid to) other funds	23,600	296,481	4,285,851
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>23,600</b>	<b>296,481</b>	<b>4,285,851</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(137,343)	(181,863)	(527,793)
Principal paid	-	-	(109,339)
Interest paid	-	-	(861)
Proceed from sale of capital assets	-	-	30,158
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>(137,343)</b>	<b>(181,863)</b>	<b>(607,835)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income (loss)	34,150	116,089	(54,987)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>34,150</b>	<b>116,089</b>	<b>(54,987)</b>
<b>Net Change In Cash and Cash Equivalents</b>	<b>(295,434)</b>	<b>(969,689)</b>	<b>1,487,988</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	1,192,375	12,342,235	7,451,026
End of year	<u>\$ 896,941</u>	<u>\$ 11,372,546</u>	<u>\$ 8,939,014</u>
<b>CASH AND CASH EQUIVALENTS:</b>			
Cash and investments	\$ 896,941	\$ 11,372,546	\$ 8,939,014
<b>Total cash and cash equivalents</b>	<u>\$ 896,941</u>	<u>\$ 11,372,546</u>	<u>\$ 8,939,014</u>

(Concluded)

**City of Cupertino**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Resources Recovery	Recreation Programs	Cupertino Sports Center
<b>Reconciliation of Operating Income (Loss) to</b>			
<b>Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ (266,061)	\$ 80,756	\$ (338,959)
Adjustments to reconcile to net cash provided by			
Operating activities:			
Depreciation and amortization	513	47,057	111,438
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	(92,396)	(41,423)	-
(Increase)/decrease in deferred outflows of resources related to pensions	(113,387)	(65,682)	(44,533)
(Increase)/decrease in deferred outflows of resources related to OPEB	(8,356)	(39,534)	(2,110)
Increase/(decrease) in accounts payable	(3,144)	10,504	50,734
Increase/(decrease) in unearned revenue	(83,693)	94,574	(17,755)
Increase/(decrease) in compensated absences	4,740	5,528	2,627
Increase/(decrease) in claims payable	-	-	-
Increase/(decrease) in net pension liabilities	123,045	2,046	17,988
Increase/(decrease) in other postemployment benefit liabilities	14,890	46,933	64,861
Increase/(decrease) in deferred inflows of resources related to pensions	(186,791)	(150,417)	(128,578)
Increase/(decrease) in deferred inflows of resources related to OPEB	(11,448)	(21,972)	(46,550)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (622,088)</b>	<b>\$ (31,630)</b>	<b>\$ (330,837)</b>

(Continued)

**City of Cupertino**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2023**

	Business-Type Activities Enterprise Funds		Governmental Activities
	Nonmajor Enterprise Fund	Totals	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to</b>			
<b>Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ (182,707)	\$ (706,971)	\$ (2,186,549)
Adjustments to reconcile to net cash provided by Operating activities:			
Depreciation and amortization	2,832	161,840	904,610
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	(1,659)	(135,478)	(1,385,759)
(Increase)/decrease in deferred outflows of resources related to pensions	(42,810)	(266,412)	(693,504)
(Increase)/decrease in deferred outflows of resources related to OPEB	(5,380)	(55,380)	(64,342)
Increase/(decrease) in accounts payable	(19,601)	38,493	31,648
Increase/(decrease) in unearned revenue	(2,408)	(9,282)	-
Increase/(decrease) in compensated absences	(9,290)	3,605	68,970
Increase/(decrease) in claims payable	-	-	85,000
Increase/(decrease) in net pension liabilities	62,474	205,553	1,809,813
Increase/(decrease) in other postemployment benefit liabilities	1,743	128,427	119,864
Increase/(decrease) in deferred inflows of resources related to pensions	(25,876)	(491,662)	(790,665)
Increase/(decrease) in deferred inflows of resources related to OPEB	6,841	(73,129)	(34,127)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (215,841)</b>	<b>\$ (1,200,396)</b>	<b>\$ (2,135,041)</b>
			(Concluded)

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**City of Cupertino**  
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**For the Year Ended June 30, 2023**

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**City of Cupertino**  
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**City of Cupertino**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies**

**A. Financial 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

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship, if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Management determined that the following component unit should be blended based on the criteria above:

Although the following is legally separate from the City, it has been “blended” as though it is part of the City because the component unit’s governing body is substantially the same as the City’s and there is a financial benefit or burden relationship between the City and the component unit; management of the City has operational responsibilities for the component unit; and/or the component unit provides services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

*The Cupertino Public Facilities Corporation (the “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.

The City had no discretely presented component units.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation**

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

**C. Measurement Focus, Basis of Accounting and Financial Statements Presentation**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained in accordance with legal and managerial requirements.

**Government-wide Statements**

The City’s Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Position, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)**

**Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both "measurable" and "available" to finance expenditures of the current period.

Revenues are recognized as soon as they are both "measurable" and "available". Revenues are considered to be available when they are collectible within the current period as soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

The City reports the following major Governmental Funds:

- 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.
- Housing Development Special Revenue Fund – 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. Management considers this fund qualitatively major and has elected to present this fund as such, even if mathematically it does not qualify per applicable GASB requirements.
- Transportation Special Revenue 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. Management considers this fund qualitatively major and has elected to present this fund as such, even if mathematically it does not qualify per applicable GASB requirements.
- Public Facilities Corporation Debt Service Fund – The Public Facilities Corporation Debt Service Fund accounts for the payments of principal and interest on certificates of participation issued to provide for the financing of City Hall, Library, Wilson Park, Memorial Park, and other City facilities. Management considers this fund qualitatively major and has elected to present this fund as such, even if mathematically it does not qualify per applicable GASB requirements.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)**

**Governmental Fund Financial Statements (Continued)**

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

**Proprietary Fund Financial Statements**

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major Proprietary Fund.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements. The City's internal service funds include two individual funds which provide services directly to other City funds. These areas of service include Central Garage and Print Shop.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the following major proprietary funds:

- *Resources Recovery Enterprise Fund* - The Resources Recovery Enterprise 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 Enterprise Fund* - The Recreation Programs Enterprise Fund accounts for activities of the City's community centers and park facilities.
- *Cupertino Sports Center Enterprise Fund* - The Cupertino Sports Center Enterprise Fund accounts for activities of the City's sports center facility.

The City also reports the following fund as proprietary fund type:

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

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)**

**Basis of Accounting**

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

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

Unearned revenues are considered on a full accrual basis, while 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.

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.

**D. Cash, Cash Equivalents, 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. Adjustments to fair value, as well as dividend and interest income received is recorded by the City in its governmental funds in the Use of money and property caption while proprietary funds report these items as Investment income.

The statement of cash flows requires presentation of “cash and cash equivalents”. For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as “cash and cash equivalents”, as such funds are available to the various funds as needed.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**D. Cash, Cash Equivalents, and Investments (Continued)**

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

**E. Fair Value Measurements**

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

The three levels of the fair value measurement hierarchy are described below:

- Level 1 - Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 - Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 - Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

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.

**F. Receivables**

Receivables include such items as taxes, intergovernmental revenues, charges for services, miscellaneous accounts receivable, and interest receivable. No allowance for doubtful accounts has been established, as the City believes all amounts are considered to be collectible in the normal course of business.

**G. Leases Receivables**

The City is a lessor for leases of buildings and land and recognizes leases receivable and deferred inflows of resources in the financial statements. Variable payments based on future performance or usage of the underlying asset are not included in the measurement of the lease receivable.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**G. Leases Receivables (Continued)**

At the commencement of a lease, the lease receivable is measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses the incremental borrowing rate (IBR) provided by the City’s financial institution for existing leases or the current rate at the time a new lease is executed.
- The lease term includes the noncancelable period of the lease plus any option periods that are likely to be exercised.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**H. Inventories**

Inventories consist of fuel.

**I. 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.

**J. Interfund Transactions**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” or “advances to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as “internal balances”.

**K. 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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**K. Capital Assets (Continued)**

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.

Right-of-Use Subscription Assets

Subscription assets are recorded at the amount of the initial measurement of the SBITA liabilities (“subscription liabilities”) and adjusted by any subscription payments to the SBITA vendor at or before the commencement of the subscription term, less any incentives received from the SBITA vendor at or before the commencement of the subscription term along with subscription implementation costs. Subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying information technology assets.

**L. Deferred Outflows of Resources and Deferred Inflows of Resources**

The Statement and Net Position and the Balance Sheet report separate sections for deferred outflows of resources, and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represent a consumption of net assets that applies to future periods.

Deferred Inflows of Resources represent an acquisition of net assets that applies to future periods.

**M. Interest Payable**

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business-type activities.

**N. Unearned Revenue**

Unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues are prepaid charges for services.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**O. 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.

**P. Claims and Judgement 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.

**Q. Subscription Liabilities**

The City recognizes subscription liabilities with an initial, individual value of \$5,000 or more with a subscription term greater than one year in the government-wide and proprietary fund financial statements. Variable payments based on future performance of the City, usage of the underlying information technology assets, or number of user seats are not included in the measurement of the subscription liability.

At the commencement of a subscription, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Key estimates and judgments related to subscription liabilities include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The City uses incremental borrowing rate provided by the financial institution at July 1, 2022 for existing subscription or the current rate at the time a new subscription is executed.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments.

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure any subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

**R. Long-Term Debt**

**Government-Wide Financial Statements**

Long-term debt and other financial obligations are reported as liabilities in the statement of net position.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**R. Long-Term Debt (Continued)**

**Government-Wide Financial Statements (Continued)**

Bond premiums and discounts, as well as gains and losses on refunding, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed in the year of issuance.

**Fund Financial Statements**

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

**S. Pensions**

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

The following timeframes are used for pension reporting:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

General Fund is typically used to liquidate pension liabilities to governmental funds.

**T. Other Postemployment Benefits (“OPEB”) Plan**

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

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**T. Other Postemployment Benefits (“OPEB”) Plan (Continued)**

The following timeframes are used for OPEB reporting:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2023
Measurement Period	July 1, 2022 to June 30, 2023

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

General Fund is typically used to liquidate OPEB liabilities to governmental funds.

**U. Net Position**

In governmental-wide and proprietary fund financial statements, net positions are categorized as follows:

**Net Investment in Capital Assets** – This category consists of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets and retention payable.

**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."

When expenses are incurred for purposes for which both restricted and unrestricted net position are available, the City’s policy is to apply restricted net position first, then unrestricted net position as they are needed.

**V. 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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**V. Fund Balances (Continued)**

**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. Only the General Fund reports unassigned positive fund balance. A governmental fund other than the General Fund may report a negative unassigned fund balance if expenditures incurred for a specific purpose exceed the amounts that are restricted, committed or assigned to those purposes.

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.

**W. Property Taxes**

**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.

**X. Use of Estimates**

The preparation of the basic financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Y. Implementation of New GASB Pronouncements**

GASB Statement No. 91 In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Implementation of this Statement did not have a significant effect on the City’s financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 94 In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB Statement No. 94) to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). Implementation of this Statement did not have a significant effect on the City’s financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 96 In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96), to provide guidance on the accounting and financial reporting for subscription based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset- -an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Implementation of this Statement had a significant effect on the City’s financial statements for the fiscal year ended June 30, 2023.

GASB Statement No. 99 - In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement is effective immediately for the requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63. The Statement is effective for fiscal year years beginning after June 15, 2022 for requirements related to leases, PPPs, and SBITAS. Implementation of this Statement did not have a significant effect on the City’s financial statements for the fiscal year ended June 30, 2023.

**Z. Upcoming New GANB Pronouncements**

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

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Application of this statement is effective for the City’s fiscal year ending June 30, 2024.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Z. Upcoming New GANB Pronouncements (Continued)**

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Application of this statement is effective for the City’s fiscal year ending June 30, 2025.

In December 2023, GASB issued Statement 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. That objective is achieved by requiring governments to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. The statement also requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. Application of this statement is effective for the City’s fiscal year ending June 30, 2025. Earlier application is encouraged.

In April 2024, GASB issued Statement 103, *Financial Reporting Model Improvements* - The objective of this Statement is to improve key components of the financial reporting model.<sup>1</sup> The purposes of the improvements are to (a) enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government’s accountability and (b) address certain application issues identified through pre-agenda research conducted by the GASB. Application of this statement is effective for the City’s fiscal year ending June 30, 2027. Earlier application is encouraged.

**Note 2 – Cash and Investments**

The City had the following cash and investments at June 30, 2023:

	Government-Wide Statement of Net Position		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	\$ 205,571,569	\$ 11,372,546	\$ 216,944,115
Restricted cash and investments:			
Held by fiscal agent for pension	19,088,859	-	19,088,859
<b>Total cash and investments</b>	<b>\$ 224,660,428</b>	<b>\$ 11,372,546</b>	<b>\$ 236,032,974</b>

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Cash and Investments (Continued)**

The City’s cash and investments at June 30, 2023, in more detail:

Cash on hand	\$ 3,586
Deposits with financial institutions	47,281,611
<b>Total cash</b>	<u>47,285,197</u>
Investments	169,658,918
Investments with PARS	19,088,859
<b>Total investments</b>	<u>188,747,777</u>
<b>Total cash and investments</b>	<u>\$ 236,032,974</u>

**A. Deposits**

The carrying amounts of the City’s demand deposits were \$47,281,612 at June 30, 2023. Bank balances at that date were \$48,018,306 the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

Cash and Investments with PARS were related to the City’s Pension Trust.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name.

The market value of pledged securities must equal at least 110% of the City’s cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits, deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). The City did not waive the collateral requirement for deposits insured by FDIC.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**B. Investments Authorized by the California Government Code and the City’s Investment Policy**

The following table identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City’s investment policy: This does not include the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities*	5 years	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	N/A	Up to \$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 270 days	N/A A-1+P-1	40% 25%	None 10% of portfolio; 5% of issuer's net worth; 10% of outstanding paper of Issuer. **
Commercial Paper				10% of portfolio; 5% of issuer's net worth. **
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	25%	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
Supernationals	5 years	AA or better	30%	10% of portfolio

\*Securities issued by agencies of the federal government such as the Government National Mortgage Association (GNMA),

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

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

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**C. Investments Authorized by Debt Agreements**

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinances, bond indentures or State statutes. The City's Investment Policy allows investments of bond proceeds to be governed by provisions of the related bond indentures. The following identifies the investment types that are authorized for investments held by fiscal agents under the terms of the bond indentures of the related debt issue:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio
Cash or obligations of the U.S. including U.S. Treasury obligations	N/A	N/A	None
Federal agencies obligations which represent full faith and credit of the U.S.	N/A	N/A	None
Direct federal agencies obligations which are not fully guaranteed by the full faith and credit of the U.S.	N/A	N/A	None
U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks	360 days	P-1, A-1+, A-1	None
Commercial Paper	270 days	P-1, A-1	None
Money market funds	N/A	Aaam or AAAAm-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

**D. Risk Disclosures**

**Disclosures Relating to 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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**D. Risk Disclosures (Continued)**

**Disclosures Relating to Interest Rate Risk (Continued)**

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (In Months)			Total
	12 Months of less	13 to 24 Months	More than 24 Months	
U.S. Treasury Securities	\$ 4,588,328	\$ 12,214,180	\$ 36,160,305	\$ 52,962,813
Corporate Notes	1,454,667	19,059,694	19,537,835	40,052,196
U.S. Agency Notes:				
Federal Home Loan Mortgage Corporation	836,535	2,232,499	3,408,904	6,477,938
Federal National Mortgage Association	-	8,574,094	4,540,665	13,114,759
Federal Home loan Banks	1,463,544	1,943,320	-	3,406,864
Municipal Bonds	-	726,121	-	726,121
Asset-Backed Securities	329,142	4,647,343	11,558,949	16,535,434
Supranationals	2,747,746	-	6,683,579	9,431,325
Collateralized Mortgage Obligations	-	1,261,927	4,392,528	5,654,455
Local Agency Investment Fund	21,099,954			21,099,954
Money Market Mutual Funds	197,059	-	-	197,059
Restricted investment with PARS	19,088,859	-	-	19,088,859
<b>Total investments</b>	<u>\$ 51,805,834</u>	<u>\$ 50,659,178</u>	<u>\$ 86,282,765</u>	188,747,777
Cash in banks and on hand				<u>47,285,197</u>
<b>Total Cash and Investments</b>				<u>\$ 236,032,974</u>

**Disclosures Relating to Credit Risk**

Generally, 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 minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standard and Poor's or Moody's, as of June 30, 2023 for each investment type:

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**D. Risk Disclosures (Continued)**

**Disclosures Relating to Credit Risk (Continued)**

Investment Type	Total	AAA	AA	A	Not Required
U.S. Treasury Securities	\$ 52,962,813	\$ 52,962,813	\$ -	\$ -	\$ -
Corporate Notes	40,052,196	-	12,415,464	27,636,732	-
U.S. Agency Notes					
Federal Home Loan Mortgage Corporation	6,477,938	6,477,938	-	-	-
Federal National Mortgage Association	13,114,759	13,114,759	-	-	-
Federal Home Loan Banks	3,406,864	3,406,864	-	-	-
Municipal Bonds	726,121	726,121	-	-	-
Asset-Backed Securities	16,535,434	16,535,434	-	-	-
Supranationals	9,431,325	9,431,325	-	-	-
Collateralized Mortgage Obligations	5,654,455	5,654,455	-	-	-
Local Agency Investment Fund	21,099,954	-	-	-	21,099,954
Money Market Mutual Funds	197,059	197,059	-	-	-
Restricted investment with PARS	19,088,859	-	-	-	19,088,859
<b>Total Investments</b>	<b>\$ 188,747,777</b>	<b>\$ 108,506,768</b>	<b>\$ 12,415,464</b>	<b>\$ 27,636,732</b>	<b>\$ 40,188,813</b>

**Disclosures Relating to Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2023, the following investment represent 5% or more of total City investments:

Issuer	Investment Type	Amount	Percentage
Federal National Mortgage Association (FNMA)	U.S. Agency Notes	\$ 13,114,759	7%

**Disclosures Relating to Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of LAIF and other pooled investments, are held by a third-party custodian.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**E. Fair Value Measurement Disclosure**

At June 30, 2023, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2023:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
U.S. Treasury Securities	\$ 52,962,813	\$ -	\$ 52,962,813
Corporate Notes	-	40,052,196	40,052,196
U.S. Agency Notes			
Federal Home Loan Mortgage Corporation	-	6,477,938	6,477,938
Federal National Mortgage Association	-	13,114,759	13,114,759
Federal Home Loan Banks	-	3,406,864	3,406,864
Asset-Backed Securities	-	16,535,434	16,535,434
Collateralized Mortgage Obligations	-	5,654,455	5,654,455
Supranationals	-	9,431,325	9,431,325
Municipal Bonds	-	726,121	726,121
Total Investments	<u>\$ 52,962,813</u>	<u>\$ 95,399,092</u>	148,361,905
<b>Investments Measured at Amortized Cost:</b>			
Money Market Mutual Funds - Restricted for Pension (PARS)			19,088,859
Money Market Mutual Funds			197,059
<b>Investments Exempt from Fair Value Hierarchy:</b>			
Local Agency Investment Fund			21,099,954
Cash in banks and on hand			47,285,197
Total Cash and Investments			<u>\$ 236,032,974</u>

**F. Investment in Local Agency Investment Fund (LAIF)**

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments in LAIF at June 30, 2023 included a portion of pool funds invested in Structure Notes and Asset-Backed Securities:

*Structured Notes* are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

*Asset-Backed Securities*, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 2 – Cash and Investments (Continued)**

**F. Investment in Local Agency Investment Fund (LAIF) (Continued)**

As of June 30, 2023, the City had \$21,099,954 invested in LAIF, which had invested 2.78% of the pool investment funds in Structured Notes and Asset-Back Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF is reported at amortized cost, which approximates fair value.

**Note 3 – Loans Receivable**

**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. As of June 30, 2023, the balance remaining on the loan was \$1,057,389 including principal and interest in the amounts of \$821,000 and \$236,389, respectively. The loan was issued using resources in the amount of \$417,000 and \$404,000 in the General Fund and the Housing Development Special Revenue Fund, respectively and is considered governmental activities.

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. As of June 30, 2023, the balance on the loan was \$135,871. The loan was issued using resources in the Housing Development Special Revenue Fund and is considered governmental activities.

On September 11, 2017 the City loaned \$3,672,000 to Stevens Creek, L.P., a California limited partnership. The note bears interest at three percent per annum for 55 years. After the completion of construction of the development, no later than April 30th of each calendar year, the Developer shall make repayments of the loan in an amount equal to the City loan percentage of the lenders' share of residual receipts. The payments shall be credited first against accrued interest and then against outstanding principal of the loan, and shall be accompanied by the developer's report of residual receipts. As of June 30, 2023, the balance remaining on the loan was \$4,359,019 including principal and interest in the amounts of \$3,672,000 and \$687,019, respectively in the Housing Development Special Revenue Fund and is considered as governmental activities.

**Note 4 – Leases Receivable and Lease-Related Deferred Inflows of Resources**

The City leases various City assets to other entities via contractual arrangements under the provisions of GASB Statement No. 87, *Leases*. The leases include land leases utilized for cell phone towers as well as property leases of the McClellan Ranch House and the Cupertino Public Library. The City receives fixed payments from the lessees, with a total of \$220,308 recognized as rental revenue and \$31,333 recognized as interest revenue on the lease for the year ended June 30, 2023 and a receivable for the remaining payments under the leases of \$2,493,039.

A summary of changes in lease receivable for the year ended June 30, 2023 is as follows:

Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion	Long-term Portion
\$ 2,495,226	\$ 218,121	\$ (220,308)	\$ 2,493,039	\$ 221,644	\$ 2,271,395

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 4 – Leases Receivable and Lease-Related Deferred Inflows of Resources (Continued)**

At June 30, 2023, the required payments for these leases, including interest, are:

Year Ending June 30,	NPV Leases Receivable	Interest	Total Lease Payment
2024	\$ 221,644	\$ 29,203	\$ 250,847
2025	215,649	27,022	242,671
2026	216,753	24,745	241,498
2027	227,844	22,348	250,192
2028	238,976	19,832	258,808
2029-2033	930,850	60,105	990,955
2034-2038	335,529	17,807	353,336
2039-2041	105,794	1,720	107,514
Total	<u>\$ 2,493,039</u>	<u>\$ 202,782</u>	<u>\$ 2,695,821</u>

At June 30, 2023, the amounts reported as deferred inflows of resources related to leases will be recognized as lease revenue as follows:

Year Ending June 30,	Amount
2024	\$ 263,427
2025	248,416
2026	236,054
2027	236,054
2028	236,054
2029-2033	822,454
2034-2038	259,170
2039-2041	78,104
Total	<u>\$ 2,379,733</u>

**Note 5 – Interfund Transactions**

**A. Advances**

Interfund advances are balances between funds that are not expected to be repaid within the current fiscal year. As of June 30, 2023, the General Fund advanced \$3,000,000 to the Capital Improvement Projects Capital Projects Fund for advance funding of planned projects that will be repaid in subsequent years.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 5 – Interfund Transactions (Continued)**

**B. Due from and To other Funds**

At June 30, 2023, the City has the following due from and to other funds:

<b>Due to Other Funds</b>				
<b>Due From Other Funds</b>	Internal Service Funds	Total		
<b>Governmental Funds:</b>				
General Fund	\$ 1,395,657	\$ 1,395,657		
	\$ 1,395,657	\$ 1,395,657		

These interfund balances represent routine short-term cash flow assistance.

**C. Transfers in and Out**

Transfers between funds during the fiscal year ended June 30, 2023 were as follows:

<b>Transfers In</b>										
<b>Transfers Out</b>	Governmental Funds					Proprietary Funds				
	General Fund	Transportation Special Revenue Fund	Housing Development Special Revenue Fund	Public Facilities Corporation Debt Service Fund	Capital Improvement Projects Capital Project Fund	Recreation Program Enterprise Fund	Nonmajor Enterprise Fund	Internal Service Funds		Total
<b>Governmental Funds:</b>										
General Fund	\$ -	\$ 3,000,000	\$ 25,000	\$ 2,675,800	\$ 2,838,147	\$ 376,000	\$ -	\$ 3,429,398	\$ 12,344,345	
Transportation Special Revenue Fund	-	-	-	-	197,491	-	-	-	197,491	
Capital Improvement Projects Capital Projects Fund	800,000	-	-	-	-	-	23,600	-	823,600	
Nonmajor Governmental Funds	61,140	-	-	-	1,650,000	-	-	-	1,711,140	
<b>Proprietary Funds:</b>										
Recreation Programs Enterprise Fund	-	-	-	-	103,119	-	-	-	103,119	
	\$ 861,140	\$ 3,000,000	\$ 25,000	\$ 2,675,800	\$ 4,788,757	\$ 376,000	\$ 23,600	\$ 3,429,398	\$ 15,179,695	

Transfers provided funding for operating subsidies, capital projects, capital acquisitions, internal service funds personnel costs associated with staff special project, compensated absences and retiree health, and debt service.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 6 – Capital Assets**

**A. Governmental Activities**

A summary of changes in capital assets of the governmental activities for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 (As Restated)	Additions	Deletions	Transfers	Balance June 30, 2023
<b>Governmental Activities:</b>					
<b>General Government Capital Asset:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 64,786,669	\$ -	\$ -	\$ -	\$ 64,786,669
Easements	19,615,039	-	-	-	19,615,039
Construction in progress	23,398,649	10,658,074	(476,537)	(5,104,793)	28,475,393
<b>Total general government capital assets not being depreciated</b>	<b>107,800,357</b>	<b>10,658,074</b>	<b>(476,537)</b>	<b>(5,104,793)</b>	<b>112,877,101</b>
<b>Capital assets being depreciated:</b>					
Buildings	47,763,913	-	-	-	47,763,913
Improvements other than buildings	61,263,926	-	-	359,435	61,623,361
Machinery and equipment	4,529,929	-	-	45,697	4,575,626
Roads, curbs, gutters, sidewalks, medians and bridges	183,534,212	-	-	4,275,603	187,809,815
Streetlights	9,302,437	-	-	402,243	9,704,680
Storm drain structure and mains	37,373,158	-	-	-	37,373,158
Traffic signals	6,418,246	-	-	21,815	6,440,061
<b>Total capital assets being depreciated</b>	<b>350,185,821</b>	<b>-</b>	<b>-</b>	<b>5,104,793</b>	<b>355,290,614</b>
<b>Less accumulated depreciation for:</b>					
Buildings	(33,646,294)	(1,612,633)	-	-	(35,258,927)
Improvements other than buildings	(45,859,016)	(2,390,853)	-	-	(48,249,869)
Machinery and equipment	(3,306,110)	(218,247)	-	-	(3,524,357)
Roads, curbs, gutters, sidewalks, medians and bridges	(115,601,625)	(2,839,730)	-	-	(118,441,355)
Streetlights	(8,031,745)	(431,927)	-	-	(8,463,672)
Storm drain structure and mains	(33,682,048)	(149,952)	-	-	(33,832,000)
Traffic signals	(5,910,218)	(109,425)	-	-	(6,019,643)
<b>Total accumulated depreciation</b>	<b>(246,037,056)</b>	<b>(7,752,767)</b>	<b>-</b>	<b>-</b>	<b>(253,789,823)</b>
<b>Total capital assets being depreciated, net</b>	<b>104,148,765</b>	<b>(7,752,767)</b>	<b>-</b>	<b>5,104,793</b>	<b>101,500,791</b>
<b>Intangible assets, being amortized</b>					
Right-to-use subscription assets	1,490,232	964,745	-	-	2,454,977
<b>Total intangible assets, being amortized</b>	<b>1,490,232</b>	<b>964,745</b>	<b>-</b>	<b>-</b>	<b>2,454,977</b>
<b>Less accumulated amortization for:</b>					
Right-to-use subscription assets	-	(574,289)	-	-	(574,289)
<b>Total accumulated amortization</b>	<b>-</b>	<b>(574,289)</b>	<b>-</b>	<b>-</b>	<b>(574,289)</b>
<b>Total intangible assets, being amortized, net</b>	<b>1,490,232</b>	<b>390,456</b>	<b>-</b>	<b>-</b>	<b>1,880,688</b>
<b>Total general government capital asset, net</b>	<b>213,439,354</b>	<b>3,295,763</b>	<b>(476,537)</b>	<b>-</b>	<b>216,258,580</b>
<b>Internal Service Fund Capital Assets:</b>					
<b>Capital assets not being depreciated:</b>					
Construction in progress	7,828	527,792	-	(416,212)	119,408
<b>Total internal fund capital assets not being depreciated</b>	<b>7,828</b>	<b>527,792</b>	<b>-</b>	<b>(416,212)</b>	<b>119,408</b>
<b>Capital assets being depreciated:</b>					
Machinery and equipment	12,769,434	-	(118,475)	416,212	13,067,171
Less accumulated depreciation	(9,798,894)	(798,599)	118,475	-	(10,479,018)
<b>Total internal fund capital assets being depreciated, net</b>	<b>2,970,540</b>	<b>(798,599)</b>	<b>-</b>	<b>416,212</b>	<b>2,588,153</b>
<b>Intangible assets, being amortized</b>					
Right-to-use subscription assets	282,968	24,866	-	-	307,834
<b>Total intangible assets, being amortized</b>	<b>282,968</b>	<b>24,866</b>	<b>-</b>	<b>-</b>	<b>307,834</b>
<b>Less accumulated amortization for:</b>					
Right-to-use subscription assets	-	(106,011)	-	-	(106,011)
<b>Total accumulated amortization</b>	<b>-</b>	<b>(106,011)</b>	<b>-</b>	<b>-</b>	<b>(106,011)</b>
<b>Total intangible assets, being amortized, net</b>	<b>282,968</b>	<b>(81,145)</b>	<b>-</b>	<b>-</b>	<b>201,823</b>
<b>Total internal service fund capital assets, net</b>	<b>3,261,336</b>	<b>(351,952)</b>	<b>-</b>	<b>-</b>	<b>2,909,384</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 216,700,690</b>	<b>\$ 2,943,811</b>	<b>\$ (476,537)</b>	<b>\$ -</b>	<b>\$ 219,167,964</b>

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 6 – Capital Assets (Continued)**

**A. Governmental Activities (Continued)**

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

Governmental Activities	<u>Depreciation</u>	<u>Amortization</u>
Administration	\$ 189,942	\$ 49,676
Public and environment affairs	16,281	-
Administrative services	29,461	16,138
Parks and recreation	169,010	63,689
Community development	-	147,707
Public works	<u>7,348,073</u>	<u>297,079</u>
Subtotal	<u>7,752,767</u>	<u>574,289</u>
<b>Internal Service Allocation</b>		
Administration	247,725	9,170
Public and environment affairs	21,642	-
Administrative services	55,264	2,979
Parks and recreation	73,072	11,757
Community development		27,266
Public works	<u>400,896</u>	<u>54,839</u>
Subtotal	<u>798,599</u>	<u>106,011</u>

**B. Business-Type Activities**

A summary of changes in capital assets of the business-type activities for the year ended June 30, 2023 is as follows:

	<u>Balance</u> July 1, 2022	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> June 30, 2023
<b>Business-type activities:</b>					
<b>Capital assets not being depreciated:</b>					
Construction in progress	\$ 184,667	\$ 181,863	\$ (8,299)	\$ -	\$ 358,231
Total capital assets not being depreciated	<u>184,667</u>	<u>181,863</u>	<u>(8,299)</u>	<u>-</u>	<u>358,231</u>
<b>Capital assets being depreciated:</b>					
Buildings	2,073,689	-	-		2,073,689
Improvements other than buildings	2,175,914	-	-		2,175,914
Machinery and equipment	743,453	-	8,299		751,752
Total capital assets being depreciated	<u>4,993,056</u>	<u>-</u>	<u>8,299</u>	<u>-</u>	<u>5,001,355</u>
<b>Less accumulated depreciation for:</b>					
Buildings	(573,223)	(81,796)	-	-	(655,019)
Improvements other than buildings	(1,860,740)	(51,912)	-	-	(1,912,652)
Machinery and equipment	(654,191)	(28,132)	-	-	(682,323)
<b>Total accumulated depreciation</b>	<u>(3,088,154)</u>	<u>(161,840)</u>	<u>-</u>	<u>-</u>	<u>(3,249,994)</u>
<b>Total capital assets being depreciated, net</b>	<u>1,904,902</u>	<u>(161,840)</u>	<u>8,299</u>	<u>-</u>	<u>1,751,361</u>
<b>Business-type activity capital assets, net</b>	<u>\$ 2,089,569</u>	<u>\$ 20,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,109,592</u>

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 6 – Capital Assets (Continued)**

**B. Business-Type Activities (Continued)**

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

Business-Type Activities	Depreciation
Cupertino sports center	\$ 111,438
Recreation program	47,057
Blackberry farm	2,832
Resources recovery	513
Total	\$ 161,840

**Note 7 – Long-Term Liabilities**

**A. Governmental Activities**

A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 (As Restated)	Additions	Retirements	Balance June 30, 2023	Current Portion	Long-term Portion
2020A Certificates of Participation	\$ 18,020,000	\$ -	\$ (1,955,000)	\$ 16,065,000	\$ 2,035,000	\$ 14,030,000
Issuance Premium	3,248,829	-	(464,118)	2,784,711	-	2,784,711
Subscription liabilities	1,773,200	989,611	(735,521)	2,027,290	783,067	1,244,223
Claims payable	1,569,000	765,116	(111,330)	2,222,786	382,000	1,840,786
Compensated absences	4,690,321	797,673	(406,434)	5,081,560	501,158	4,580,402
Total long-term liabilities	\$ 29,301,350	\$ 2,552,400	\$ (3,672,403)	\$ 28,181,347	\$ 3,701,225	\$ 24,480,122

**2020 A Certificates of Participation**

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 which represent the pledged revenues are scheduled to be sufficient in both time and amount, when the principal and interest of the certificates are due, which was the case for the year ended June 30, 2023.

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.

On September 29, 2020, \$22,040,000 principal amount of 2020A Certificates of Participation (2020 COPs) were issued to refund the 2012 COPs and pay costs incurred in connection with issuance. The proceeds were placed into an escrow account, along with funds from the City's 2012 COPs Reserve and on October 30, 2020, the 2012 COPs were prepaid, resulting no amounts outstanding as of June 30, 2023 for the 2012 COPs. The result of the transaction was an economic gain of \$3,133,819.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 7 – Long-Term Liabilities (Continued)**

**A. Governmental Activities (Continued)**

**2020 A Certificates of Participation (Continued)**

The 2020A 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 2020 COPs is \$18,736,200 payable through June 1, 2030. For the year ended June 30, 2023, the bonds had \$1,955,000 of principal and \$720,800 interest due. The annual debt service requirements on these certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 2,035,000	\$ 642,600	\$ 2,677,600
2025	2,115,000	561,200	2,676,200
2026	2,200,000	476,600	2,676,600
2027	2,285,000	388,600	2,673,600
2028	2,380,000	297,200	2,677,200
2029-2030	5,050,000	305,000	5,355,000
Total	<u>\$ 16,065,000</u>	<u>\$ 2,671,200</u>	<u>\$ 18,736,200</u>

**Subscription Liabilities**

The City has entered into subscriptions for information technology arrangements. The terms of the arrangements range from 24 to 63 months with implicit rates used between 1.710% to of 3.331%. Principal and interest to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 783,067	\$ 43,045	\$ 826,112
2025	710,777	26,433	737,210
2026	481,502	11,133	492,635
2027	51,944	1,424	53,368
Total	<u>\$ 2,027,290</u>	<u>\$ 82,035</u>	<u>\$ 2,109,325</u>

**Compensated Absences**

The long-term portion of compensated absences payable has been accrued for the Governmental Activities on the Government-Wide Financial Statements. In prior years, the General Fund has typically been used to liquidate the liability. The balance outstanding at June 30, 2023 was \$5,081,560.

**Claims Payable**

Refer to Note 10 for more details.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 7 – Long-Term Liabilities (Continued)**

**B. Business-Type Activities**

The following is a summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2023:

	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion	Long-term Portion
Compensated absences	\$ 216,636	\$ 52,873	\$ (49,268)	\$ 220,241	\$ 10,492	\$ 209,749
Total long-term liabilities	\$ 216,636	\$ 52,873	\$ (49,268)	\$ 220,241	\$ 10,492	\$ 209,749

**Compensated Absences**

All vested vacation and compensatory leave time is recognized as an expense and as a liability in the business-type funds at the time the liability vests. All of the enterprise funds of the City have been used to liquidate the liability. The balance outstanding at June 30, 2023 was \$220,241.

**Note 8 – Defined Benefit Pension Plan**

Below is a summary of the deferred outflows of resources, net pension liabilities and deferred inflows of resources by Plan at June 30, 2023:

	Deferred Outflows of Resources		Net Pension Liability	Deferred Inflows of Resources	
Miscellaneous Plan	\$	18,126,053	\$ 55,840,898	\$	137,371

**A. General Information about the Pension Plan**

**Plan Description**

The City contributes to the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

**Benefit 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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 8 – Defined Benefit Pension Plan (Continued)**

**A. General Information about the Pension Plan (Continued)**

**Benefit Provided (Continued)**

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, 2023, 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%	7.00%
Required employer contribution rates	9.74%	9.74%

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one-month salary for each completed year of current service, up to a maximum of six-months salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

**Employees Covered by Benefit Terms**

As of the June 30, 2021 actuarial valuation date (most current), the following employees were covered by the benefit terms of the Plan:

Active employees	205
Transferred and terminated employees	169
Retired Employees and Beneficiaries	273
Total	<u>647</u>

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 8 – Defined Benefit Pension Plan (Continued)**

**A. General Information about the Pension Plan (Continued)**

**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.

**B. Net Pension Liability**

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

The June 30, 2021 valuation was rolled forward to determine the June 30, 2022 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS' Membership Data for all Funds. The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter
Post Retirement Benefit Increase	

<sup>1</sup>The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

**Change of Assumptions**

Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 8 – Defined Benefit Pension Plan (Continued)**

**B. Net Pension Liability (Continued)**

**Long-term Expected Rate of Return**

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

Asset Class <sup>1</sup>	Assumed Asset Allocation	Real Return <sup>1,2</sup>
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
	<u>100.00%</u>	

<sup>1</sup> An expected inflation of 2.30% used for this period.

<sup>2</sup> Figures are based on the 2021 Asset Liability Management study.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 8 – Defined Benefit Pension Plan (Continued)**

**C. Changes in the Net Pension Liability**

The following table shows the changes in net pension liability for the City’s Miscellaneous Plan recognized over the measurement period.

	<b>Miscellaneous Plan</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (c) = (a) - (b)</b>
Balance at June 30, 2021 (Valuation Date)	\$ 161,180,149	\$ 127,121,572	\$ 34,058,577
Changes in the year:			
Service cost	3,614,486	-	3,614,486
Interest on the total pension liability	11,312,835	-	11,312,835
Change of Benefit Terms	-	-	-
Change of Assumptions	5,380,881	-	5,380,881
Differences between actual and expected experience	(188,249)	-	(188,249)
Contribution - employer	-	6,396,030	(6,396,030)
Contribution - employee	-	1,632,861	(1,632,861)
Net investment income	-	(9,612,070)	9,612,070
Administrative expenses	-	(79,189)	79,189
Other miscellaneous income/(expenses)	-	-	-
Benefit payments, including refunds of employee contributions	(8,451,800)	(8,451,800)	-
Net Changes during July 1, 2021 to June 30, 2022	11,668,153	(10,114,168)	21,782,321
Balance at June 30, 2022 (Measurement Date)	<u>\$ 172,848,302</u>	<u>\$ 117,007,404</u>	<u>\$ 55,840,898</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the plans as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	<b>Plan's Net Pension Liability/(Asset)</b>		
	<b>Discount Rate</b>	<b>Current Discount</b>	<b>Discount Rate</b>
	<b>- 1% (5.90%)</b>	<b>Rate (6.90%)</b>	<b>+ 1% (7.90%)</b>
<b>Miscellaneous Plan</b>	<u>\$ 79,168,477</u>	<u>\$ 55,840,898</u>	<u>\$ 36,670,370</u>

**Pension Plan Fiduciary Net Position**

Detailed information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 8 – Defined Benefit Pension Plan (Continued)**

**D. Changes in the Net Pension Liability**

**Pension Expense (Credit) and Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2023, the City recognized pension expense of \$8,200,508. As of June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Miscellaneous Plan</b>	
	<b>Deferred outflows of Resources</b>	<b>Deferred inflows of Resources</b>
Pension contribution made after measurement date	\$ 7,183,364	\$ -
Changes of assumptions	3,926,589	-
Difference between expected and actual experience	1,057,512	(137,371)
Net difference between projected and actual earning on pension plan investments	5,958,588	-
Total	\$ 18,126,053	\$ (137,371)

The amounts above are net of outflows and inflows recognized in the 2021-22 measurement period expense.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the miscellaneous plan for the 2021-22 measurement period is 3.7 years, which was obtained by dividing the total service years of 2,275 (the sum of remaining service lifetimes of the active employees) by 612 (the total number of participants: active, inactive, and retired).

The \$7,183,364 of contributions for the fiscal year ended June 30, 2023 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 ending June 30, 2024.

Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Measurement Period Ending June 30</b>	<b>Deferred Outflows/(Inflows)</b>
2023	\$ 3,069,776
2024	2,637,405
2025	1,426,385
2026	3,671,752
2027	-
Thereafter	-
Total	\$ 10,805,318

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 9 – Other Post Employment Benefits (OPEB)**

**A. General Information about the OPEB Plan**

**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](http://www.calpers.ca.gov).

The City participates in the Public Agency Retirement System (PARS) Public Agencies Post Retirement Health Care Plan Trust Program (PARS Trust), an agent-multiple employer irrevocable trust established to fund other postemployment benefits. The 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.

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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 9 – Other Post Employment Benefits (OPEB) (Continued)**

**A. General Information about the OPEB Plan (Continued)**

**Plan Description (Continued)**

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 Members Covered by Benefit Terms**

At June 30, 2023 (the latest information available), Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	156
Inactive plan members entitled to but not yet receiving benefit payments	0
Active plan members	171
	327

**Contributions**

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. Based on the actuarial valuation date of June 30, 2023, the annual required contribution rate is 7.3 percent of annual covered payroll. For the year ended June 30, 2023, the City paid \$1,753,000 in healthcare premium payments including implied subsidy. Plan members are not required to contribute to the plan.

**B. Net OPEB Liability**

The City's net OPEB liability was measured as of June 30, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2023. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

**Investment Rate of Return**

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 geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2023 (see the discussion of the Plan's investment policy) are summarized in the following table:

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 9 – Other Post Employment Benefits (OPEB) (Continued)**

**B. Net OPEB Liability (Continued)**

**Investment Rate of Return (Continued)**

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income - core	5.17%
Fixed income - high yield	8.06%
Equities - domestic	6.96%
Equities - developed foreign	9.94%
Equities - emerging foreign	11.22%
Real estate	7.67%
Cash	2.95%

**Investment Policy**

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council by a majority vote of its members. It is the policy of the City Council 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 City Council's adopted asset allocation policy as of June 30, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	29.00%
Equities	63.00%
Real estate	5.00%
Commodities	2.00%
Cash	1.00%
Total	<u>100.00%</u>

**Concentrations**

The Plan did not have investments outside of mutual funds that comprise five percent or more of the Plan's total fiduciary net position.

**Rate of Return**

For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 10.94 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 9 – Other Post Employment Benefits (OPEB) (Continued)**

**B. Net OPEB Liability (Continued)**

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, 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.

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 June 30, 2023 actuarial valuation include the following:

Valuation date:	June 30, 2023
Measurement date:	June 30, 2023
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percent of pay closed, 5.5 years as of June 30, 2023
Amortization Period:	10 year
Asset Valuation Method:	Market value of Assets
Actuarial Assumptions:	
Discount Rate	6.50%
Amortization growth rate	2.75%
Ultimate Rate of Medical Inflation	4.25%
Salary increases	2.75% plus merit component based on years of service
Mortality	CalPERS mortality assumptions

**Discount Rate**

The discount rate used to measure the total OPEB liability was 6.5 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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 9 – Other Post Employment Benefits (OPEB) (Continued)**

**C. Change in Net OPEB Liability**

Changes in the Net OPEB Liability: The changes in the City’s net OPEB liability (asset) are:

	Net Increase (Decrease)		Net OPEB Liability (Asset) (c) = (a) - (b)
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	
Balance at June 30, 2022	\$ 29,871,000	\$ 31,340,000	\$ (1,469,000)
Changes in the year			
Service cost	1,260,000	-	1,260,000
Interest on the total OPEB liability	1,967,000	-	1,967,000
Change of assumptions	(492,000)	-	(492,000)
Differences between actual and expected experience	4,437,000	-	4,437,000
Contribution - employer	-	1,753,000	(1,753,000)
Contribution - employee	-	-	-
Net investment income	-	3,484,000	(3,484,000)
Administrative expenses	-	(116,000)	116,000
Benefit payments, including refunds of Employee contributions	(1,753,000)	(1,753,000)	-
Net Changes during July 1, 2021 to June 30, 2022	5,419,000	3,368,000	2,051,000
Balance at June 30, 2023 (Measurement Date)	\$ 35,290,000	\$ 34,708,000	\$ 582,000

**Sensitivity of the net OPEB Liability (Asset) to Changes in the Discount Rate**

The following presents the net OPEB asset 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 one-percentage-point lower (5.5 percent) or one-percentage-point higher (7.5 percent) than the current discount rate:

Plan's Net OPEB Liability/(Asset)		
1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
\$ 4,827,000	\$ 582,000	\$ (2,959,000)

**Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trend Rates**

The following presents the net OPEB asset 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 one-percentage-point lower (decreasing to 3.5 percent) or one-percentage-point higher (increasing to 5.5 percent) than the current healthcare cost trend rates:

Plan's Net OPEB Liability/(Asset)		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ (3,119,000)	\$ 582,000	\$ 5,110,000

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 9 – Other Post Employment Benefits (OPEB) (Continued)**

**D. OPEB Expense and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2023, the City recognized OPEB expense of \$1,779,000. As of June 30, 2023, the City reported deferred inflows of resources related to OPEB from the following sources:

	<b>OPEB Plan</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on investments	\$ 1,864,000	\$ -
Differences between expected and actual experience	3,697,000	1,874,000
Changes in assumption	609,000	410,000
	\$ 6,170,000	\$ 2,284,000

The difference between projected OPEB plan investment earnings and actual earnings is amortized over a five-year period. The remaining gains and losses are amortized over the expected average remaining service life. The expected average remaining service life is 6 years, which was determined as of June 30, 2022, the beginning of the measurement period, for employees covered by the OPEB plan benefit terms.

Amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows

<b>Measurement Period Ending June 30</b>	<b>Deferred Outflows/(Inflows)</b>
2024	\$ 696,000
2025	(8,000)
2026	2,176,000
2027	367,000
2028	655,000
Thereafter	-
Total	\$ 3,886,000

**Note 10 – 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 Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA – formerly the Association of Bay Area Governments Pooled Liability Assurance Network or ABAG PLAN). The risk pool consists of 28 agencies within the San Francisco Bay Area. The stated purpose of the PLAN JPA is to provide certain levels of liability insurance coverage, claims management, risk management services, and legal defense to its participating members. PLAN JPA is governed by a Board of Directors, which comprises officials appointed by each participating member. Premiums paid to PLAN JPA are subject to possible refund based on the results of actuarial studies and approval by the Board of Directors. Complete financial statements for PLAN JPA may be obtained from their offices at the following address: PLAN JPA, c/o Sedgwick, 1750 Creekside Oaks Drive Suite 200, Sacramento, CA, 95833. Premiums are revised each year based on the City's claims experience and risk exposure. For the year ended June 30, 2023, the City paid the PLAN JPA premiums of \$1,263,191.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 10 – 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, 2023, the City paid premiums of \$158,781.

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 two 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:

	2023	2022
Claims liability, beginning of year	\$ 1,569,000	\$ 1,374,000
Incurred claims and changes in estimate	1,122,626	671,344
Claim payments and credits	(468,840)	(476,344)
Total claims liability, end of year	2,222,786	1,569,000
Less current portion	(382,000)	(282,000)
Non-current portion	\$ 1,840,786	\$ 1,287,000

**Note 11 – Net Position and Fund Balances**

**A. Net Investment in Capital Assets**

The following is the calculation of net investment in capital assets at June 30, 2023:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation and amortization	\$ 219,167,964	\$ 2,109,592
Add: deferred charges on refunding	159,478	-
Less: outstanding principal on capital related debts	(16,065,000)	-
Less: bond premium	(2,784,711)	-
Less: subscription liabilities	(2,027,290)	-
Net investment in capital assets	\$ 198,450,441	\$ 2,109,592

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 11 – Net Position and Fund Balances (Continued)**

**B. Fund Balance Classifications**

At June 30, 2023, fund balances are classified in the governmental funds as follows:

	General	Transportation	Housing Development	Public Facilities Corporation Debt Service Fund	Capital Investments Projects Capital Projects Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable:</b>							
Loans receivable	\$ 970,962	\$ -	\$ 5,402,316	\$ -	\$ -	\$ -	\$ 6,373,278
Advances to other funds	3,000,000	-	-	-	-	-	3,000,000
Inventories	21,383	-	-	-	-	-	21,383
Prepaid items	8,243	-	-	-	-	-	8,243
Subtotal	4,000,588	-	5,402,316	-	-	-	9,402,904
<b>Restricted for:</b>							
Public access television	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
PARS Section 115 Trust	19,088,859	-	-	-	-	-	19,088,859
Public safety power shutoff	-	-	-	-	-	-	-
Debt services	-	-	-	1,750	-	-	1,750
Storm drain system	-	-	-	-	-	3,993,672	3,993,672
Parks and open space	-	-	-	-	-	18,763,732	18,763,732
Environmental management	-	-	-	-	-	1,220,134	1,220,134
Streets and road projects	-	10,586,674	-	-	-	770,107	11,356,781
Housing programs	-	-	6,090,291	-	-	-	6,090,291
Subtotal	19,088,859	10,586,674	6,090,291	1,750	-	24,747,645	60,515,219
<b>Committed for:</b>							
Economic uncertainty	24,000,000	-	-	-	-	-	24,000,000
Sustainability reserve	127,891	-	-	-	-	-	127,891
Capital project reserve	10,000,000	-	-	-	-	-	10,000,000
Subtotal	34,127,891	-	-	-	-	-	34,127,891
<b>Assigned to:</b>							
Encumbrances	9,735,187	-	-	-	-	-	9,735,187
Capital projects	-	-	-	-	34,767,194	157,343	34,924,537
Subtotal	9,735,187	-	-	-	34,767,194	157,343	44,659,724
<b>Unassigned</b>							
	71,603,813	-	-	-	-	-	71,603,813
<b>Total</b>	<b>\$ 138,556,338</b>	<b>\$ 10,586,674</b>	<b>\$ 11,492,607</b>	<b>\$ 1,750</b>	<b>\$ 34,767,194</b>	<b>\$ 24,904,988</b>	<b>\$ 220,309,551</b>

**Note 12 – Commitments and Contingencies**

**A. Federal and State Grants**

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, 2023, 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.

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 12 – Commitments and Contingencies (Continued)**

**B. Encumbrances**

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

As of June 30, 2023, the City had the following encumbrances outstanding:

Governmental Funds:	
General Fund	\$ 9,735,187
Transportation Special Revenue Fund	1,998,991
Capital Improvements Projects Capital Projects Fund	1,994,887
Housing Development Special Revenue Fund	3,666
Nonmajor Governmental Funds	2,106,625
Proprietary Funds:	
Resource Recovery Enterprise Fund	284,540
Cupertino Sports Center Enterprise Fund	7,925
Nonmajor Enterprise Fund	5,858
Internal Service Funds	<u>1,001,388</u>
Total Encumbrances	<u><u>\$ 17,139,067</u></u>

**C. Consulting Agreement for Sales Taxes**

The City entered into agreements (commitments) 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. These agreements qualify as tax abatements under the provisions of GASB Statement 77. For the year ended June 30, 2023, the City abated taxes totaling \$9,056,208.

**D. Santa Clara County Vehicle Registration Fee (VRF)**

The City is required to report VRF revenues, expenditures and fund balances for the year ended June 30, 2023:

VRF Balance as of July 1, 2022	\$ -
VRF Revenue	343,735
VRF Interest	-
VRF Expended	<u>(343,735)</u>
VRF Balance as of June 30, 2023	<u><u>\$ -</u></u>

**City of Cupertino**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 12 – Commitments and Contingencies (Continued)**

**E. Unasserted Claim**

The City is aware of a probable reallocation of sales and use tax revenues pursuant to Revenue and Taxation Code Section 7209. Given the limited information available about this matter, the City is not able to predict the likelihood of an unfavorable outcome or the amount or the range of any potential loss. However, the City had \$56.5 million reserved for the potential reallocation.

**Note 13 – Concentration Risk**

The City has an economic dependency on revenues generated directly or indirectly from one company. For the year ended June 30, 2023, 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.

**Note 14 – Prior Period Adjustment**

**A. Government-Wide Financial Statements**

The beginning net position was restated as following:

	Governmental Activities
Net position at July 1, 2022, as previously reported	\$ 358,321,213
Correction on the interest receivable related to loans	1,562,736
Net position at July 1, 2022, as restated	\$ 359,883,949

**B. Governmental Fund Financial Statements**

The beginning fund balance was restated as following:

	General Fund	Housing Development Special Revenue Fund	Total
Fund balances at July 1, 2022, as previously reported	\$ 110,169,554	\$ 7,177,611	\$ 117,347,165
Interest receivable related to loans	509,278	1,053,458	1,562,736
Restatement of unavailable revenue from loan receivable to fund balance	-	3,672,000	3,672,000
Fund balances at July 1, 2022, as restated	\$ 110,678,832	\$ 11,903,069	\$ 121,019,165

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**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

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**City of Cupertino**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Taxes	\$ 74,956,859	\$ 75,956,859	\$ 83,341,842	\$ 7,384,983
Use of money and property	1,275,113	1,275,113	3,033,683	1,758,570
Intergovernmental	1,434,491	7,946,051	7,771,411	(174,640)
Licenses and permits	3,541,012	34,057,523	4,093,631	(29,963,892)
Charges for services	11,798,652	14,427,740	11,113,598	(3,314,142)
Fines and forfeitures	427,000	427,000	303,573	(123,427)
Other revenue	1,160,437	1,182,892	1,306,455	123,563
<b>Total revenues</b>	<u>94,593,564</u>	<u>135,273,178</u>	<u>110,964,193</u>	<u>(24,308,985)</u>
<b>EXPENDITURES:</b>				
Current:				
Administration	11,046,406	10,274,851	7,716,525	2,558,326
Law enforcement	16,814,519	16,814,519	15,276,950	1,537,569
Public and environmental affairs	3,396,862	2,778,946	1,829,867	949,079
Administrative services	7,209,458	7,163,840	5,857,808	1,306,032
Recreation services	7,461,888	7,663,132	5,432,183	2,230,949
Community development	11,348,827	12,781,783	10,666,834	2,114,949
Public works	25,580,835	27,184,374	23,879,927	3,304,447
Capital outlay	306,000	287,292	1,263,412	(976,120)
Debt service:				
Principal	-	-	626,181	(626,181)
Interest and fiscal charges	-	-	18,540	(18,540)
<b>TOTAL EXPENDITURES</b>	<u>83,164,795</u>	<u>84,948,737</u>	<u>72,568,227</u>	<u>12,380,510</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>11,428,769</u>	<u>50,324,441</u>	<u>38,395,966</u>	<u>(11,928,475)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Inception of subscription liability	-	-	964,745	964,745
Transfers in	61,140	861,140	861,140	-
Transfers out	(11,996,300)	(12,453,213)	(12,344,345)	108,868
<b>Total other financing sources (uses)</b>	<u>(11,935,160)</u>	<u>(11,592,073)</u>	<u>(10,518,460)</u>	<u>1,073,613</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (506,391)</u>	<u>\$ 38,732,368</u>	<u>27,877,506</u>	<u>\$ (10,854,862)</u>
<b>FUND BALANCE:</b>				
Beginning of year			110,678,832	
End of year			<u>\$ 138,556,338</u>	

**City of Cupertino**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - Transportation Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ 211,271	\$ 211,271
Intergovernmental	3,008,043	3,008,043	3,385,823	377,780
Charges for services	1,654	1,654	34,012	32,358
Other revenue	-	-	2,000	2,000
<b>Total revenues</b>	<u>3,009,697</u>	<u>3,009,697</u>	<u>3,633,106</u>	<u>623,409</u>
<b>EXPENDITURES:</b>				
Current:				
Public works	4,181,513	3,031,021	2,726,550	304,471
Capital outlay	3,217,800	4,944,938	4,950,786	(5,848)
<b>TOTAL EXPENDITURES</b>	<u>7,399,313</u>	<u>7,975,959</u>	<u>7,677,336</u>	<u>298,623</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(4,389,616)</u>	<u>(4,966,262)</u>	<u>(4,044,230)</u>	<u>922,032</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	3,000,000	3,000,000	3,000,000	-
Transfers out	-	(197,491)	(197,491)	-
<b>Total other financing sources (uses)</b>	<u>3,000,000</u>	<u>2,802,509</u>	<u>2,802,509</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,389,616)</u>	<u>\$ (2,163,753)</u>	<u>(1,241,721)</u>	<u>\$ 922,032</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>11,828,395</u>	
End of year			<u>\$ 10,586,674</u>	

**City of Cupertino**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - Housing Development Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Taxes	\$ 8,002,202	\$ 8,002,202	\$ 170,824	\$ (7,831,378)
Use of money and property	3,300	3,300	194,096	190,796
Intergovernmental	492,181	492,181	196,616	(295,565)
Charges for services	-	-	1,640	1,640
Other revenue	-	-	28,082	28,082
<b>Total revenues</b>	<u>8,497,683</u>	<u>8,497,683</u>	<u>591,258</u>	<u>(7,906,425)</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	1,777,397	2,058,310	1,026,720	1,031,590
<b>TOTAL EXPENDITURES</b>	<u>1,777,397</u>	<u>2,058,310</u>	<u>1,026,720</u>	<u>1,031,590</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>6,720,286</u>	<u>6,439,373</u>	<u>(435,462)</u>	<u>(6,874,835)</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	25,000	25,000	25,000	-
<b>Total other financing sources</b>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 6,745,286</u>	<u>\$ 6,464,373</u>	<u>(410,462)</u>	<u>\$ (6,874,835)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			11,903,069	
End of Year			<u>\$ 11,492,607</u>	

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**City of Cupertino**  
**Required Supplementary Information**  
**Notes to the Budgetary Comparison Schedules**  
**For the Year Ended June 30, 2023**

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**Budget and Budgetary Accounting**

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 accounting principles generally accepted in the United States of America.

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years<sup>1</sup>

**Agent Multiple Employer Defined Benefit Retirement Plan - Miscellaneous Plan**

Measurement period	2021-22	2020-21	2019-20	2018-19	2017-18
<b>Total pension liability</b>					
Service cost	\$ 3,614,486	\$ 3,392,942	\$ 3,241,719	\$ 3,324,361	\$ 3,058,629
Interest	11,312,835	10,907,002	10,302,395	9,800,245	9,065,322
Changes of benefit terms	-	-	-	-	-
Changes of assumptions	5,380,881	-	-	-	(847,606)
Differences between expected and actual experience	(188,249)	2,212,836	444,188	4,144,384	1,184,340
Benefit payments, including refunds of employee contributions	(8,451,800)	(7,937,592)	(6,815,494)	(6,193,271)	(6,051,845)
<b>Net change in total pension liability</b>	<b>11,668,153</b>	<b>8,575,188</b>	<b>7,172,808</b>	<b>11,075,719</b>	<b>6,408,840</b>
<b>Total pension liability - beginning</b>	<b>161,180,149</b>	<b>152,604,961</b>	<b>145,432,153</b>	<b>134,356,434</b>	<b>127,947,594</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 172,848,302</b>	<b>\$ 161,180,149</b>	<b>\$ 152,604,961</b>	<b>\$ 145,432,153</b>	<b>\$ 134,356,434</b>
<b>Pension fiduciary net position</b>					
Contributions - employer	\$ 6,396,030	\$ 5,957,595	\$ 5,308,579	\$ 4,654,841	\$ 4,263,020
Contributions - employee	1,632,861	1,560,532	1,429,446	1,364,731	1,506,888
Net investment income	(9,612,070)	23,553,078	4,975,822	6,096,968	7,347,936
Benefit payments, including refunds of employee contributions	(8,451,800)	(7,937,592)	(6,815,494)	(6,193,271)	(6,051,845)
Net Plan to Plan Resource Movement	-	-	-	-	(216)
Administrative expense	(79,189)	(103,981)	(140,036)	(66,707)	(135,263)
Other Miscellaneous Income/(Expense) <sup>2</sup>	-	-	-	216	(256,867)
<b>Net change in plan fiduciary net position</b>	<b>(10,114,168)</b>	<b>23,029,632</b>	<b>4,758,317</b>	<b>5,856,778</b>	<b>6,673,653</b>
<b>Plan fiduciary net position - beginning<sup>3</sup></b>	<b>127,121,572</b>	<b>104,091,940</b>	<b>99,333,623</b>	<b>93,476,845</b>	<b>86,803,192</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 117,007,404</b>	<b>\$ 127,121,572</b>	<b>\$ 104,091,940</b>	<b>\$ 99,333,623</b>	<b>\$ 93,476,845</b>
<b>Plan net pension liability - ending (a) - (b)</b>	<b>\$ 55,840,898</b>	<b>\$ 34,058,577</b>	<b>\$ 48,513,021</b>	<b>\$ 46,098,530</b>	<b>\$ 40,879,589</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>67.69%</b>	<b>78.87%</b>	<b>68.21%</b>	<b>68.30%</b>	<b>69.57%</b>
<b>Covered payroll<sup>4</sup></b>	<b>\$ 20,455,494</b>	<b>\$ 20,427,103</b>	<b>\$ 18,662,748</b>	<b>\$ 18,461,490</b>	<b>\$ 16,809,349</b>
<b>Plan net pension liability as a percentage of covered payroll</b>	<b>272.99%</b>	<b>166.73%</b>	<b>259.95%</b>	<b>249.70%</b>	<b>243.20%</b>

<sup>1</sup>Historical information is presented only for periods after GASB 68 was implemented in 2013-14. Additional years of information will be displayed as it becomes available.

<sup>2</sup> During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017 -18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

<sup>3</sup> Includes any beginning of year adjustment.

<sup>4</sup> Includes one year's payroll growth using 2.80% payroll growth assumption for fiscal year ended June 30, 2022; 2.75% payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00% payroll growth assumption for fiscal years ended June 30, 2014-17.

**Notes to Schedule:**

**Changes of Benefit Terms:** The figures above generally include any liability impact that may have resulted from voluntary benefit changes that occurred on or before the Measurement Date. However, offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes) that occurred after the Valuation Date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

**Changes of Assumptions:** Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15% for measurement dates 2017 through 2021, 7.65% for measurement dates 2015 through 2016, and 7.50% for measurement date 2014.

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in the Net Pension Liability and Related Ratios (Continued)**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years

**Agent Multiple Employer Defined Benefit Retirement Plan - Miscellaneous Plan**

Measurement period	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>				
Service cost	\$ 2,895,549	\$ 2,525,314	\$ 2,444,939	\$ 2,504,228
Interest	8,619,588	8,253,983	7,789,134	7,349,943
Changes of benefit terms	-	-	-	-
Changes of assumptions	7,125,558	-	(1,883,633)	-
Differences between expected and actual experience	(182,397)	696,347	372,917	-
Benefit payments, including refunds of employee contributions	(5,346,890)	(5,151,298)	(4,637,005)	(4,351,614)
<b>Net change in total pension liability</b>	<b>13,111,408</b>	<b>6,324,346</b>	<b>4,086,352</b>	<b>5,502,557</b>
<b>Total pension liability - beginning</b>	<b>114,836,186</b>	<b>108,511,840</b>	<b>104,425,488</b>	<b>98,922,931</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 127,947,594</b>	<b>\$ 114,836,186</b>	<b>\$ 108,511,840</b>	<b>\$ 104,425,488</b>
<b>Pension fiduciary net position</b>				
Contributions - employer	\$ 4,183,822	\$ 3,659,170	\$ 3,301,642	\$ 2,891,986
Contributions - employee	1,236,052	1,169,921	1,149,894	1,061,884
Net investment income	8,749,288	466,704	1,724,204	11,379,985
Benefit payments, including refunds of employee contributions	(5,346,890)	(5,151,298)	(4,637,005)	(4,351,614)
Net Plan to Plan Resource Movement	-	-	-	-
Administrative expense <sup>2</sup>	(115,304)	(47,536)	(87,780)	-
Other Miscellaneous Income/(Expense) <sup>2</sup>	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>8,706,968</b>	<b>96,961</b>	<b>1,450,955</b>	<b>10,982,241</b>
<b>Plan fiduciary net position - beginning<sup>3</sup></b>	<b>78,096,224</b>	<b>77,999,263</b>	<b>76,548,308</b>	<b>65,566,067</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 86,803,192</b>	<b>\$ 78,096,224</b>	<b>\$ 77,999,263</b>	<b>\$ 76,548,308</b>
<b>Plan net pension liability - ending (a) - (b)</b>	<b>\$ 41,144,402</b>	<b>\$ 36,739,962</b>	<b>\$ 30,512,577</b>	<b>\$ 27,877,180</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>67.84%</b>	<b>68.01%</b>	<b>71.88%</b>	<b>73.30%</b>
<b>Covered payroll<sup>4</sup></b>	<b>\$ 15,595,136</b>	<b>\$ 14,336,969</b>	<b>\$ 13,504,966</b>	<b>\$ 13,080,327</b>
<b>Plan net pension liability as a percentage of covered payroll</b>	<b>263.83%</b>	<b>256.26%</b>	<b>225.94%</b>	<b>213.12%</b>

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Plan Contributions - Pension**  
**For the Year Ended June 30, 2023**

**Last Ten Fiscal Years**

**Agent Multiple Employer Defined Benefit Retirement Plan - Miscellaneous Plan**

Fiscal Year End	2022-23	2021-22	2020-21	2019-20	2018-19
Actuarially determined contribution <sup>1</sup>	\$ 7,183,364	\$ 6,396,030	\$ 5,957,595	\$ 5,308,579	\$ 4,654,841
Contributions in relation to the actuarially determined contribution <sup>1</sup>	(7,183,364)	(6,396,030)	(5,957,595)	(5,308,579)	(4,654,841)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll <sup>2</sup>	\$ 21,028,248	\$ 20,455,494	\$ 20,427,103	\$ 18,662,748	\$ 18,461,490
Contributions as a percentage of covered payroll <sup>2</sup>	34.16%	31.27%	29.17%	28.44%	25.21%

<sup>1</sup> Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

<sup>2</sup> Includes one year's payroll growth using 2.80% payroll growth assumption for fiscal year ended June 30, 2022; 2.75% payroll growth assumption for fiscal years ended June 30, 2018- 21; 3.00% payroll growth assumption for fiscal years ended June 30, 2014-17.

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2022-23 were derived from the June 30, 2020 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll, closed
Asset valuation method	Fair Value of Assets
Inflation	2.50%
Salary increases	Varies by entry age and service
Payroll Growth	2.75%
Investment rate of return	7.00% net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience study for the period from 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries .

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Plan Contributions - Pension (Continued)**  
**For the Year Ended June 30, 2023**

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Last Ten Fiscal Years

**Agent Multiple Employer Defined Benefit Retirement Plan - Miscellaneous Plan**

Fiscal Year End	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially determined contribution	\$ 4,263,020	\$ 4,183,822	\$ 3,659,170	\$ 3,301,642	\$ 2,891,986
Contributions in relation to the actuarially determined contribution <sup>1</sup>	<u>(4,263,020)</u>	<u>(4,183,822)</u>	<u>(3,659,170)</u>	<u>(3,301,642)</u>	<u>(2,891,986)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered payroll <sup>2</sup>	\$ 16,809,349	\$ 15,595,136	\$ 14,336,969	\$ 13,504,966	\$ 13,080,327
Contributions as a percentage of covered payroll <sup>2</sup>	25.36%	26.83%	25.52%	24.45%	22.11%

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**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in the Net Other postemployment Benefits Liability and Related Ratios**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years\*  
Expressed in thousands

**Single Employer Defined Benefit Other Post Employment Benefit Plan**

Measurement period	2022-23	2021-22	2020-21	2019-20
<b>Total OPEB liability</b>				
Service cost	\$ 1,260	\$ 1,015	\$ 844	\$ 1,009
Interest	1,967	1,921	2,042	1,985
Changes of benefit terms	-	-	-	-
Difference between expected vs actual experience	4,437	-	(4,688)	-
Changes of assumptions	(492)	-	640	1,412
Benefit payments, including refunds of employee contributions	(1,753)	(1,691)	(1,550)	(1,141)
<b>Net change in total OPEB liability</b>	5,419	1,245	(2,712)	3,265
<b>Total OPEB liability - beginning</b>	29,871	28,626	31,338	28,073
<b>Total OPEB liability - ending (a)</b>	\$ 35,290	\$ 29,871	\$ 28,626	\$ 31,338
Contributions - employer	1,753	1,691	1,550	1,141
Net investment income	3,484	(6,568)	8,776	219
Benefit payments	(1,753)	(1,691)	(1,550)	(1,141)
Administrative expense	(116)	(117)	(121)	(67)
<b>Net change in fiduciary net position</b>	3,368	(6,685)	8,655	152
<b>Plan fiduciary net position - beginning</b>	31,340	38,025	29,370	29,218
<b>Plan fiduciary net position - ending (b)</b>	\$ 34,708	\$ 31,340	\$ 38,025	\$ 29,370
<b>Net OPEB liability (asset) - ending (a-b)</b>	\$ 582	\$ (1,469)	\$ (9,399)	\$ 1,968
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	98.35%	104.92%	132.83%	93.72%
<b>Covered employee-payroll</b>	\$ 27,344	\$ 24,015	\$ 23,082	\$ 21,643
<b>Plan OPEB liability as a percentage of covered payroll</b>	2.13%	-6.12%	-40.72%	9.09%

Notes to Schedule:

\* Fiscal year 2017 was the 1<sup>st</sup> year of implementation, therefore only seven (7) years are shown.

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in the Net Other postemployment Benefits Liability and Related Ratios (Continued)**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years\*  
Expressed in thousands

**Single Employer Defined Benefit Other Post Employment Benefit Plan**

Measurement period	2018-19	2017-18	2016-17 <sup>*</sup>
<b>Total OPEB liability</b>			
Service cost	\$ 865	\$ 1,008	\$ 908
Interest	2,005	1,876	1,781
Changes of benefit terms	-	-	-
Actual vs. expected experience	(1,808)	-	-
Changes of assumptions	(37)	-	-
Benefit payments, including refunds of employee contributions	(1,423)	(1,419)	(1,333)
<b>Net change in total OPEB liability</b>	(398)	1,465	1,356
<b>Total OPEB liability - beginning</b>	28,471	27,006	25,650
<b>Total OPEB liability - ending (a)</b>	<u>\$ 28,073</u>	<u>\$ 28,471</u>	<u>\$ 27,006</u>
Contributions - employer	1,423	1,419	1,333
Net investment income	1,259	2,365	2,960
Benefit payments	(1,423)	(1,419)	(1,333)
Administrative expense	(97)	(54)	(49)
<b>Net change in fiduciary net position</b>	1,162	2,311	2,911
<b>Plan fiduciary net position - beginning</b>	28,056	25,745	22,834
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 29,218</u>	<u>\$ 28,056</u>	<u>\$ 25,745</u>
<b>Net OPEB liability (asset) - ending (a-b)</b>	\$ (1,145)	\$ 415	\$ 1,261
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	104.08%	98.54%	95.33%
<b>Covered employee-payroll<sup>~</sup></b>	<u>\$ 20,086</u>	<u>\$ 19,153</u>	<u>\$ 17,255</u>
<b>Plan OPEB liability as a percentage of covered payroll</b>	<u>-5.70%</u>	<u>2.17%</u>	<u>7.31%</u>

Notes to Schedule:

\* Fiscal year 2017 was the 1<sup>st</sup> year of implementation, therefore only seven (7) years are shown.

**City of Cupertino**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Plan Contributions - Other postemployment Benefits**  
**For the Year Ended June 30, 2023**

**Last Ten Fiscal Years\***

**Single Employer Defined Benefit OPEB Plan**

	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Actuarially determined contribution	\$ 147	\$ 129	\$ 124	\$ 1,401	\$ 1,300	\$ 1,362	\$ 1,117
Contributions in relation to the actuarially determined contribution	1,753	1,691	1,550	1,141	1,423	1,419	1,333
Contribution deficiency (excess)	\$ (1,606)	\$ (1,562)	\$ (1,426)	\$ 260	\$ (123)	\$ (57)	\$ (216)
Covered payroll	\$ 27,344	\$ 24,015	\$ 23,082	\$ 21,643	\$ 20,086	\$ 19,153	\$ 17,255
Contributions as a percentage of covered payroll	-6.41%	-7.04%	-6.72%	-5.27%	-7.08%	-7.41%	-7.73%

\* - Fiscal year 2017 was the 1st year of implementation, therefore only seven (7) years are shown.

**Notes to Schedule:**

Valuation Date 7/1/2023  
Timing Actuarially determined contributions are calculated based on the most recently performed actuarial valuation, which for the fiscal year end 2023, was the 7/1/2023

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level Percent of Pay, Closed, 5.5 years as of 7/1/2023
Asset valuation method	Market value of assets
Discount rate	6.50%
Amortization growth rate	2.75%
Ultimate rate of medical inflation	4.250%
Salary increases	2.75% plus merit component based on years of service
Mortality	CalPERS mortality assumptions

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# SUPPLEMENTARY INFORMATION

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**City of Cupertino**  
**Major Governmental Funds**  
**Other than the General Fund and Special Revenue Funds**

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

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

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

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**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Public Facilities Corporation Debt Service Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ (5,100)	\$ (5,100)
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>(5,100)</u>	<u>(5,100)</u>
<b>EXPENDITURES:</b>				
Current:				
Administration	-	-	1,500	(1,500)
Debt service:				
Principal	1,955,000	1,955,000	1,955,000	-
Interest and fiscal charges	720,800	720,800	720,800	-
<b>Total expenditures</b>	<u>2,675,800</u>	<u>2,675,800</u>	<u>2,677,300</u>	<u>(1,500)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,675,800)</u>	<u>(2,675,800)</u>	<u>(2,682,400)</u>	<u>(6,600)</u>
<b>OTHER FINANCIN SOURCES:</b>				
Transfers in	2,675,800	2,675,800	2,675,800	-
<b>Total other financing sources</b>	<u>2,675,800</u>	<u>2,675,800</u>	<u>2,675,800</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(6,600)</u>	<u>\$ (6,600)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>8,350</u>	
End of Year			<u>\$ 1,750</u>	

**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Improvement Projects Capital Projects Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Use of money and property	\$ -	\$ -	\$ (326,691)	\$ (326,691)
Intergovernmental	-	5,320,973	515,814	(4,805,159)
Charges for services	-	-	51,675	51,675
Other revenue	-	610,931	56,522	(554,409)
<b>Total revenues</b>	<u>-</u>	<u>5,931,904</u>	<u>297,320</u>	<u>(5,634,584)</u>
<b>EXPENDITURES:</b>				
Capital outlay	3,610,000	5,831,818	4,417,593	1,414,225
<b>TOTAL EXPENDITURES</b>	<u>3,610,000</u>	<u>5,831,818</u>	<u>4,417,593</u>	<u>1,414,225</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(3,610,000)</u>	<u>100,086</u>	<u>(4,120,273)</u>	<u>(4,220,359)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,500,000	6,454,311	4,788,757	(1,665,554)
Transfers out	(23,600)	(2,489,154)	(823,600)	1,665,554
<b>Total other financing sources (uses)</b>	<u>2,476,400</u>	<u>3,965,157</u>	<u>3,965,157</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,133,600)</u>	<u>\$ 4,065,243</u>	<u>(155,116)</u>	<u>\$ (4,220,359)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			34,922,310	
End of Year			<u>\$ 34,767,194</u>	

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE 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*** - This fund 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

***Park Dedication*** - This fund 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 I Clean Creeks*** - This fund accounts for all activities related to operating the non-point source pollution program. A parcel tax provides revenues.

***Traffic Impact*** - This fund accounts for development impact fees and related that ensure that new development and redevelopment projects pay their "fair share" to mitigate traffic impacts.

### CAPITAL PROJECTS FUNDS

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

***Stevens Creek Corridor Park Capital Projects Fund*** - This fund accounts for the design and construction of the Stevens Creek Corridor Park projects.

**City of Cupertino  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2023**

	Special Revenue Funds			
	Storm Drain Improvement	Park Dedication	Environmental Management/ Clean Creeks	Traffic Impact
<b>ASSETS</b>				
Cash and investments	\$ 3,985,841	\$ 18,778,647	\$ 1,227,519	\$ 767,399
Accounts receivable	-	-	15,134	-
Interest receivable	14,071	66,271	4,171	2,708
<b>Total assets</b>	<b>3,999,912</b>	<b>18,844,918</b>	<b>1,246,824</b>	<b>770,107</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	6,240	81,186	26,690	-
<b>Total liabilities</b>	<b>6,240</b>	<b>81,186</b>	<b>26,690</b>	<b>-</b>
<b>Fund balances:</b>				
Restricted	3,993,672	18,763,732	1,220,134	770,107
Assigned	-	-	-	-
<b>Total fund balances</b>	<b>3,993,672</b>	<b>18,763,732</b>	<b>1,220,134</b>	<b>770,107</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,999,912</b>	<b>\$ 18,844,918</b>	<b>\$ 1,246,824</b>	<b>\$ 770,107</b>

**City of Cupertino**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2023**

	Capital Projects Fund		Total Nonmajor Governmental Funds
	Stevens Creek Corridor Park		
<b>ASSETS</b>			
Cash and investments	\$ 157,343		\$ 24,916,749
Accounts receivable	-		15,134
Interest receivable	-		87,221
<b>Total assets</b>	<u>157,343</u>		<u>25,019,104</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable and accruals	-		114,116
<b>Total liabilities</b>	<u>-</u>		<u>114,116</u>
<b>Fund balances:</b>			
Restricted	-		24,747,645
Assigned	157,343		157,343
<b>Total fund balances</b>	<u>157,343</u>		<u>24,904,988</u>
<b>Total liabilities and fund balances</b>	<u>\$ 157,343</u>		<u>\$ 25,019,104</u>

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**City of Cupertino**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2023**

	Special Revenue Funds			
	Storm Drain Improvement	Park Dedication	Environmental Management/ Clean Creeks	Traffic Impact
<b>Revenues:</b>				
Taxes	\$ 73,912	\$ 646,767	\$ -	\$ -
Use of money and property	21,801	277,663	4,476	11,710
Charges for services	-	4,810	1,498,017	38,200
Fines and forfeitures	-	-	23,371	-
<b>Total revenues</b>	<b>95,713</b>	<b>929,240</b>	<b>1,525,864</b>	<b>49,910</b>
<b>Expenditures:</b>				
Current:				
Public works	-	-	1,615,379	-
Capital outlay	135,840	1,757,252	-	-
<b>Total expenditures</b>	<b>135,840</b>	<b>1,757,252</b>	<b>1,615,379</b>	<b>-</b>
<b>Revenues over (under) expenditures</b>	<b>(40,127)</b>	<b>(828,012)</b>	<b>(89,515)</b>	<b>49,910</b>
<b>Other financing sources (uses):</b>				
Transfers out	-	(1,711,140)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(1,711,140)</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(40,127)</b>	<b>(2,539,152)</b>	<b>(89,515)</b>	<b>49,910</b>
<b>Fund balances:</b>				
Beginning of year	4,033,799	21,302,884	1,309,649	720,197
End of year	<u>\$ 3,993,672</u>	<u>\$ 18,763,732</u>	<u>\$ 1,220,134</u>	<u>\$ 770,107</u>

**City of Cupertino**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2023**

	Capital Projects Fund	Total Nonmajor Governmental Funds
	Stevens Creek Corridor Park	
<b>Revenues:</b>		
Taxes	\$ -	\$ 720,679
Use of money and property	(803)	314,847
Charges for services	-	1,541,027
Fines and forfeitures	-	23,371
<b>Total revenues</b>	<u>(803)</u>	<u>2,599,924</u>
<b>Expenditures:</b>		
Current:		
Public works	-	1,615,379
Capital outlay	8,433	1,901,525
<b>Total expenditures</b>	<u>8,433</u>	<u>3,516,904</u>
<b>Revenues over (under) expenditures</b>	<u>(9,236)</u>	<u>(916,980)</u>
<b>Other financing sources (uses):</b>		
Transfers out	-	(1,711,140)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(1,711,140)</u>
<b>Net Change in Fund Balances</b>	<u>(9,236)</u>	<u>(2,628,120)</u>
<b>Fund balances:</b>		
Beginning of year	166,579	27,533,108
End of year	<u>\$ 157,343</u>	<u>\$ 24,904,988</u>

**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Storm Drain Improvement Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 201,229	\$ 201,229	\$ 73,912	\$ (127,317)
Use of money and property	-	-	21,801	21,801
<b>Total revenues</b>	<u>201,229</u>	<u>201,229</u>	<u>95,713</u>	<u>(105,516)</u>
<b>Expenditures:</b>				
Capital outlay	-	135,840	135,840	-
<b>Total expenditures</b>	<u>-</u>	<u>135,840</u>	<u>135,840</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ 201,229</u>	<u>\$ 65,389</u>	(40,127)	<u>\$ (105,516)</u>
<b>Fund balance:</b>				
Beginning of year			<u>4,033,799</u>	
End of year			<u>\$ 3,993,672</u>	

**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Park Dedication Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ 646,767	\$ 646,767
Use of money and property	-	-	277,663	277,663
Charges for services	-	-	4,810	4,810
<b>Total Revenues</b>	<u>-</u>	<u>-</u>	<u>929,240</u>	<u>929,240</u>
<b>Expenditures:</b>				
Capital outlay	-	1,832,007	1,757,252	74,755
<b>Total Expenditures</b>	<u>-</u>	<u>1,832,007</u>	<u>1,757,252</u>	<u>74,755</u>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(1,832,007)</u>	<u>(828,012)</u>	<u>1,003,995</u>
<b>Other Financing Sources (Uses):</b>				
Transfers out	-	(1,650,000)	(1,711,140)	(61,140)
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(1,650,000)</u>	<u>(1,711,140)</u>	<u>(61,140)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (3,482,007)</u>	<u>(2,539,152)</u>	<u>\$ 942,855</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>21,302,884</u>	
End of Year			<u>\$ 18,763,732</u>	

**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Environmental Management/Clean Creeks Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ 2,248	\$ 2,248	\$ 4,476	\$ 2,228
Charges for services	1,510,555	1,510,555	1,498,017	(12,538)
Fines and forfeitures	68,669	68,669	23,371	(45,298)
<b>Total Revenues</b>	<u>1,512,803</u>	<u>1,512,803</u>	<u>1,525,864</u>	<u>(10,310)</u>
<b>Expenditures:</b>				
Current:				
Public works	2,067,399	1,724,715	1,615,379	109,336
<b>Total Expenditures</b>	<u>2,067,399</u>	<u>1,724,715</u>	<u>1,615,379</u>	<u>109,336</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (554,596)</u>	<u>\$ (211,912)</u>	(89,515)	<u>\$ 122,397</u>
<b>FUND BALANCE:</b>				
Beginning of Year			1,309,649	
End of Year			<u>\$ 1,220,134</u>	

**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Traffic Impact Special Revenue Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ -	\$ -	\$ 11,710	\$ 11,710
Charges for services	-	-	38,200	38,200
<b>Total Revenues</b>	-	-	49,910	49,910
 <b>NET CHANGE IN FUND BALANCE</b>	 \$ -	 \$ -	 49,910	 \$ 49,910
<b>FUND BALANCE:</b>				
Beginning of Year			720,197	
End of Year			\$ 770,107	

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**City of Cupertino**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Stevens Creek Corridor Park Capital Projects Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ -	\$ -	\$ (803)	\$ (803)
<b>Total Revenues</b>	<u>-</u>	<u>-</u>	<u>(803)</u>	<u>(803)</u>
<b>Expenditures:</b>				
Capital outlay	-	8,543	8,433	110
<b>Total Expenditures</b>	<u>-</u>	<u>8,543</u>	<u>8,433</u>	<u>110</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (8,543)</u>	<u>(9,236)</u>	<u>\$ (693)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>166,579</u>	
End of Year			<u>\$ 157,343</u>	

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# NONMAJOR ENTERPRISE FUND

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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 fund below as a nonmajor proprietary fund for fiscal 2022-23.

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

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**City of Cupertino**  
**Combining Statement of Net Position**  
**Nonmajor Enterprise Fund**  
**June 30, 2023**

	Blackberry Farm
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and investments	\$ 896,941
Accounts receivable	1,829
Interest receivable	3,136
<b>Total current assets</b>	<b>901,906</b>
<b>Noncurrent assets:</b>	
Capital assets:	
Nondepreciable	137,343
Depreciable, net	18,042
Total capital assets	155,385
<b>Total noncurrent assets</b>	<b>155,385</b>
<b>Total assets</b>	<b>1,057,291</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	101,506
Related to other postemployment benefit	18,479
<b>Total deferred outflows of resources</b>	<b>119,985</b>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts payable and accruals	18,976
Compensated absences, current portion	458
Unearned revenue	92,223
<b>Total current liabilities</b>	<b>111,657</b>
<b>Noncurrent liabilities:</b>	
Compensated absences	9,157
Net pension liability	312,709
Net other postemployment benefit liability	1,743
<b>Total noncurrent liabilities</b>	<b>323,609</b>
<b>Total liabilities</b>	<b>435,266</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Related to pensions	769
Related to other postemployment benefit	6,841
<b>Total deferred inflows of resources</b>	<b>7,610</b>
<b>NET POSITION:</b>	
Investment in capital assets	155,385
Unrestricted	579,015
<b>Total net position</b>	<b>\$ 734,400</b>

**City of Cupertino**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Nonmajor Enterprise Fund**  
**For the Year Ended June 30, 2023**

	Blackberry Farm
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 570,038
Others	46,423
<b>Total operating revenues</b>	616,461
<b>OPERATING EXPENSES:</b>	
Salaries and benefits	233,013
Materials and supplies	208,348
Contractual services	354,975
Depreciation	2,832
<b>Total operating expenses</b>	799,168
<b>OPERATING INCOME (LOSS)</b>	(182,707)
<b>NONOPERATING REVENUES:</b>	
Investment income	37,286
<b>Total nonoperating revenues</b>	37,286
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(145,421)
<b>TRANSFERS:</b>	
Transfers in	23,600
<b>Total transfers</b>	23,600
<b>CHANGES IN NET POSITION</b>	(121,821)
<b>NET POSITION:</b>	
Beginning of year	856,221
End of year	\$ 734,400

**City of Cupertino**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Fund**  
**For the Year Ended June 30, 2023**

	Blackberry Farm
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 612,394
Cash paid to suppliers for goods and services	(582,924)
Cash paid to employees for services	(245,311)
<b>Net cash (used in) operating activities</b>	<b>(215,841)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Cash received from other funds	23,600
<b>Net cash provided by noncapital financing activities</b>	<b>23,600</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(137,343)
<b>Net cash (used in) capital and related financing activities</b>	<b>(137,343)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received	34,150
<b>Net cash provided by investing activities</b>	<b>34,150</b>
<b>Net change in cash and cash equivalents</b>	<b>(295,434)</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:</b>	
Beginning of year	1,192,375
End of year	<b>\$ 896,941</b>
<b>CASH AND CASH EQUIVALENTS:</b>	
Cash and investments	\$ 896,941
<b>Total cash and cash equivalents</b>	<b>\$ 896,941</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash (used in) Operating Activities:</b>	
Operating income (loss)	\$ (182,707)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,832
Changes in assets and liabilities:	
(Increase)/decrease in accounts receivables	(1,659)
(Increase)/decrease in deferred outflows of resources pension related	(42,810)
(Increase)/decrease in deferred outflows of resources OPEB related	(5,380)
Increase/(decrease) in accounts payable	(19,601)
Increase/(decrease) in unearned revenue	(2,408)
Increase/(decrease) in compensated absences	(9,290)
Increase/(decrease) in net pension liability	62,474
Increase/(decrease) in OPEB	1,743
Increase/(decrease) in deferred inflows of resources pension related	(25,876)
Increase/(decrease) in deferred inflows of resources OPEB related	6,841
<b>Net cash (used in) operating activities</b>	<b>\$ (215,841)</b>

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# INTERNAL SERVICE FUNDS

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These funds account for goods or services provided to other departments of the City where the intent of the City is that the costs of these goods or services are to be recovered through interdepartmental charges at the time that the goods are delivered or the services rendered to those departments.

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** - This fund is used to account for all expenses relating to workers' compensation (i.e., injury claims, insurance premiums, etc.). The costs are recovered through an annual "user fee" which is charged to all departments/funds that have employees.

**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**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2023**

	Information Technology	Workers' Compensation	Equipment Revolving
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 3,437,113	\$ 3,841,250	\$ 941,189
Accounts receivable	-	-	-
Interest receivable	11,734	13,429	4,870
<b>Total current assets</b>	<b>3,448,847</b>	<b>3,854,679</b>	<b>946,059</b>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable	-	-	119,408
Depreciable and amortizable, net	764,856	-	2,025,120
Total capital assets	764,856	-	2,144,528
<b>Total noncurrent assets</b>	<b>764,856</b>	<b>-</b>	<b>2,144,528</b>
<b>Total assets</b>	<b>4,213,703</b>	<b>3,854,679</b>	<b>3,090,587</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Related to pensions	935,304	23,564	253,765
Related to other postemployment benefit liability	311,746	3,328	95,570
<b>Total deferred outflows of resources</b>	<b>1,247,050</b>	<b>26,892</b>	<b>349,335</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accruals	71,950	-	78,527
Accrued payroll and benefits	-	-	72
Due to other funds	-	-	-
Compensated absences	32,052	1,285	5,017
Claims payable	-	292,000	-
Subscription liabilities	125,990	-	-
<b>Total current liabilities</b>	<b>229,992</b>	<b>293,285</b>	<b>83,616</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	292,942	11,742	45,852
Claims payable	-	1,362,000	-
Subscription liabilities	72,504	-	-
Net pension liability	2,881,390	72,593	781,773
Net other postemployment benefit liability	29,406	314	9,015
<b>Total noncurrent liabilities</b>	<b>3,276,242</b>	<b>1,446,649</b>	<b>836,640</b>
<b>Total liabilities</b>	<b>3,506,234</b>	<b>1,739,934</b>	<b>920,256</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Related to pensions	7,088	179	1,923
Related to other postemployment benefit liability	115,402	1,232	35,378
<b>Total deferred inflows of resources</b>	<b>122,490</b>	<b>1,411</b>	<b>37,301</b>
<b>NET POSITION:</b>			
Net investment in capital assets	566,362	-	2,144,528
Restricted	166,938	1,782	51,177
Unrestricted (deficit)	1,098,729	2,138,444	286,660
<b>Total net position</b>	<b>\$ 1,832,029</b>	<b>\$ 2,140,226</b>	<b>\$ 2,482,365</b>

**City of Cupertino**  
**Combining Statement of Net Position (Continued)**  
**Internal Service Funds**  
**June 30, 2023**

	Compensated Absences and Long-Term Disability	Retiree Medical	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 709,564	\$ 9,898	\$ 8,939,014
Accounts receivable	-	1,385,759	1,385,759
Interest receivable	2,761	-	32,794
<b>Total current assets</b>	<b>712,325</b>	<b>1,395,657</b>	<b>10,357,567</b>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable	-	-	119,408
Depreciable and amortizable, net	-	-	2,789,976
Total capital assets	-	-	2,909,384
<b>Total noncurrent assets</b>	<b>-</b>	<b>-</b>	<b>2,909,384</b>
<b>Total assets</b>	<b>712,325</b>	<b>1,395,657</b>	<b>13,266,951</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Related to pensions	-	-	1,212,633
Related to other postemployment benefit liability	-	-	410,644
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>-</b>	<b>1,623,277</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accruals	-	-	150,477
Accrued payroll and benefits	-	-	72
Due to other funds	-	1,395,657	1,395,657
Compensated absences	-	-	38,354
Claims payable	-	-	292,000
Subscription liabilities	-	-	125,990
<b>Total current liabilities</b>	<b>-</b>	<b>1,395,657</b>	<b>2,002,550</b>
<b>Noncurrent liabilities:</b>			
Compensated absences	-	-	350,536
Claims payable	-	-	1,362,000
Subscription liabilities	-	-	72,504
Net pension liability	-	-	3,735,756
Net other postemployment benefit liability	-	-	38,735
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>5,559,531</b>
<b>Total liabilities</b>	<b>-</b>	<b>1,395,657</b>	<b>7,562,081</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Related to pensions	-	-	9,190
Related to other postemployment benefit liability	-	-	152,012
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>161,202</b>
<b>NET POSITION:</b>			
Net investment in capital assets	-	-	2,710,890
Restricted	-	-	219,897
Unrestricted (deficit)	712,325	-	4,236,158
<b>Total net position</b>	<b>\$ 712,325</b>	<b>\$ -</b>	<b>\$ 7,166,945</b>

**City of Cupertino**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2023**

	Information Technology	Workers' Compensation	Equipment Revolving
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 2,485,218	\$ 436,462	\$ 1,568,633
Other	-	-	-
<b>Total operating revenues</b>	<u>2,485,218</u>	<u>436,462</u>	<u>1,568,633</u>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	2,309,184	42,636	556,909
Materials and supplies	867,945	28,369	357,803
Contractual services	530,557	-	86,875
Insurance and claims and premium	-	470,630	-
Depreciation and amortization	327,470	-	577,140
<b>Total operating expenses</b>	<u>4,035,156</u>	<u>541,635</u>	<u>1,578,727</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,549,938)</u>	<u>(105,173)</u>	<u>(10,094)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income	(30,819)	18,646	12,099
Gain on sale of capital assets	-	-	30,158
Interest expense	(861)	-	-
<b>Total nonoperating revenues</b>	<u>(31,680)</u>	<u>18,646</u>	<u>42,257</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(1,581,618)</u>	<u>(86,527)</u>	<u>32,163</u>
<b>TRANSFERS:</b>			
Transfers in	2,537,500	-	-
<b>Total transfers</b>	<u>2,537,500</u>	<u>-</u>	<u>-</u>
<b>CHANGES IN NET POSITION</b>	955,882	(86,527)	32,163
<b>NET POSITION:</b>			
Beginning of year	876,147	2,226,753	2,450,202
End of year	<u>\$ 1,832,029</u>	<u>\$ 2,140,226</u>	<u>\$ 2,482,365</u>

**City of Cupertino**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position (Continued)**  
**Internal Service Funds**  
**For the Year Ended June 30, 2023**

	Compensated Absences and Long-Term Disability	Retiree Medical	Total
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 115,970	\$ -	\$ 4,606,283
Other	-	1,385,759	1,385,759
<b>Total operating revenues</b>	<u>115,970</u>	<u>1,385,759</u>	<u>5,992,042</u>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	-	1,380,875	4,289,604
Materials and supplies	11,047	14,782	1,279,946
Contractual services	-	-	617,432
Insurance and claims and premium	616,369	-	1,086,999
Depreciation and amortization	-	-	904,610
<b>Total operating expenses</b>	<u>627,416</u>	<u>1,395,657</u>	<u>8,178,591</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(511,446)</u>	<u>(9,898)</u>	<u>(2,186,549)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income	4,435	(26,554)	(22,193)
Gain on sale of capital assets	-	-	30,158
Interest expense	-	-	(861)
<b>Total nonoperating revenues</b>	<u>4,435</u>	<u>(26,554)</u>	<u>7,104</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(507,011)</u>	<u>(36,452)</u>	<u>(2,179,445)</u>
<b>TRANSFERS:</b>			
Transfers in	882,000	9,898	3,429,398
<b>Total transfers</b>	<u>882,000</u>	<u>9,898</u>	<u>3,429,398</u>
<b>CHANGES IN NET POSITION</b>	374,989	(26,554)	1,249,953
<b>NET POSITION:</b>			
Beginning of year	337,336	26,554	5,916,992
End of year	<u>\$ 712,325</u>	<u>\$ -</u>	<u>\$ 7,166,945</u>

**City of Cupertino**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2023**

	Information Technology	Workers' Compensation	Equipment Revolving
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 2,485,218	\$ 436,462	\$ 1,568,633
Cash paid to suppliers for goods and services	(1,397,669)	(498,999)	(413,863)
Cash paid to employees for services	(1,974,702)	(42,379)	(475,639)
Cash paid for insurance claims	-	85,000	-
<b>Net cash provided by (used in) operating activities</b>	<b>(887,153)</b>	<b>(19,916)</b>	<b>679,131</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received (paid) from other funds	2,537,500	-	(539,204)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>2,537,500</b>	<b>-</b>	<b>(539,204)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(173,813)	-	(353,980)
Principal paid	(109,339)	-	-
Interest paid	(861)	-	-
Proceeds from sale of capital assets	-	-	30,158
<b>Net cash (used in) capital and related financing activities</b>	<b>(284,013)</b>	<b>-</b>	<b>(323,822)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest earnings	(42,553)	5,217	7,229
<b>Net cash provided by (used in) investing activities</b>	<b>(42,553)</b>	<b>5,217</b>	<b>7,229</b>
<b>Net change in cash and cash equivalents</b>	<b>1,323,781</b>	<b>(14,699)</b>	<b>(176,666)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	2,113,332	3,855,949	1,117,855
End of year	<u>\$ 3,437,113</u>	<u>\$ 3,841,250</u>	<u>\$ 941,189</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ (1,549,938)	\$ (105,173)	\$ (10,094)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	327,470	-	577,140
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	-	-	-
(Increase)/decrease in deferred outflows of resources related to pensions	(551,497)	(10,154)	(131,853)
(Increase)/decrease in deferred outflows of resources related to OPEB	(49,897)	618	(15,063)
Increase/(decrease) in accounts payable	833	-	30,815
Increase/(decrease) in compensated absences	40,142	616	28,212
Increase/(decrease) in claims payable	-	85,000	-
Increase/(decrease) in net pension liabilities	1,448,629	23,775	337,409
Increase/(decrease) in other postemployment benefit liabilities	88,291	1,052	30,521
Increase/(decrease) in deferred inflows of resources related to pensions	(621,047)	(15,019)	(154,599)
Increase/(decrease) in deferred inflows of resources related to OPEB	(20,139)	(631)	(13,357)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (887,153)</b>	<b>\$ (19,916)</b>	<b>\$ 679,131</b>

(Continued)

**City of Cupertino**  
**Combining Statement of Cash Flows (Continued)**  
**Internal Service Funds**  
**For the Year Ended June 30, 2023**

	Compensated Absences and Long-Term Disability	Retiree Medical	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 115,970	\$ -	\$ 4,606,283
Cash paid to suppliers for goods and services	(627,416)	(14,782)	(2,952,729)
Cash paid to employees for services	-	(1,380,875)	(3,873,595)
Cash paid for insurance claims	-	-	85,000
<b>Net cash provided by (used in) operating activities</b>	<b>(511,446)</b>	<b>(1,395,657)</b>	<b>(2,135,041)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received (paid) from other funds	882,000	1,405,555	4,285,851
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>882,000</b>	<b>1,405,555</b>	<b>4,285,851</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	-	-	(527,793)
Principal paid	-	-	(109,339)
Interest paid	-	-	(861)
Proceeds from sale of capital assets	-	-	30,158
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>-</b>	<b>(607,835)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest earnings	1,674	(26,554)	(54,987)
<b>Net cash provided by (used in) investing activities</b>	<b>1,674</b>	<b>(26,554)</b>	<b>(54,987)</b>
<b>Net change in cash and cash equivalents</b>	<b>372,228</b>	<b>(16,656)</b>	<b>1,487,988</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	337,336	26,554	7,451,026
End of year	<u>\$ 709,564</u>	<u>\$ 9,898</u>	<u>\$ 8,939,014</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ (511,446)	\$ (9,898)	\$ (2,186,549)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	-	-	904,610
Changes in assets and liabilities:			
(Increase)/decrease in accounts receivables	-	(1,385,759)	(1,385,759)
(Increase)/decrease in deferred outflows of resources related to pensions	-	-	(693,504)
(Increase)/decrease in deferred outflows of resources related to OPEB	-	-	(64,342)
Increase/(decrease) in accounts payable	-	-	31,648
Increase/(decrease) in compensated absences	-	-	68,970
Increase/(decrease) in claims payable	-	-	85,000
Increase/(decrease) in net pension liabilities	-	-	1,809,813
Increase/(decrease) in other postemployment benefit liabilities	-	-	119,864
(Increase)/decrease in deferred inflows of resources related to pensions	-	-	(790,665)
Increase/(decrease) in deferred inflows of resources related to OPEB	-	-	(34,127)
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (511,446)</u></b>	<b><u>\$ (1,395,657)</u></b>	<b><u>\$ (2,135,041)</u></b>

(Concluded)

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# CITY OF CUPERTINO

## Agenda Item

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**24-13243**

**Agenda Date: 6/24/2024**  
**Agenda #: 5.**

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**Subject:** INFORMATIONAL ITEM Receive the proposed Audit Committee 2024 Schedule and Workplan

**Receive the proposed Audit Committee 2024 Schedule and Workplan**  
**Presenter:** Jonathan Orozco, Finance Manager and The Pun Group  
**4:00(10)**

**CITY OF CUPERTINO - AUDIT COMMITTEE 2024 SCHEDULE AND WORK PLAN**

January 29, 2024	March 21, 2024	April 22, 2024	June 24, 2024	July XX, 2024	July 22, 2024	October 28, 2024	Nov/Dec XX, 2024
	Appoint Audit Committee Chair and Vice Chair	Approve Prior Meeting Minutes	Approve Prior Meeting Minutes	Approve Prior Meeting Minutes	Approve Prior Meeting Minutes	Approve Prior Meeting Minutes	Approve Prior Meeting Minutes
	Receive the committee's roles and responsibilities (CMC 2.88.100)	OPEB & Pension Trust Performance Report for Quarter Ending December 31, 2023 and March 31, 2024	<del>FY 2022-23 ACFR and Supplemental Reports Review</del>	<del>FY 2022-23 ACFR and Supplemental Reports Review</del>	OPEB & Pension Trust Performance Report for Quarter Ending June 30, 2024	OPEB & Pension Trust Performance Report for Quarter Ending September 30, 2024	Review of FY 2023-24 ACFR and Supplemental Reports (tentative)
	Receive PARS Presentation	Quarterly Treasurer's Investment Report for Quarter Ending December 31, 2023 and March 31, 2024	<del>GANN Limit Agreed Upon Procedures (AUP) Review</del>		Quarterly Treasurer's Investment Report for Quarter Ending June 30, 2024	Quarterly Treasurer's Investment Report for Quarter Ending September 30, 2024	
	Receive Chandler Investments Presentation	Internal Audit and Fraud, Waste, and Abuse Programs Update	<del>Investment Policy Agreed Upon Procedures (AUP) Review</del>		Internal Audit and Fraud, Waste, and Abuse Program Update	Internal Audit and Fraud, Waste, and Abuse Program Update	
	Receive The Pun Group Presentation	Annual Review of City Investment Policy	<del>Storm Drain Agreed Upon Procedures (AUP) Review</del>		Moss Adams - Citywide Policy Review report	Annual Review of OPEB and Pension Trust Investment Policies	
	Receive Moss Adams Presentation	Review of FY 2022-23 ACFR and Supplemental Reports (tentative)	Moss Adams - Enterprise Risk Assessment Report		<del>Moss Adams - Enterprise Risk Assessment Report</del>		
	Receive Budget Feedback on the City's current recommended Service Level Reductions (SLRs)		Internal Audit Program		<del>Internal Audit Program</del>		
	Budget Format Review				Internal Audit Status Update		
	Receive the proposed Audit Committee 2024 Schedule and Workplan				GANN Limit Agreed Upon Procedures (AUP) Review		
					Investment Policy Agreed Upon Procedures (AUP) Review		
					Storm Drain Agreed Upon Procedures (AUP) Review		

CANCELLED

**Summary of Duties – Powers – Responsibilities of  
Cupertino Audit Committee**

Source: Cupertino, CA Municipal Code, Chapter 2.88.100: Audit Committee

The powers and functions of the Audit Committee shall be as follows:

- A: To review the annual audit report and management letter;
- B: To recommend appointment of auditors;
- C: To review the quarterly Treasurer's Investment report;
- D: To recommend a budget format;
- E: To review City investment policies and internal controls of such policies.
- F: To recommend appointment of internal auditors;
- G: To review internal audit reports.
- H: To review quarterly Fraud, Waste, and Abuse Program reports. (Ord. 22-2243 § 1, 2023; Ord. 20-2208, § 1, 2020; Ord. 1679, § 1 (part), 1995)