



CITY OF CUPERTINO

AGENDA

AUDIT COMMITTEE

10185 North Stelling Road, Quinlan Conference Room

Monday, April 28, 2025

4:00 PM

Regular Meeting

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 4:00 p.m. on Monday April 28 to the legislative body at 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.

ROLL CALL

ORDERS OF THE DAY

APPROVAL OF MINUTES

1. Subject: Approve Minutes of Special Meeting on February 28, 2025
Recommended Action: Approve Minutes of Special Meeting on February 28, 2025
[A - 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 Appoint Audit Committee Chair and Vice Chair
Recommended Action: Appoint Audit Committee Chair and Vice Chair
Presenter: Jonathan Orozco
4:15(10)
3. Subject: INFORMATIONAL ITEM Receive OPEB & Pension Section 115 Trust Performance Report for Quarter Ending March 31, 2025
Recommended Action: Receive OPEB & Pension Section 115 Trust Performance Report for Quarter Ending March 31, 2025
Presenter: PARS and US Bank
4:25(15)
[A - OPEB Pension Section 115 Trust Performance Report for Quarter Ending March 31, 2025](#)
4. Subject: INFORMATIONAL ITEM Receive the Internal Audit and Fraud, Waste, and Abuse programs update
Recommended Action: Receive the Internal Audit and Fraud, Waste, and Abuse programs update
Presenter: Moss Adams
4:40(15)
[A - City of Cupertino Internal Audit Status Report 04-21-25](#)
5. Subject: ACTION ITEM Internal Audit Work Program Review
Recommended Action: Receive the Internal Audit Work Program and forward to City Council for approval
Presenter: Moss Adams
4:55(15)
[A - City of Cupertino FY 25-26 Internal Audit Program](#)
6. Subject: ACTION ITEM Annual Review of the City's Investment Policy
Recommended Action: Annual Review of the City's Investment Policy and forward to City Council for Adoption
Presenter: Jonathan Orozco, Finance Manager, and Chandler
5:25(15)
[Staff Report](#)
[A - Cupertino Investment Policy \(redline\)](#)
[B - Cupertino Investment Policy Statement Review Memo](#)

7. Subject: INFORMATIONAL ITEM Receive the Single Audit and Agreed Upon Procedures (AUP) Reviews - GANN Limit, Investment Policy, Storm Drain
Recommended Action: Receive the Single Audit and Agreed Upon Procedures (AUP) Reviews - GANN Limit, Investment Policy, Storm Drain
Presenter: Jonathan Orozco, Finance Manager, and The Pun Group
5:40(15)
[A - Single Audit](#)
[B - GANN Limit AUP](#)
[C - Investment Policy AUP](#)
[D - Storm Drain AUP](#)
8. Subject: ACTION ITEM Updated Budget Format Implementation Action Plan (IAP)
Recommended Action: Receive the Updated Budget Format Implementation Action Plan (IAP) and forward to City Council for approval.
Presenter: Kirstina Alfaro, Director of Administrative Services
5:55(10)
[Staff Report](#)
[A - Redline Budget Format IAP](#)
[B - Updated Budget Format IAP](#)
9. Subject: INFORMATIONAL ITEM Receive the proposed Audit Committee 2025 Schedule and Workplan
Recommended Action: Receive the proposed Audit Committee 2025 Schedule and Workplan
Presenter: Jonathan Orozco, Finance Manager
6:05(10)
[A - Proposed Audit Committee 2025 Schedule and Work Plan](#)

STAFF AND COMMITTEE REPORTS

COMMITTEEMEMBER ATTENDANCE AT UPCOMING MEETINGS AND EVENTS

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 City Council, Commissioners or 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 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.



CITY OF CUPERTINO

Agenda Item

25-13932

Agenda Date: 4/28/2025
Agenda #: 1.

Subject: Approve Minutes of Special Meeting on February 28, 2025

Approve Minutes of Special Meeting on February 28, 2025

City of Cupertino
Audit Committee Special Meeting
DRAFT Minutes
February 18, 2025

CALL TO ORDER

At 4:00 p.m., Chair Schmidt called the special meeting to order in the City of Cupertino Quinlan Conference Room, 10185 North Stelling Road.

ROLL CALL

Committee Members Present: Chair Eno Schmidt, Vice Mayor Kitty Moore, Councilmember Sheila Mohan

City Staff Present: Janet Liang, Jonathan Orozco, Kristina Alfaro

Absent: Committee member Hanyan Wu

Guests: Steve Toler (Baker Tilly)

ORDERS OF THE DAY

1. APPROVE MINUTES OF SPECIAL MEETING ON FEBRUARY 18, 2025

Councilmember Mohan motioned to approve the minutes with Chair Schmidt's edit, Vice Mayor Moore seconded. The motion passes with Committee member Hanyan Wu absent.

POSTPONEMENTS

ORAL COMMUNICATIONS

OLD BUSINESS

NEW BUSINESS

2. Accept the Baker Tilly Budget Format Review update and forward to City Council for approval

Toler provided an overview. Vice Mayor Moore inquired about how the chapters would be summarized and where would all the information go as Public Works has numerous programs and divisions. Toler noted that all the information will still be provided but how should the information be distributed as the general public won't be able to see the big picture. Toler continued to say that the overview would be reorganized and the description of the department, the org structure, the personnel summary of the key priorities, and then revenue and expenditure appropriations by division or program would still be there. He added that it provides a streamline to the public to identify the key initiatives and help tell the story more concisely.

Vice Mayor Moore noted that she wanted to be able to audit the budget units and the summation would make it harder. Alfaro provided an overview of the roles and responsibilities of the Audit Committee.

The Audit Committee discussed the inclusion of the capital budget into the operating budget and what that would entail.

Chair Schmidt asked in what other instances is the internal audit function included in the budget and regarding performance measures does it make more sense to place internal audit performance measures at the City Manager level. Orozco noted that it isn't indicative of finance and how it operates and that it should stay in finance. Toler noted that they could bring the budget dollars into the City Council budget as that is where the reporting occurs.

Peggy Griffin provided public comment.

Vice Mayor Moore noted that she would like Audit Committee's comments included when this report gets sent to City Council. Councilmember Mohan motioned to approve the motion with the addition of Audit Committee's comments to the report.

Below is Audit Committee comments:

- City Council wants to pilot it for FY26-27 to see if this is something City Council likes or through the subcommittee that this is the format that they like
- CIP – connected with the budget book (include graphs)
- Maintaining detail availability as an appendix
- Ensuring original budget (point-in-time) is easily accessible
- Reviewing performance measures in alignment with strategic goals like economic development
- Graphical presentation of numbers to support a narrative description
- Hyperlink to policies within the budget book
 - Summarized policy – key point of what the policy does
 - Attachment to an agenda item for all policies included redline, new, or amended policies within the budget book that is provided to City Council with a staff report
- Internal Audit functions and responsibilities to be considered into City Council budget

The motion passes with Committee member Hanyan Wu absent.

STAFF AND COMMITTEE REPORTS

COMMITTEEMEMBER ATTENDANCE AT UPCOMING MEETINGS AND EVENTS

FUTURE AGENDA SETTING

ADJOURNMENT

The meeting adjourned at 6:04 p.m.

Recording Secretary:

Janet Liang, Management Analyst



CITY OF CUPERTINO

Agenda Item

25-13933

Agenda Date: 4/28/2025
Agenda #: 2.

Subject: ACTION ITEM Appoint Audit Committee Chair and Vice Chair

Appoint Audit Committee Chair and Vice Chair

Presenter: Jonathan Orozco

4:15(10)



CITY OF CUPERTINO

Agenda Item

25-13934

Agenda Date: 4/28/2025

Agenda #: 3.

Subject: INFORMATIONAL ITEM Receive OPEB & Pension Section 115 Trust Performance Report for Quarter Ending March 31, 2025

Receive OPEB & Pension Section 115 Trust Performance Report for Quarter Ending March 31, 2025

Presenter: PARS and US Bank

4:25(15)



CITY OF CUPERTINO

PARS 115 Trust – OPEB Prefunding Program &
Pension Rate Stabilization Program Plan Client Review
April 28, 2025

PARS 115 TRUST TEAM

As of December 31, 2024

Trust Administrator & Consultant*

PARS

PUBLIC AGENCY
RETIREMENT SERVICES

- Serves as record-keeper, consultant, and central point of contact
- Sub-trust accounting
- Coordinates all agency services
- Monitors plan compliance (IRS/GASB/State Government Code)
- Processes contributions/disbursements
- Hands-on, dedicated support teams

41

Years of Experience
(1984-2025)

2,000+

Plans under
Administration

1,000+

Public Agency
Clients

500+

115 Trust Clients

500k+

Plan Participants

\$9.1B+

Assets under
Administration

* See important information regarding PARS in the Disclaimer page at the end of the presentation.

Trustee

usbank

- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguard plan assets
- Oversight protection as plan fiduciary
- Custodian of assets

162

Years of Experience
(1863-2025)

\$11.0T

Assets under
Administration

Investment Manager

pfm asset
management

- A division of U.S. Bancorp Asset Management, Inc.
- Fixed income and multi asset portfolios
- Active and passive platform options
- Customized portfolios (with minimum asset level)

40+

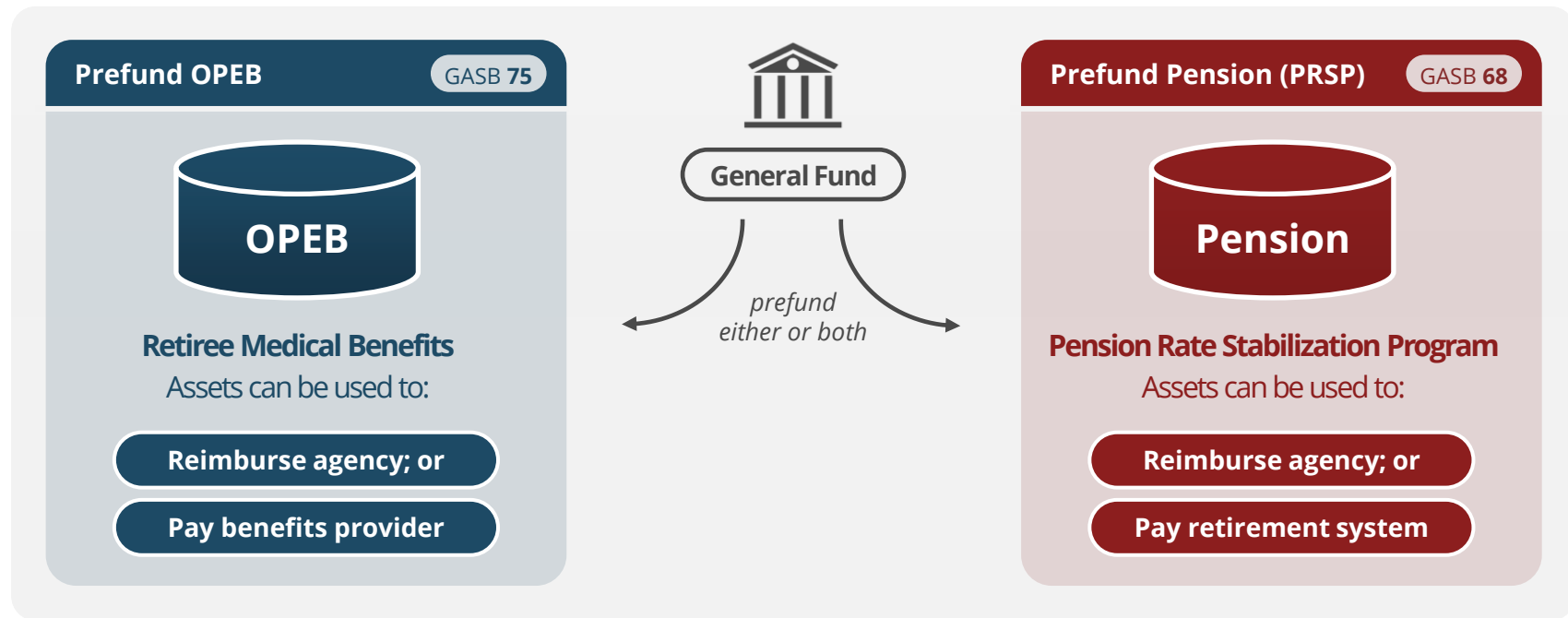
Years of Investment
Experience
(As of 9/30/2024)

\$249B+ *

Assets under Management
& Advisement

*Please see disclosures at the end of this presentation

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center.



Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.



Flexible Investing

Allows separate investment strategies for OPEB and pension subaccounts.



Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.



Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!



No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

PROPOSED PENSION AND OPEB INVESTMENT POLICY CHANGES

Current Benchmarks

Asset Class	Benchmark	Range	Target
Equities	MSCI AC World Free Index	50% - 70%	63%
Fixed Income	BBARC Global Aggregate Index	20% - 40%	29%
Real Estate	S&P Global REIT TR USD	0% - 15%	5%
Commodities	S&P GSCI Commodity Index	0% - 10%	2%
Liquidity	FTSE 3 Mo UST-Bill Index	0% - 10%	1%

Proposed New Benchmarks

Asset Class	Benchmark	Range	Target	Rationale
Equities	MSCI ACWI (Net)	50% - 70%	63%	There is no such thing as the AC World Free according to MSCI
Fixed Income	BBARC US Aggregate Index	20% - 40%	29%	Non US Bonds in the benchmark creates a benchmark mismatch
Real Estate	S&P US REIT Index	0% - 10%	3.5%	Non US R/E in the benchmark creates a benchmark mismatch
Global Infrastructure	S&P FTSE Global Core Infrastructure 50/50	0% - 10%	3.5%	GI has been broken out of Commodities and R/E as a separate asset class
Liquidity	FTSE 3 Mo UST-Bill Index	0% - 10%	1%	---

*Under Permitted Asset Classes and Security Types, Alternatives; Add Global Infrastructure Mutual Funds or Exchange Traded Funds (ETFs)
Change and update all relevant sections of the Investment Policies*



PARS/CITY OF CUPERTINO 115P

OPEB & PENSION ACCOUNTS

March 31, 2025 Review

Your Team

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 - Fixed Income Analysis
 - Performance (AGG460596)
 - Holdings
 - PARS/CITY OF CUPERTINO 115P – PENSION (X9601)
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 - Fixed Income Analysis
 - Performance
 - Holdings
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Portfolio Review - OPEB

Provided by U.S Bank





Account: XXXXXX9600

Holdings Method: Direct

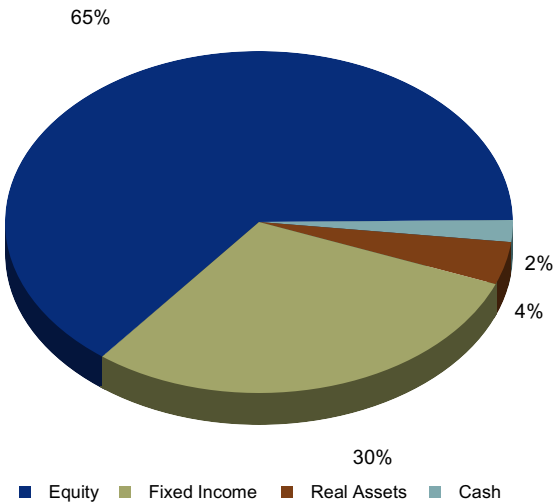
Report Date: 03/31/2025

Portfolio Summary

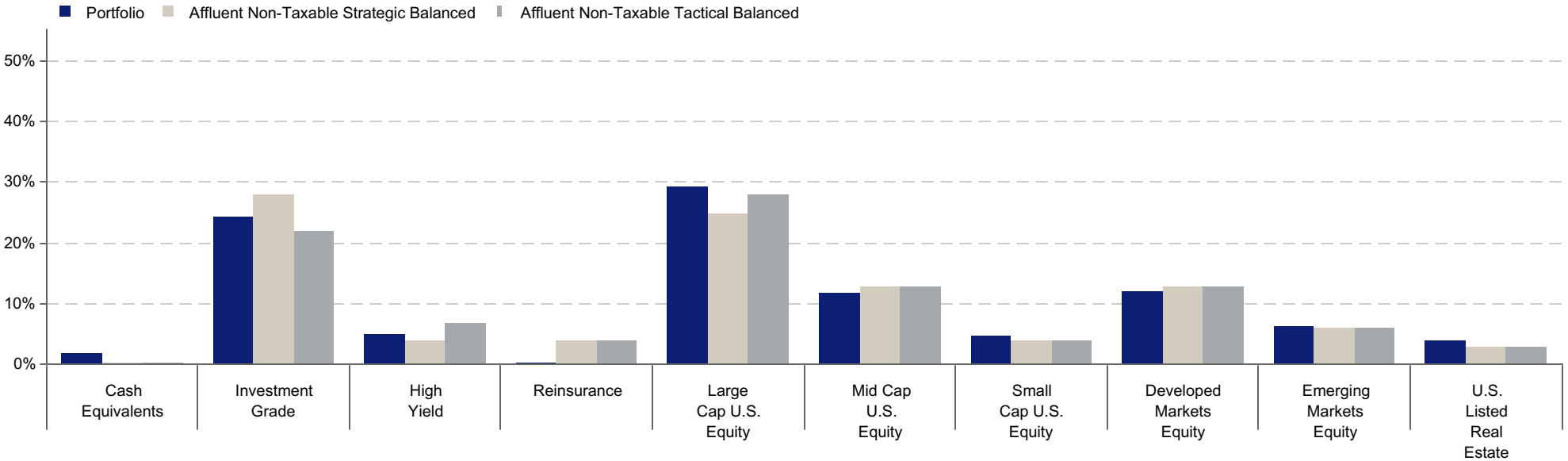
Inv. Objective	Balanced/Nontaxable-1
Total Portfolio Value	\$39,480,337
Net Realized Cap Gains YTD	\$2,789,841
Annual Income Projected	\$908,616
Current Yield	2.30%
Number of Securities	10
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

Portfolio Asset Allocation

Equity	\$25,484,521	64.55%
Fixed Income	\$11,660,844	29.54%
Real Assets	\$1,546,042	3.92%
Cash	\$788,931	2.00%
Invested Total	\$39,480,337	100.00%



Portfolio Model Allocation





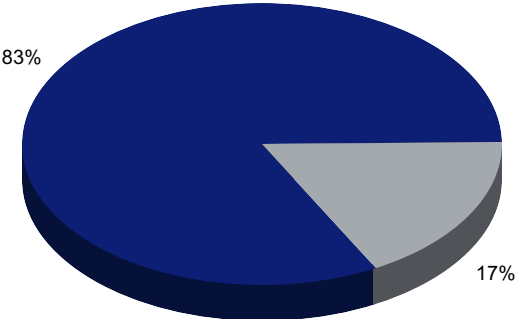
Account: XXXXXX9600 Holdings Method: Direct Report Date: 03/31/2025

Fixed Income Summary

Inv. Objective	Balanced/Nontaxable-1
Total Fixed Income Value	\$11,660,844
Current Yield	4.05%
Annual Income Projected	\$472,438
Number of Securities	2
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

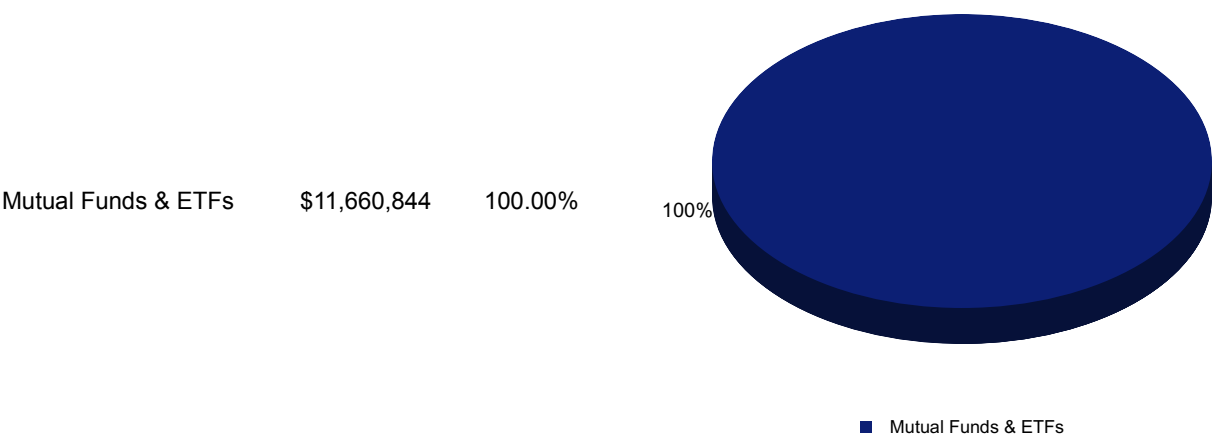
Fixed Income Asset Allocation

Investment Grade	\$9,663,055	82.87%
High Yield	\$1,997,789	17.13%

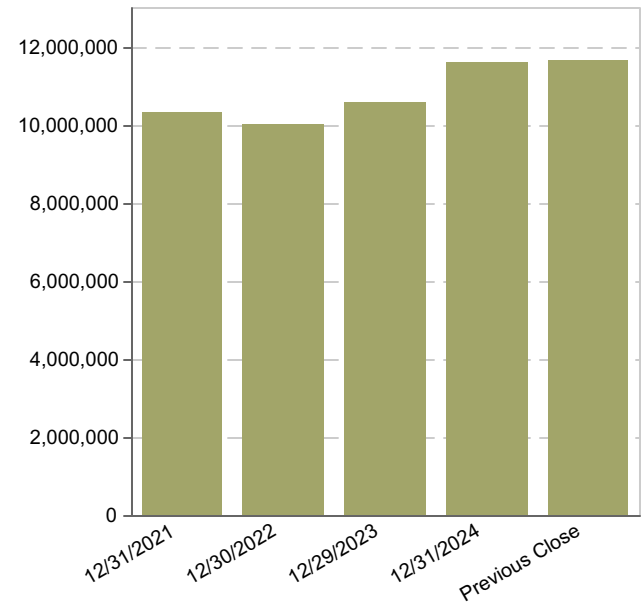


■ Investment Grade ■ High Yield

Fixed Income Sector Exposures



Fixed Income Market Value





Account: XXXXXX9600 Holdings Method: Direct and Indirect (securities held in mutual funds & ETFs) Report Date: 03/31/2025

Equity Summary

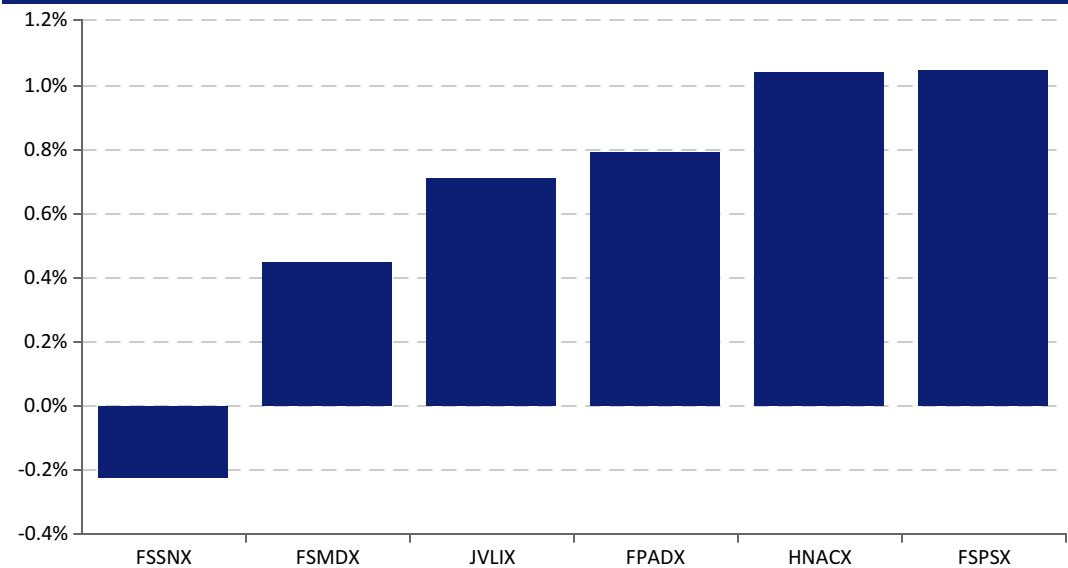
Inv. Objective	Balanced/Nontaxable-1
Total Equity Value	\$25,484,521
Current Yield	1.40%
Annual Income Projected	\$356,122
Number of Securities	6
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

Equity Asset Allocation

Large Cap U.S.	\$11,548,637	45.32%
Developed Markets	\$4,816,256	18.90%
Mid Cap U.S.	\$4,703,956	18.46%
Emerging Markets	\$2,474,720	9.71%
Small Cap U.S.	\$1,940,952	7.62%

Large Cap U.S.	45%
Developed Markets	19%
Mid Cap U.S.	18%
Emerging Markets	10%
Small Cap U.S.	8%

Bottom 5/ Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution



Equity Country Distribution





Account: XXXXXX9600

Holdings Method: Direct and Indirect (securities held in mutual funds & ETFs)

Report Date: 03/31/2025

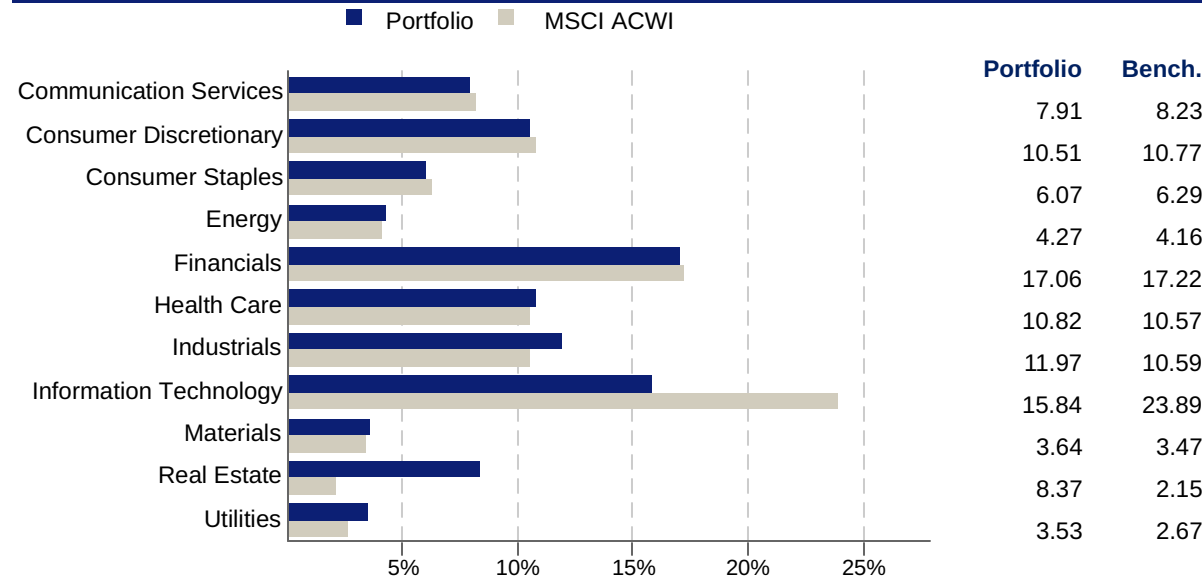
Top 10 Common Stock Holdings

	Stock Wt. (%)	Portfolio Wt. (%)	Yield (%)	YTD Ret. (%)	1 Yr Ret. (%)
NVIDIA Corporation	1.87	1.22	0.04	-19.3	20.0
Amazon.com, Inc.	1.87	1.22	0.00	-13.3	5.5
Meta Platforms Inc Class A	1.39	0.91	0.40	-1.5	19.1
Microsoft Corporation	1.37	0.90	0.89	-10.8	-10.1
Apple Inc.	1.27	0.83	0.49	-11.2	30.1
Netflix, Inc.	1.02	0.66	0.00	4.6	53.5
Alphabet Inc. Class A	1.01	0.66	0.51	-18.2	3.0
JPMorgan Chase & Co.	0.91	0.60	2.32	2.9	25.3
Broadcom Inc.	0.90	0.59	1.33	-27.6	27.9
Taiwan Semiconductor Manufa...	0.80	0.52	1.95	-15.0	18.8

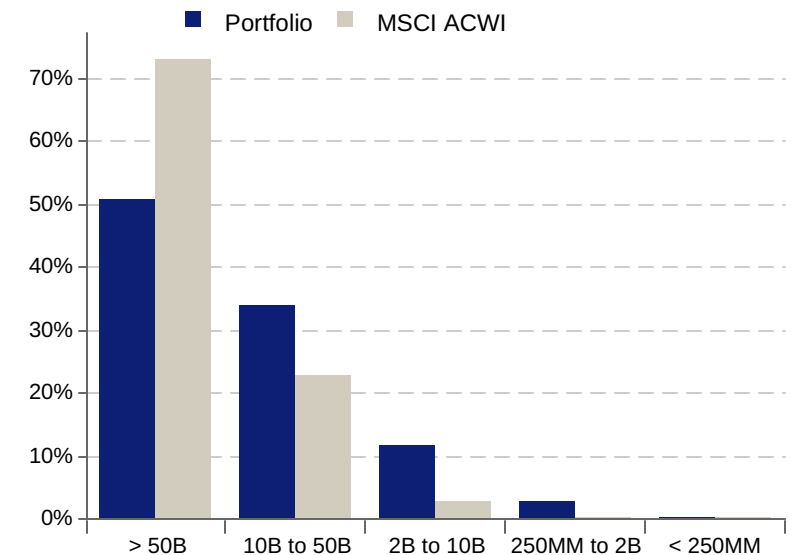
Common Stock Characteristics

	Portfolio	MSCI ACWI
Market Cap - Wtd Avg	\$318.6B	\$600.2B
Market Cap - Median	\$5.3B	\$16.5B
Dividend Yield (%)	1.93	1.94
P/E NTM	16.8	17.2
P/E LTM	20.0	20.5
ROE (%)	19.1	21.7
1 Yr Beta vs. S&P Composite	.84	.81
Est 3-5 Yr EPS Growth (%)	11.6	11.7
Hist 3 Yr EPS Growth (%)	18.3	16.9
Number of Securities	4,810	2,222

Common Stock Sector Exposures



Common Stock Market Cap Distribution



*Specific to the security - does not represent performance in the portfolio.

Custom Benchmark

CITY OF CUPERTINO OPEB

Asset Class	Benchmark	Range	Target	Actual
Equities	MSCI ACWI Index (net)	50%-70%	63%	64.6%
Fixed Income	BBARC Global Aggregate Index	20%-40%	29%	29.5%
Real Estate	S&P Global REIT TR USD	0%-15%	5%	3.9%
Commodities	S&P GSCI Commodity Index	0%-10%	2%	0%
Cash	FTSE 3-Mo US T-Bill Index	0%-10%	1%	2.0%

Selected Period Performance

	Market Value	Year to Date (3 Months)	3 Months	1 Year	3 Years	5 Years	131 Months	Inception to Date 07/01/2010
Total Portfolio Gross of Fees	39,523,233	-.45	-.45	4.74	4.69	10.36	6.01	6.66
Total Portfolio Net of Fees	39,523,233	-.49	-.49	4.57	4.51	10.16	5.80	
City of Cupertino		.14	.14	5.94	3.94	10.02	5.72	7.16
Total Equity	25,484,521	-1.88	-1.88	4.03	6.46	15.34	9.16	11.15
MSCI ACWI (Net)		-1.32	-1.32	7.15	6.91	15.18	8.50	10.01
Domestic Equity	18,193,545	-5.13	-5.13	2.70	7.07	16.38	10.58	
Russell 3000 Index		-4.72	-4.72	7.22	8.22	18.18	11.94	13.92
S&P 500 Index (Total Return)		-4.27	-4.27	8.25	9.06	18.59	12.55	14.33
S&P MidCap 400 Index		-6.10	-6.10	-2.70	4.42	16.91	8.99	11.76
S&P SmallCap 600 Index		-8.93	-8.93	-3.38	.71	15.09	7.97	11.23
Foreign Equity	7,290,976	6.65	6.65	6.85	4.62	12.32	5.42	
MSCI EAFE Index (Net)		6.86	6.86	4.88	6.05	11.77	4.70	6.83
MSCI Emerging Markets Index (Net)		2.93	2.93	8.09	1.44	7.94	3.40	3.71
Total Fixed Income	11,700,825	2.47	2.47	5.23	1.59	1.12	1.02	1.84
BBARC US Aggregate Bond Index		2.78	2.78	4.88	.52	-.40	1.78	2.24
BBARC Global Aggregate Index		2.64	2.64	3.05	-1.63	-1.38	.11	1.19
Total Real Assets	1,546,042	.99	.99	10.13	-.62	9.91		
Real Estate	1,546,042	.99	.99	10.13	-.62	9.91	6.25	
S&P Global REIT Index (Gross)		1.66	1.66	6.61	-2.25	9.01	4.85	7.78
S&P GSCI Index		4.89	4.89	3.83	1.25	20.74	-2.42	-.33
Total Cash Equivalents	791,846	1.06	1.06	4.91	4.23	2.53	1.61	1.20
FTSE 3 Month Treasury Bill Index		1.10	1.10	5.17	4.42	2.69	1.74	1.31
Pending Cash	0	.00	.00	.00	.00	.00	.00	.00



PARS/CITY OF CUPERTINO 115P - OPEB

Portfolio Holdings

Account: XXXXXX9600

Holdings Method: Direct

Report Date: 03/31/2025

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Total		100.0			39,480,337	35,746,660	3,733,677	2.30	908,616
Cash		2.00			788,931	788,931	0	4.27	33,702
Cash Equivalents		2.00			788,931	788,931	0	4.27	33,702
FIRST AM GOVT OB FD CL X	31846V336	2.00	1.00	788,931	788,931	788,931	0	4.27	33,702
Fixed Income		29.54			11,660,844	11,702,310	-41,466	4.05	472,438
Investment Grade		24.48			9,663,055	9,593,245	69,810	3.38	326,743
Mutual Funds & ETFs		24.48			9,663,055	9,593,245	69,810	3.38	326,743
Fidelity U.S. Bond Index Fund	FXNAX	24.48	10.41	928,247	9,663,055	9,593,245	69,810	3.38	326,743
High Yield		5.06			1,997,789	2,109,065	-111,276	7.29	145,695
Mutual Funds & ETFs		5.06			1,997,789	2,109,065	-111,276	7.29	145,695
Artisan High Income Fund - Institutional Sh...	APHFX	5.06	9.05	220,750	1,997,789	2,109,065	-111,276	7.29	145,695
Equity		64.55			25,484,521	21,705,155	3,779,365	1.40	356,122
Large Cap U.S. Equity		29.25			11,548,637	11,354,822	193,815	0.58	66,919
Mutual Funds & ETFs		29.25			11,548,637	11,354,822	193,815	0.58	66,919
Harbor Capital Appreciation Fund - Retire...	HNACX	14.21	102.65	54,658	5,610,597	5,127,063	483,534	0.00	0
John Hancock Fds III Disciplined Value Fu...	JVLIX	15.04	22.45	264,501	5,938,040	6,227,759	-289,719	1.13	66,919
Mid Cap U.S. Equity		11.91			4,703,956	1,933,542	2,770,414	1.21	56,978
Mutual Funds & ETFs		11.91			4,703,956	1,933,542	2,770,414	1.21	56,978
Fidelity Mid Cap Index Fund	FSMDX	11.91	32.61	144,249	4,703,956	1,933,542	2,770,414	1.21	56,978
Small Cap U.S. Equity		4.92			1,940,952	1,829,359	111,593	1.13	21,996
Mutual Funds & ETFs		4.92			1,940,952	1,829,359	111,593	1.13	21,996
Fidelity Small Cap Index Fund	FSSNX	4.92	25.06	77,452	1,940,952	1,829,359	111,593	1.13	21,996
Developed Markets Equity		12.20			4,816,256	4,347,643	468,613	3.03	146,027
Mutual Funds & ETFs		12.20			4,816,256	4,347,643	468,613	3.03	146,027
Fidelity International Index Fund	FSPSX	12.20	51.32	93,848	4,816,256	4,347,643	468,613	3.03	146,027
Emerging Markets Equity		6.27			2,474,720	2,239,790	234,930	2.59	64,202
Mutual Funds & ETFs		6.27			2,474,720	2,239,790	234,930	2.59	64,202
Fidelity Emerging Markets Index Fund	FPADX	6.27	10.87	227,665	2,474,720	2,239,790	234,930	2.59	64,202
Real Assets		3.92			1,546,042	1,550,264	-4,222	3.00	46,354
U.S. Listed Real Estate		3.92			1,546,042	1,550,264	-4,222	3.00	46,354



Account: XXXXXX9600

Holdings Method: Direct

Report Date: 03/31/2025

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
iShares Core U.S. REIT ETF	USRT	3.92	57.60	26,841	1,546,042	1,550,264	-4,222	3.00	46,354

Portfolio Review - Pension

Provided by U.S Bank





Account: XXXXXX9601

Holdings Method: Direct

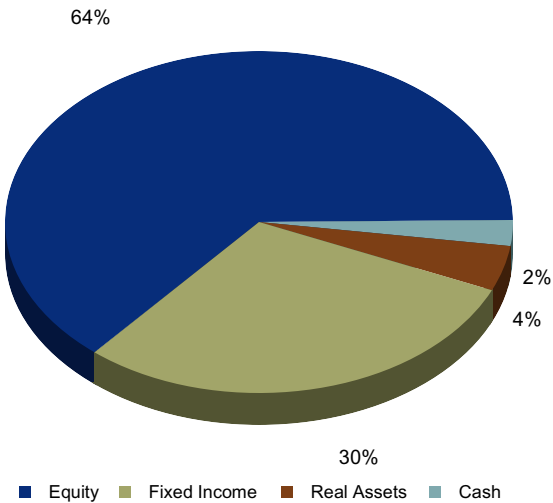
Report Date: 03/31/2025

Portfolio Summary

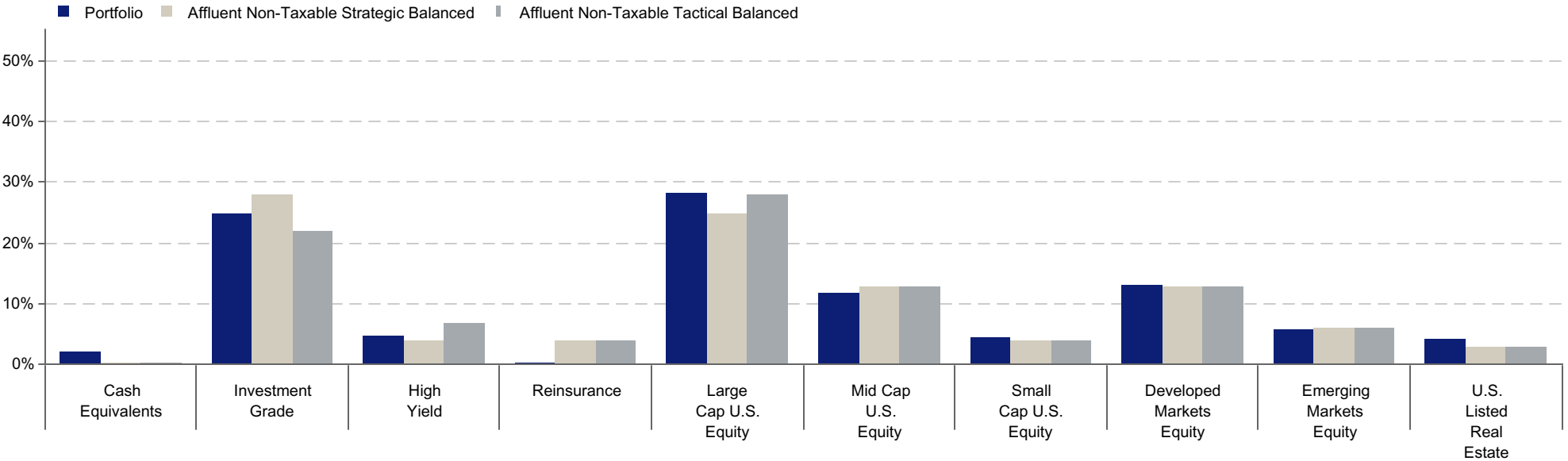
Inv. Objective	Balanced/Nontaxable-1
Total Portfolio Value	\$22,472,282
Net Realized Cap Gains YTD	\$772,930
Annual Income Projected	\$523,766
Current Yield	2.33%
Number of Securities	10
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

Portfolio Asset Allocation

Equity	\$14,349,649	63.85%
Fixed Income	\$6,653,345	29.61%
Real Assets	\$946,944	4.21%
Cash	\$522,344	2.32%
Invested Total	\$22,472,282	100.00%



Portfolio Model Allocation





Account: XXXXXX9601

Holdings Method: Direct

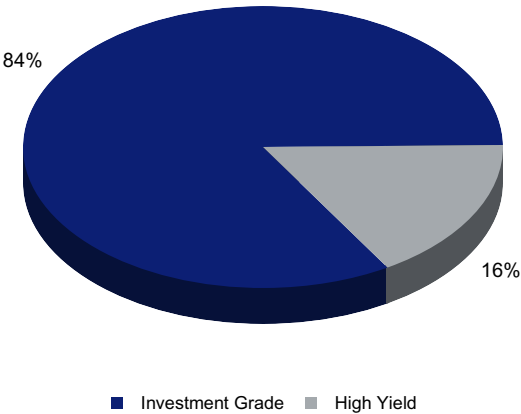
Report Date: 03/31/2025

Fixed Income Summary

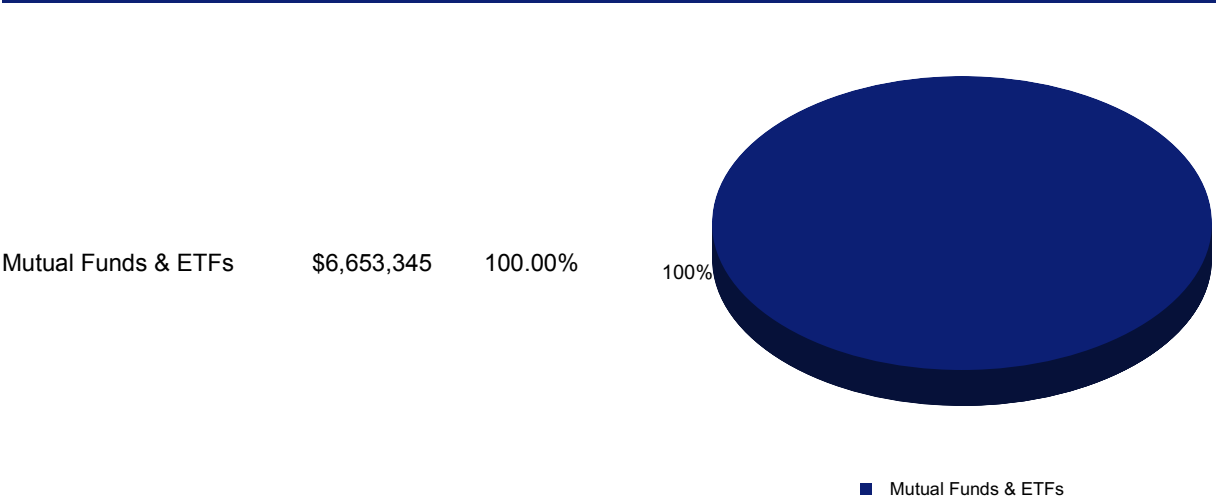
Inv. Objective	Balanced/Nontaxable-1
Total Fixed Income Value	\$6,653,345
Current Yield	4.02%
Annual Income Projected	\$267,440
Number of Securities	2
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

Fixed Income Asset Allocation

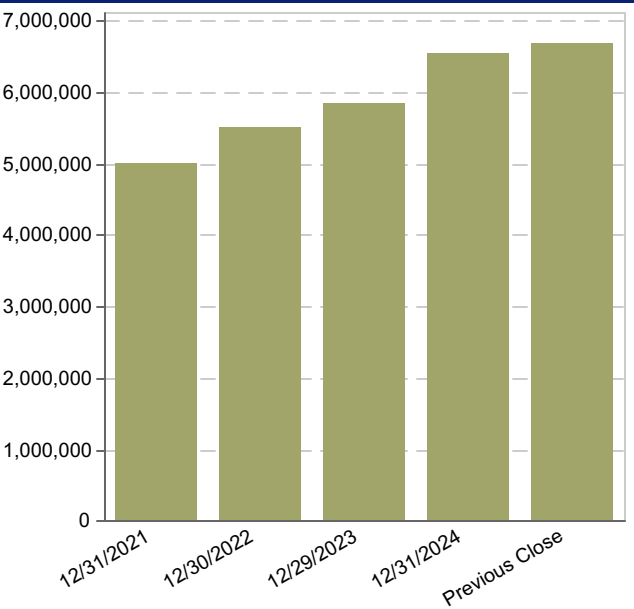
Investment Grade	\$5,567,666	83.68%
High Yield	\$1,085,679	16.32%



Fixed Income Sector Exposures



Fixed Income Market Value





Account: XXXXXX9601

Holdings Method: Direct and Indirect (securities held in mutual funds & ETFs)

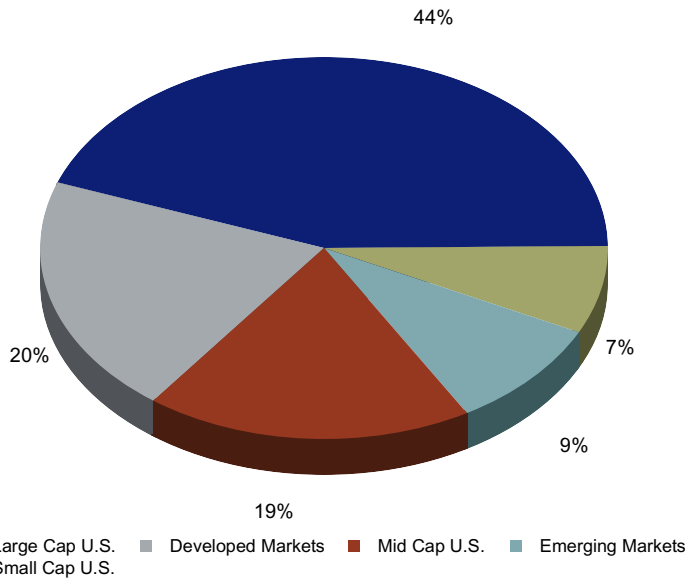
Report Date: 03/31/2025

Equity Summary

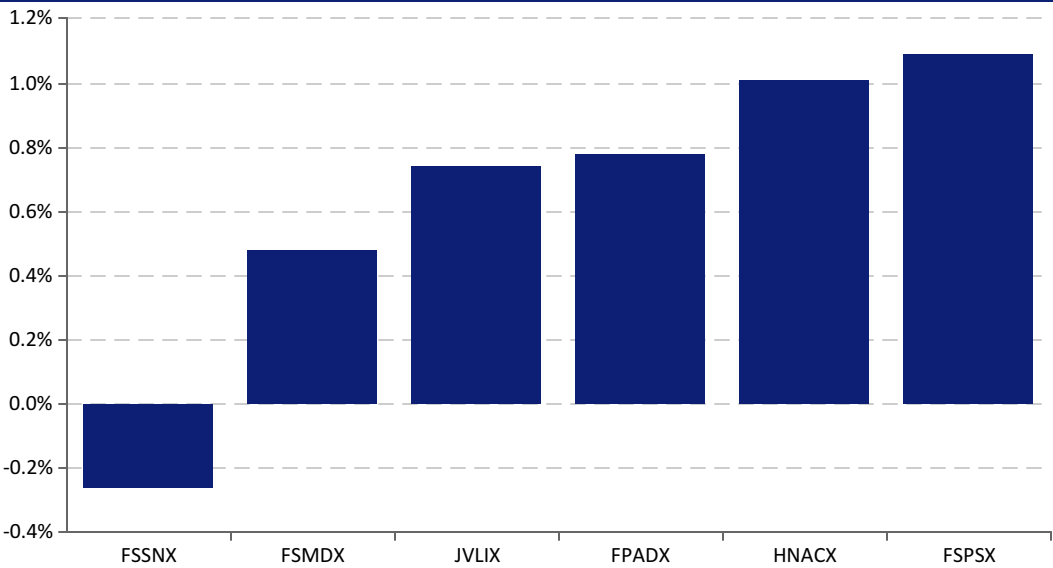
Inv. Objective	Balanced/Nontaxable-1
Total Equity Value	\$14,349,649
Current Yield	1.43%
Annual Income Projected	\$205,621
Number of Securities	6
Portfolio Mgr.	Kenneth Donaldson, CFP®, CTFA

Equity Asset Allocation

Large Cap U.S.	\$6,374,896	44.43%
Developed Markets	\$2,933,556	20.44%
Mid Cap U.S.	\$2,664,884	18.57%
Emerging Markets	\$1,322,261	9.21%
Small Cap U.S.	\$1,054,054	7.35%



Bottom 5/ Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution



Equity Country Distribution





Account: XXXXXX9601

Holdings Method: Direct and Indirect (securities held in mutual funds & ETFs)

Report Date: 03/31/2025

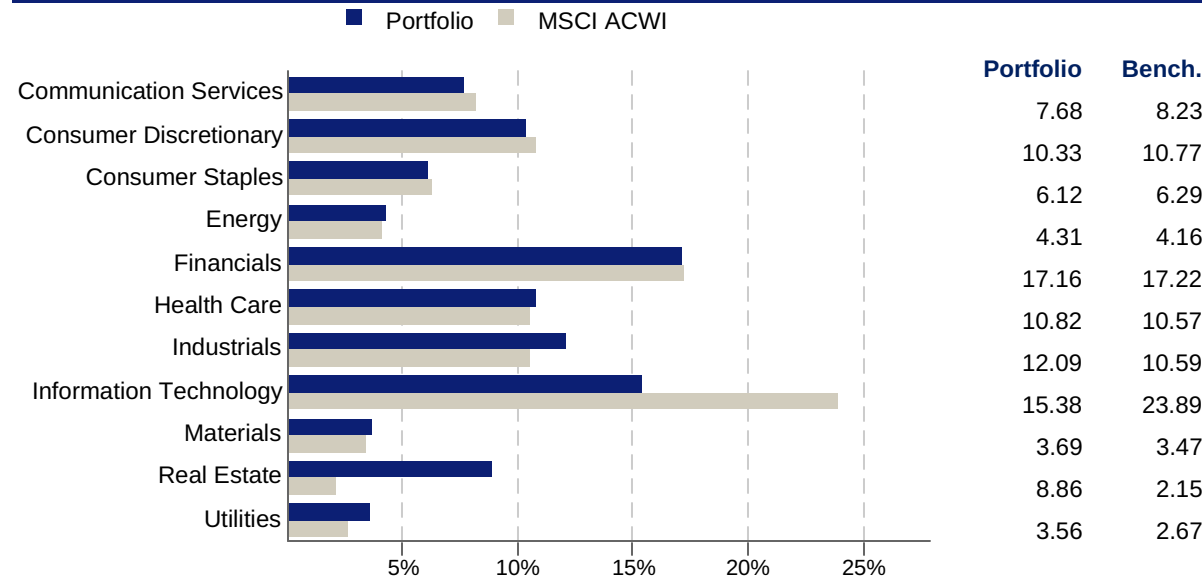
Top 10 Common Stock Holdings

	Stock Wt. (%)	Portfolio Wt. (%)	Yield (%)	YTD Ret. (%)	1 Yr Ret. (%)
NVIDIA Corporation	1.76	1.15	0.04	-19.3	20.0
Amazon.com, Inc.	1.76	1.14	0.00	-13.3	5.5
Meta Platforms Inc Class A	1.31	0.85	0.40	-1.5	19.1
Microsoft Corporation	1.29	0.84	0.89	-10.8	-10.1
Apple Inc.	1.19	0.77	0.49	-11.2	30.1
Alphabet Inc. Class A	0.99	0.64	0.51	-18.2	3.0
Netflix, Inc.	0.96	0.62	0.00	4.6	53.5
JPMorgan Chase & Co.	0.92	0.60	2.32	2.9	25.3
Broadcom Inc.	0.85	0.55	1.33	-27.6	27.9
Taiwan Semiconductor Manufa...	0.76	0.49	1.95	-15.0	18.8

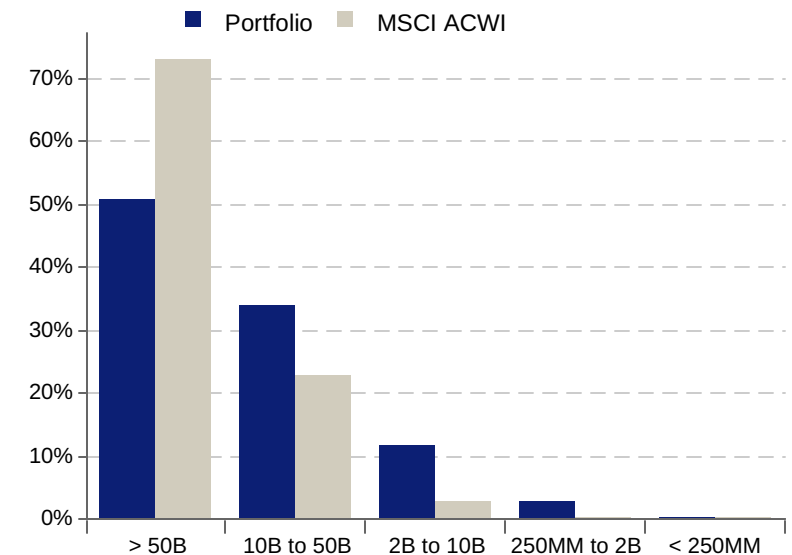
Common Stock Characteristics

	Portfolio	MSCI ACWI
Market Cap - Wtd Avg	\$305.4B	\$600.2B
Market Cap - Median	\$5.3B	\$16.5B
Dividend Yield (%)	1.97	1.94
P/E NTM	16.8	17.2
P/E LTM	19.9	20.5
ROE (%)	19.0	21.7
1 Yr Beta vs. S&P Composite	.83	.81
Est 3-5 Yr EPS Growth (%)	11.4	11.7
Hist 3 Yr EPS Growth (%)	18.0	16.9
Number of Securities	4,810	2,222

Common Stock Sector Exposures



Common Stock Market Cap Distribution



*Specific to the security - does not represent performance in the portfolio.

Custom Benchmark

CITY OF CUPERTINO PENSION

Asset Class	Benchmark	Range	Target	Actual
Equities	MSCI ACWI Index (net)	50%-70%	63%	63.9%
Fixed Income	BBARC Global Aggregate Index	20%-40%	29%	29.6%
Real Estate	S&P Global REIT TR USD	0%-15%	5%	4.2%
Commodities	S&P GSCI Commodity Index	0%-10%	2%	0%
Cash	FTSE 3-Mo US T-Bill Index	0%-10%	1%	2.3%

Selected Period Performance

	Market Value	Year to Date (3 Months)	3 Months	1 Year	3 Years	5 Years	Inception to Date 05/01/2019
Total Portfolio Gross of Fees	22,496,818	-.43	-.43	4.61	4.67	10.09	6.95
Total Portfolio Net of Fees	22,496,818	-.47	-.47	4.44	4.49	9.90	6.77
City of Cupertino		.14	.14	5.94	3.94	10.02	6.57
Total Equity	14,349,649	-1.87	-1.87	3.98	6.45	15.34	9.75
MSCI ACWI (Net)		-1.32	-1.32	7.15	6.91	15.18	9.81
Domestic Equity	10,093,833	-5.07	-5.07	2.57	7.03	16.35	10.51
Russell 3000 Index		-4.72	-4.72	7.22	8.22	18.18	12.57
S&P 500 Index (Total Return)		-4.27	-4.27	8.25	9.06	18.59	13.33
S&P MidCap 400 Index		-6.10	-6.10	-2.70	4.42	16.91	8.58
S&P SmallCap 600 Index		-8.93	-8.93	-3.38	.71	15.09	6.37
Foreign Equity	4,255,817	6.66	6.66	6.88	4.63	12.36	7.35
MSCI EAFE Index (Net)		6.86	6.86	4.88	6.05	11.77	6.52
MSCI Emerging Markets Index (Net)		2.93	2.93	8.09	1.44	7.94	2.86
Total Fixed Income	6,675,987	2.48	2.48	5.24	1.59	1.11	.44
BBARC US Aggregate Bond Index		2.78	2.78	4.88	.52	-.40	1.11
BBARC Global Aggregate Index		2.64	2.64	3.05	-1.63	-1.38	-.43
Total Real Assets	946,944	.95	.95	10.11	-.59	9.95	5.02
Real Estate	946,944	.95	.95	10.11	-.59	9.95	5.02
S&P Global REIT Index (Gross)		1.66	1.66	6.61	-2.25	9.01	3.09
S&P GSCI Index		4.89	4.89	3.83	1.25	20.74	6.75
Total Cash Equivalents	524,238	1.06	1.06	4.91	4.18	2.50	2.38
FTSE 3 Month Treasury Bill Index		1.10	1.10	5.17	4.42	2.69	2.58
Pending Cash	0	.00	.00	.00	.00	.00	.00



PARS/CITY OF CUPERTINO 115P- PENSION

Portfolio Holdings

Account: XXXXXX9601

Holdings Method: Direct

Report Date: 03/31/2025

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
Total		100.0			22,472,282	20,383,947	2,088,336	2.33	523,766
Cash		2.32			522,344	522,344	0	4.27	22,314
Cash Equivalents		2.32			522,344	522,344	0	4.27	22,314
FIRST AM GOVT OB FD CL X	31846V336	2.32	1.00	522,344	522,344	522,344	0	4.27	22,314
Fixed Income		29.61			6,653,345	6,740,607	-87,262	4.02	267,440
Investment Grade		24.78			5,567,666	5,596,591	-28,925	3.38	188,263
Mutual Funds & ETFs		24.78			5,567,666	5,596,591	-28,925	3.38	188,263
Fidelity U.S. Bond Index Fund	FXNAX	24.78	10.41	534,838	5,567,666	5,596,591	-28,925	3.38	188,263
High Yield		4.83			1,085,679	1,144,016	-58,337	7.29	79,177
Mutual Funds & ETFs		4.83			1,085,679	1,144,016	-58,337	7.29	79,177
Artisan High Income Fund - Institutional Sh...	APHFX	4.83	9.05	119,964	1,085,679	1,144,016	-58,337	7.29	79,177
Equity		63.85			14,349,649	12,175,245	2,174,404	1.43	205,621
Large Cap U.S. Equity		28.37			6,374,896	6,030,453	344,442	0.60	38,149
Mutual Funds & ETFs		28.37			6,374,896	6,030,453	344,442	0.60	38,149
Harbor Capital Appreciation Fund - Retire...	HNACX	13.30	102.65	29,126	2,989,740	2,504,520	485,221	0.00	0
John Hancock Fds III Disciplined Value Fu...	JVLIX	15.06	22.45	150,786	3,385,155	3,525,934	-140,778	1.13	38,149
Mid Cap U.S. Equity		11.86			2,664,884	1,386,296	1,278,587	1.21	32,279
Mutual Funds & ETFs		11.86			2,664,884	1,386,296	1,278,587	1.21	32,279
Fidelity Mid Cap Index Fund	FSMDX	11.86	32.61	81,720	2,664,884	1,386,296	1,278,587	1.21	32,279
Small Cap U.S. Equity		4.69			1,054,054	972,122	81,932	1.13	11,945
Mutual Funds & ETFs		4.69			1,054,054	972,122	81,932	1.13	11,945
Fidelity Small Cap Index Fund	FSSNX	4.69	25.06	42,061	1,054,054	972,122	81,932	1.13	11,945
Developed Markets Equity		13.05			2,933,556	2,605,068	328,488	3.03	88,944
Mutual Funds & ETFs		13.05			2,933,556	2,605,068	328,488	3.03	88,944
Fidelity International Index Fund	FSPSX	13.05	51.32	57,162	2,933,556	2,605,068	328,488	3.03	88,944
Emerging Markets Equity		5.88			1,322,261	1,181,306	140,955	2.59	34,303
Mutual Funds & ETFs		5.88			1,322,261	1,181,306	140,955	2.59	34,303
Fidelity Emerging Markets Index Fund	FPADX	5.88	10.87	121,643	1,322,261	1,181,306	140,955	2.59	34,303
Real Assets		4.21			946,944	945,750	1,194	3.00	28,392
U.S. Listed Real Estate		4.21			946,944	945,750	1,194	3.00	28,392



Account: XXXXXX9601

Holdings Method: Direct


Report Date: 03/31/2025

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	Cost Basis	Unrealized Gain/Loss	Current Yield	Projected Annual Income
iShares Core U.S. REIT ETF	USRT	4.21	57.60	16,440	946,944	945,750	1,194	3.00	28,392

Investment Policies

Provided by U.S. Bank



 Other Post-Employment Benefits (OPEB) Investment Policy	Citywide Policy Manual
	Attachments: N/A
Effective Date: December 3, 2024	Responsible Department: Administrative Services
Related Policies & Notes: City Investment Policy, Pension Investment Policy	

Overview

In response to the Government Accounting Standards Board (GASB) Statement No. 45, replaced by GASB Statement No. 74 and GASB Statement No. 75, new disclosure requirements for Other Post-employment Benefit (OPEB) Plans, the City of Cupertino has adopted a Section 115 Trust and Plan that seeks to satisfy these liabilities for certain eligible employees

Executive Summary

Account Name: City of Cupertino OPEB Trust
Account Number: 6746035000
Investment Authority: Full Investment Authority
Current Assets: \$40.7 million (September 2024)
Time Horizon: Long-Term
Target Rate of Return: 6.5%
Communication Schedule: Meetings will be conducted at least quarterly

U.S. Bank Portfolio Manager: Dennis Mullins
Dennis.mullins@usbank.com
513-304-0398

U.S. Bank Relationship Manager: Ryan Maxey
ryan.maxey@usbank.com
503-464-3789

Investment Objective: ‘Balanced’

This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. Investors should have sufficient tolerance for price and return volatility and substantial periodic declines in investment value. This objective is recommended for investors with a long-term time horizon.

The strategic asset allocation ranges and tactical targets for this objective are listed below:

Asset Class	Range	Benchmark Target
Fixed Income	20-40%	29%
Equities	50-70%	63%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

Investment Guidelines

Overview

This document defines the investment policy, guidelines and performance objectives applicable to the assets of The City of Cupertino’s OPEB Trust. The goal of this Policy is to create an investment framework within which the assets can be actively yet prudently managed.

The purpose of this document is threefold.

- First, it will set forth an investment structure for managing the Portfolio assets. This structure is expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Second, it will serve as to encourage effective communications between the organization and parties involved with investment management decisions.
- Third, these guidelines will provide a framework to measure ongoing investment performance.

Within the constraints imposed by these policies, Investment Managers are expected to comply with all applicable fiduciary and due diligence requirements under the “prudent investor” rules, which state: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” All applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Portfolio are to be adhered to.

Diversification

Your Portfolio Manager is responsible for maintaining the balance between the various asset classes based on the investment objective's strategic asset allocation. As a general policy, the Investment Manager will maintain reasonable diversification at all times by asset class, credit quality, issuer, sector, industry, and country.

The following parameters shall be adhered to in managing the portfolio:

Fixed Income Assets

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

Equity & Growth Assets

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

Permitted Asset Classes and Security Types

Fixed Income & Cash Equivalent Investments:

- Domestic Certificates of Deposit (rated A-1/P-1 or better)
- Domestic Commercial Paper (rated A-1/P-1 or better)
- Floating Rate Notes
- Money Market Mutual Funds
- U.S. Treasury Bonds, Bills and Notes
- U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
- Treasury Inflation-Protected Securities (TIPS)
- Municipal Bonds and Notes
- Corporate Bonds
- Mortgage-Backed Bonds (MBS)

- Asset-Backed Bonds (ABS)
- High-Yield Bonds (rated B-/B3 or better)
- Dollar denominated Foreign Bonds and Notes
- Bond Mutual Funds

Equity Investments:

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

Alternative Investments:

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

Prohibited Asset Classes and Transactions

The Investment Manager is prohibited from purchasing or holding any of the following types of investments:

- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities; physical commodities or other commodity contracts; and short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management
- Direct or indirect exposure to cryptocurrencies
- Leveraged securities, other than registered Hedged Equity and Hedged Fixed Income positions

Duties and Responsibilities

- 1) CITY OF CUPERTINO AUDIT COMMITTEE
 - a) Establish, approve, and maintain investment objectives, guidelines, and policies (including this Policy).
 - b) Appoint Investment Managers who can be reasonably expected to adhere to the investment guidelines and meet the investment objectives as established.
 - c) Monitor the investment performance of the Portfolio and compare actual investment performance relative to an appropriate benchmark index given the stated investment guidelines and objectives set forth in this Policy.
 - d) Conduct a formal review of the Portfolio's asset allocation, investment structure and performance annually or more frequently as the need arises.
 - e) Periodically review the Portfolio performance against objectives.

2) CITY OF CUPERTINO CITY COUNCIL

- a) Adopt the Policy by resolution of the City Council on an annual basis.

3) PORTFOLIO MANAGER

The Portfolio Manager will be responsible for carrying out the activities related to the Portfolio in accordance with the Policy including:

- a) Manage the day-to-day investment of Portfolio assets in accordance with the Policy guidelines and objectives included herein.
- b) Exercise full investment discretion and prudence in the selection and diversification of investments.
- c) Promptly bring to the attention of the City Treasurer or designee any investment that is subsequently downgraded and fails to meet the quality guidelines, along with a recommendation of retention or disposal.
- d) Provide on a quarterly basis the following investment reporting:
 - (i) Year-to-date rate of return
 - (ii) Annualized one, three, five, etc. rates of return
- e) Provide annually to the City's Audit Committee a commentary and analysis of investment performance to include an evaluation of the current and future investment environment and potential impact of the investment environment on achievement of investment objectives.

Investment Policy Statement Review

The City's Audit Committee will review and the Cupertino City Council will adopt this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

If at any time the Portfolio Manager finds the above guidelines too restrictive or possibly injurious to investment returns, they should communicate that information immediately to the City's Audit Committee.


City Manager's signature: _____

Date: _____

Director of Administrative Services' signature: _____

Date: _____

Revisions: 6.5.2018, 11.19.2019, 11.17.2020, 12.7.2021, 12.06.2022, 12.05.2023, 12.03.2024

 Pension Trust Investment Policy	Citywide Policy Manual
	Attachments: N/A
Effective Date: December 3, 2024	Responsible Department: Administrative Services
Related Policies & Notes: N/A	

Investment Policy Statement

Overview

The City has established a Section 115 Trust with PARS to assist in stabilizing the potential impact of pension cost volatility on the City's operating budget. The City intends to use the Section 115 Trust to pre-fund pension costs and proactively address the unfunded liability. The City's goal is to have sufficient assets in the trust to increase the funded status to over 80% within 20 years, as well as fund the difference between a 7.0% and 6.25% discount rate.

Executive Summary

Account Name:	City of Cupertino Pension Trust
Account Number:	6746050100
Investment Authority:	Full Investment Authority
Current Assets:	\$23.0 Million (September 2024)
Time Horizon:	Long-Term
Target Rate of Return:	6.25%
Communication Schedule:	Meetings will be conducted at least quarterly

U.S. Bank Portfolio Manager:	Dennis Mullins
	Dennis.mullins@usbank.com
	513-304-0398

U.S. Bank Relationship Manager:	Ryan Maxey
	ryan.maxey@usbank.com
	503-464-3789

Investment Objective: ‘Balanced’

This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. Investors should have sufficient tolerance for price and return volatility and substantial periodic declines in investment value. This objective is recommended for investors with a long-term time horizon.

The strategic asset allocation ranges and tactical targets for this objective are listed below:

Asset Class	Range	Benchmark Target
Fixed Income	20-40%	29%
Equities	50-70%	63%
Real Estate	0-15%	5%
Commodities	0-10%	2%
Cash	0-10%	1%

Investment Guidelines

Overview

This document defines the investment policy, guidelines and performance objectives applicable to the assets of The City of Cupertino’s Pension Trust. The goal of this Policy is to create an investment framework within which the assets can be actively yet prudently managed.

The purpose of this document is threefold.

- First, it will set forth an investment structure for managing the Portfolio assets. This structure is expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Second, it will serve as to encourage effective communications between the organization and parties involved with investment management decisions.
- Third, these guidelines will provide a framework to measure ongoing investment performance.

Within the constraints imposed by these policies, Investment Managers are expected to comply with all applicable fiduciary and due diligence requirements under the “prudent investor” rules, which state: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” All applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Portfolio are to be adhered to.

Diversification

Your Portfolio Manager is responsible for maintaining the balance between the various asset classes based on the investment objective's strategic asset allocation. As a general policy, the Investment Manager will maintain reasonable diversification at all times by asset class, credit quality, issuer, sector, industry, and country.

The following parameters shall be adhered to in managing the portfolio:

Fixed Income Assets

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

Equity & Growth Assets

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

Permitted Asset Classes and Security Types

Fixed Income & Cash Equivalent Investments:

- Domestic Certificates of Deposit (rated A-1/P-1 or better)
- Domestic Commercial Paper (rated A-1/P-1 or better)
- Floating Rate Notes
- Money Market Mutual Funds
- U.S. Treasury Bonds, Bills and Notes
- U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
- Treasury Inflation-Protected Securities (TIPS)
- Municipal Bonds and Notes
- Corporate Bonds
- Mortgage-Backed Bonds (MBS)

- Asset-Backed Bonds (ABS)
- High-Yield Bonds (rated B-/B3 or better)
- Dollar denominated Foreign Bonds and Notes
- Bond Mutual Funds

Equity Investments:

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

Alternative Investments:

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

Prohibited Asset Classes and Transactions

The Investment Manager is prohibited from purchasing or holding any of the following types of investments:

- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities; physical commodities or other commodity contracts; and short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management
- Direct or indirect exposure to cryptocurrencies
- Leveraged securities, other than registered Hedged Equity and Hedged Fixed Income positions

Duties and Responsibilities

- 1) CITY OF CUPERTINO AUDIT COMMITTEE
 - a) Establish, approve, and maintain investment objectives, guidelines, and policies (including this Policy).
 - b) Appoint Investment Managers who can be reasonably expected to adhere to the investment guidelines and meet the investment objectives as established.
 - c) Monitor the investment performance of the Portfolio and compare actual investment performance relative to an appropriate benchmark index given the stated investment guidelines and objectives set forth in this Policy.
 - d) Conduct a formal review of the Portfolio's asset allocation, investment structure and performance annually or more frequently as the need arises.
 - e) Periodically review the Portfolio performance against objectives.

2) CITY OF CUPERTINO CITY COUNCIL

- a) Adopt the Policy by resolution of the City Council on an annual basis.

3) PORTFOLIO MANAGER

The Portfolio Manager will be responsible for carrying out the activities related to the Portfolio in accordance with the Policy including:

- a) Manage the day-to-day investment of Portfolio assets in accordance with the Policy guidelines and objectives included herein.
- b) Exercise full investment discretion and prudence in the selection and diversification of investments.
- c) Promptly bring to the attention of the City Treasurer or designee any investment that is subsequently downgraded and fails to meet the quality guidelines, along with a recommendation of retention or disposal.
- d) Provide on a quarterly basis the following investment reporting:
- (i) Year-to-date rate of return
 - (ii) Annualized one, three, five, etc. rates of return
- e) Provide annually to the City's Audit Committee a commentary and analysis of investment performance to include an evaluation of the current and future investment environment and potential impact of the investment environment on achievement of investment objectives.

Investment Policy Statement Review

The City's Audit Committee will review and the Cupertino City Council will adopt this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

If at any time the Portfolio Manager finds the above guidelines too restrictive or possibly injurious to investment returns, they should communicate that information immediately to the City's Audit Committee.

City Manager's signature: _____

Date: _____

Director of Administrative Services' signature: _____

Date: _____

Revisions: 11.19.2019, 11.17.2020, 12.7.2021, 12.06.2022, 12.05.2023, 12.03.2024

Market Review

Provided by Sub-Advisor - PFM Asset Management



U.S. Equity

- ▶ Domestic equity markets, as represented by the S&P 500 Index (S&P) and the Russell 3000, returned -5.63% and -5.83% respectively in March.
- ▶ Within the S&P, two of the 11 sectors posted positive returns. The Energy sector was the best performer for the month, returning 3.85%. The second-best performing sector was Utilities, which posted a return of 0.26%, while Consumer Discretionary was the worst performing sector, returning -8.91%.
- ▶ Negative returns were seen across all capitalizations, with small-caps (Russell 2000) returning -6.81%, mid-caps (Russell Mid Cap Index) returning -4.64%, and large-caps (Russell 1000 Index) returning -5.79%. Growth stocks underperformed value stocks across all capitalizations during the month.
- ▶ According to FactSet Earnings Insight (as of March 28, 2025), the estimated year-over-year (YoY) earnings growth for the S&P 500 in Q1 was 7.3%. If this estimate holds, it will mark the seventh consecutive quarter of earnings growth. For calendar year 2025, analysts are projecting YoY earnings growth of 11.5%.

Non-U.S. Equity

- ▶ Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S. Index, returned -0.23%. Developed markets, represented by the MSCI EAFE Index returned -0.40%, as Europe (MSCI Europe Index) returned -0.30% in March. Emerging markets (EM), as represented by the MSCI Emerging Markets Index, returned 0.63% in March as investors reacted to the U.S. tariffs on a variety of products including computer chips, leading to a -11.54% return for Taiwan (MSCI Taiwan Index). China (MSCI China Index) and India (MSCI India Index) returned 1.98% and 9.40%, respectively.
- ▶ Within the ACWI ex-U.S. Index, seven out of 11 sectors posted positive returns. Utilities was the best performing sector for the month, returning 7.20%, while the Energy sector was the second-best performer, returning 6.04%. Information Technology was the worst performing sector, posting a return of -7.79%.

Fixed Income

- ▶ Treasury yields fell on the shorter end of the curve during the month, with the 2- and 5-year yields dropping as more signs emerged that the economy may be slowing. On the shorter end of the yield curve, the yield on the 2-year was down 10 basis points (bps), and the 5-year was down 7 bps. Meanwhile, the 10-year yield held flat while the 30-year U.S. Treasury rose 8 bps.

- ▶ The Bloomberg U.S. Aggregate Index (Aggregate) returned 0.04% in March. Investment-grade (IG) credit returned -0.24%, AAA-rated bonds returned 0.31%, AA-rated bonds returned -0.20%, A-rated bonds returned -0.20%, and BBB-rated bonds returned -0.37%. High-yield corporates, as represented by ICE BofA U.S. High Yield Index saw a return of -1.02% during the month, while the Broad Treasury Index returned 0.20%.

Diversifying Assets

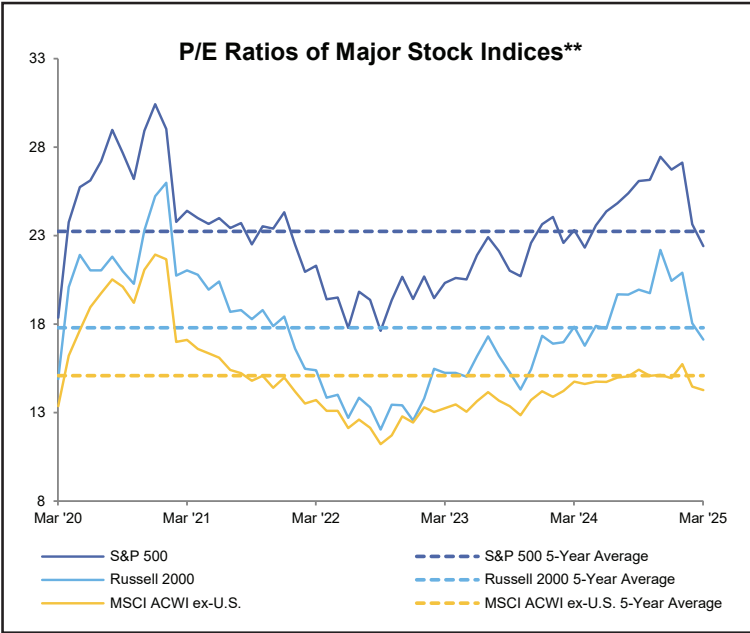
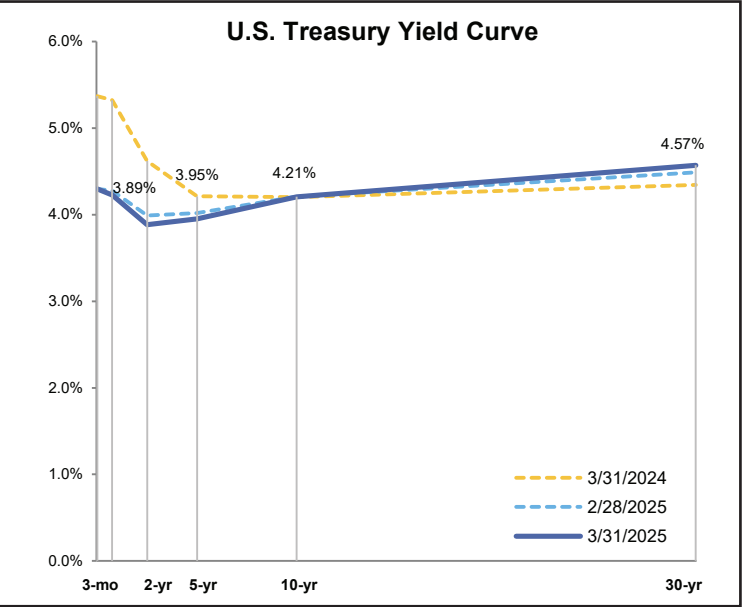
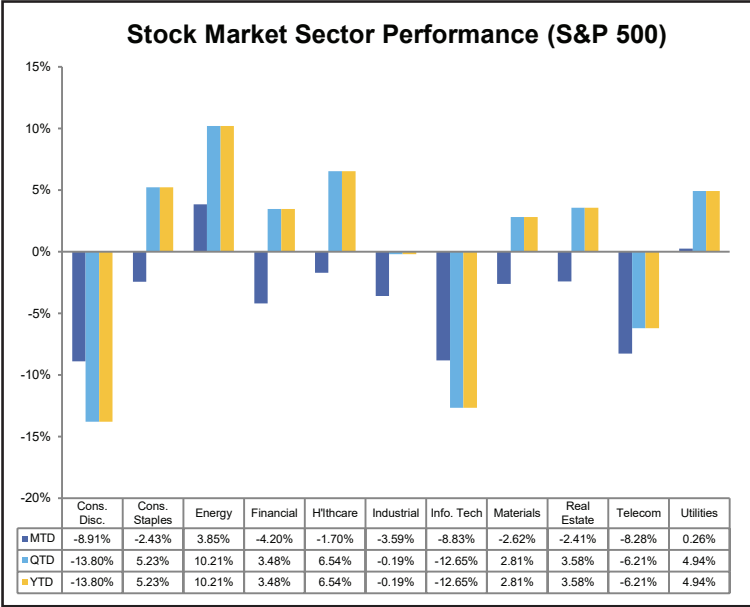
- ▶ During March, real estate investment trusts (REITs), as represented by the MSCI U.S. REIT Index and the FTSE NAREIT Index returned -3.75% and -3.61% respectively. While all sectors saw negative returns, the Diversified sector performed relatively better than other sectors during the month and the Lodging/Resorts sector was the most challenged. Listed Infrastructure, represented by the MSCI World Core Infrastructure Index, returned 2.65% for the month.

Items to Watch

- ▶ The Federal Reserve (Fed) extended its “wait-and-see” posture at the March Federal Open Market Committee (FOMC) meeting, holding the federal funds rate at 4.25%-4.50%. The Fed’s new economic projections included upward revisions to inflation and downward revisions to growth expectations.
- ▶ U.S. consumers were notably more anxious in March, with the University of Michigan’s closely watched index of consumer sentiment falling 11.9% to 57.0 from 64.7 in February. This marks its third straight month of declines and the survey’s lowest level since November 2022, as consumers continue to worry about potential outcomes of ongoing policy developments.
- ▶ Consumer spending rose 0.4% in February, after a 0.3% decline in January. This was supported by outlays on long lasting durable goods such as vehicles as consumers attempted to preempt potential tariffs. However, consumer anxiety appears evident, as some services that are more discretionary are starting to register weakness, with receipts at restaurants, hotels and motels dropping 15%.
- ▶ Headline inflation (CPI) came in at 0.2% in February, a drop from January’s high of 0.5%, as the YoY rate eased to 2.8%. Core CPI, which excludes volatile food and energy, slowed to 3.1% on an annual basis, the lowest since April 2021. Cooler energy prices and moderating food prices helped lower inflation readings in February.
- ▶ The ISM manufacturing purchasing managers index reading fell to 49.0 in March after two months of expansion, including a multi-year high. This contractionary reading aligns with concerns over the impact of tariffs on manufacturing, with the new orders index contracting for a second month in a row, while the prices index surged to 62.4 indicating slowing demand and rising prices.

Total Return of Major Indices				
Domestic Equity	MTD	QTD	YTD	1 YR
S&P 500	-5.63%	-4.28%	-4.28%	8.23%
Russell 3000	-5.83%	-4.73%	-4.73%	7.20%
Russell 2000	-6.81%	-9.48%	-9.48%	-4.02%
Russell 1000	-5.79%	-4.49%	-4.49%	7.80%
International Equity	MTD	QTD	YTD	1 YR
MSCI ACWI ex-U.S.	-0.23%	5.24%	5.24%	6.09%
MSCI EAFE	-0.40%	6.86%	6.86%	4.88%
MSCI Emerging Markets	0.63%	2.93%	2.93%	8.09%
Fixed Income	MTD	QTD	YTD	1 YR
Bloomberg Barclays U.S. Agg	0.04%	2.78%	2.78%	4.88%
Bloomberg Barclays Global Agg	0.62%	2.64%	2.64%	3.05%
Bloomberg Barclays U.S. HY	-1.07%	0.94%	0.94%	7.60%
Alternatives and Diversifying	MTD	QTD	YTD	1 YR
MSCI U.S. REIT	-3.75%	0.76%	0.76%	8.98%
FTSE NAREIT Index	-3.61%	0.91%	0.91%	9.94%
MSCI World Core Infrastructure	2.65%	7.58%	7.58%	13.92%
Bloomberg Commodity	3.93%	8.88%	8.88%	12.28%

Economic Indicators		
Domestic	Current	Previous Month
Unemployment Rate (%)	4.1%	4.0%
Initial Jobless Claims (4 week average)	225 K	225.3 K
CB Leading Economic Indicators	-0.3	-0.2
Capacity Utilization	78.2%	77.7%
GDP (annual growth rate)	2.4%	3.1%
University of Michigan Consumer Confidence	57.0	64.7
New Home Starts	676 K	664 K
Existing Home Sales	4.3 MM	4.1 MM
Retail Sales (YoY)	3.1%	3.9%
U.S. Durable Goods (MoM)	0.9%	3.3%
Consumer Price Index (YoY)	2.8%	3.0%
Producer Price Index (MoM)	0.2%	0.5%
Developed International*	12/31/2024	9/30/2024
Market GDP (annual rate)	1.5%	1.2%
Market Unemployment	4.6%	4.6%



Source: Bloomberg. Data as of March 31, 2025, unless otherwise noted.

*Developed market data is calculated with respect to the weightings in the MSCI World ex-U.S. Index. Most current data is as of December 31, 2024 due to release dates of numerous countries.

**P/E ratios are calculated based on one-year-forward estimates and adjusted to include only positive earning results for consistency.

Indices shown are not available for investment. The index data reference herein is the property of the index provider and/or its licensors. The index provider assumes no liability in connections with its use and does not sponsor, endorse or recommend the products or services contained herein. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of U.S. Bancorp Asset Management, Inc. at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. No representation is made as to its accuracy or completeness.

PFM Asset Management serves clients in the public sector and is a division of U.S. Bancorp Asset Management, Inc., which is the legal entity providing investment advisory services. U.S. Bancorp Asset Management, Inc. is a registered investment adviser, a direct subsidiary of U.S. Bank N.A. and an indirect subsidiary of U.S. Bancorp. U.S. Bank N.A. is not responsible for and does not guarantee the products, services, or performance of U.S. Bancorp Asset Management, Inc.

Important disclosures, definitions of terms and index descriptions

Provided by U.S. Bank

If you have questions regarding this information or wish to receive definitions of any additional terms or indexes used in this report, please contact your team.



Important disclosures (page 1 of 4)

The information provided here is not intended to replace your account statement. Your account statement is the official record of your account.



Equal Housing Lender. Credit products are offered by U.S. Bank National Association and subject to normal credit approval. Deposit products offered by U.S. Bank National Association. Member FDIC.

For use in one-on-one meetings/presentations.

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness.

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment, nor are they subject to fees and expenses.

Performance reports included may show performance results gross of fees and expenses. If fees and expenses were included, the performance would be lower. If you have any questions, please speak with your relationship manager for additional information.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. **Diversification and asset allocation do not guarantee returns or protect against losses.**



Important disclosures (page 2 of 4)

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Stocks of mid-capitalization companies** can be expected to be slightly less volatile than those of small-capitalization companies, but still involve substantial risk and may be subject to more abrupt or erratic movements than large-capitalization companies. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility.

Investments in **real estate securities** can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors.

Investments in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in fixed income securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments.

Important disclosures (page 3 of 4)

The **municipal bond** market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes.

Treasury Inflation-Protected Securities (TIPS) offer a lower return compared to other similar investments and the principal value may increase or decrease with the rate of inflation. Gains in principal are taxable in that year, even though not paid out until maturity.

Non-financial **specialty assets**, such as real estate, farm, ranch and timber properties, oil, gas and mineral interests or closely-held business interests are complex and involve unique risks specific to each asset type, including the total loss of value. Special risk considerations may include natural events or disasters, complex tax considerations and lack of liquidity. Specialty assets may not be suitable for all investors.

Alternative investments very often use speculative investment and trading strategies. There is no guarantee that the investment program will be successful. Alternative investments are designed only for investors who are able to tolerate the full loss of an investment. These products are not suitable for every investor even if the investor does meet the financial requirements. It is important to consult with your investment professional to determine how these investments might fit your asset allocation, risk profile and tax situation. **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Exchange-traded funds (ETFs)** are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index and shares may trade at a premium or a discount to the net asset value of the underlying securities. **Private equity** investments provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt** investments may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies. **Structured products** are subject to market risk and/or principal loss if sold prior to maturity or if the issuer defaults on the security. Investors should request and review copies of Structured Products Pricing Supplements and Prospectuses prior to approving or directing an investment in these securities.

Important disclosures (page 4 of 4)

Mutual fund investing involves risk and principal loss is possible. Investing in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt and high-yield securities and funds that focus their investments in a particular industry. Please refer to the fund prospectus for additional details pertaining to these risks. An investment in **money market funds** is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although these funds seek to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in these funds.

Holdings of First American Funds: U.S. Bancorp Asset Management, Inc. is a registered investment advisor and subsidiary of U.S. Bank National Association. U.S. Bank National Association is a separate entity and wholly owned subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, performance or services of U.S. Bancorp Asset Management. U.S. Bancorp Asset Management, Inc. serves as an investment advisor to First American Funds. **Holdings of Nuveen mutual funds:** Firststar Capital Corporation (Firststar Capital), an affiliate of U.S. Bancorp, holds a less-than-10 percent ownership interest in Windy City Investments Holdings, LLC which was formerly the parent of Windy City Investment Inc. and the indirect parent of Nuveen Fund Advisors, LLC which is the investment advisor to the Nuveen Mutual Funds. On October 1, 2014, Windy City Investments, Inc. was sold to Teachers Insurance and Annuity Association of America. As a result of the sale, U.S. Bancorp no longer has an indirect ownership interest in Nuveen Fund Advisors, LLC. Depending on the outcome of certain factors, Firststar Capital might in the future receive an earn-out payment in respect of its interest in Windy City Investment Holdings, LLC, under the terms of the sale. **Non-proprietary mutual funds:** U.S. Bank may enter into agreements with other non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectuses. For more information, review the fund prospectus.



Definitions of report and statement terms (page 1 of 5)

Accredited Investor: Private placement securities generally require that investors be accredited due to the additional risks and speculative nature of the securities. For natural persons, the criteria is met by a net worth of more than \$1 million (excluding primary residence) or an income of more than \$200,000 individually (\$300,000 jointly) for the two most recent years and a reasonable expectation for the same in the current year. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least \$5 million in assets. See full definition in Rule 501 of Regulation D under the Securities Act of 1933.

Alpha: A measure of risk-adjusted performance. A statistic measuring that portion of a stock, fund or composite's total return attributable to specific or non-market risk. Alpha measures non-market return and indicates how much value has been added or lost. A positive Alpha indicates the fund or composite has performed better than its Beta would predict (i.e., the manager has added value above the benchmark). A negative Alpha indicates a fund or composite has underperformed given the composite's Beta.

Alternative Investments: As used by U.S. Bank, an investment considered to be outside of the traditional asset classes of long-only stocks, bonds and cash. Examples of alternative investments include hedge funds, private equity, options and financial derivatives.

Annualized Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided annualize only periods greater than one year.

Annualized or Annual Rate of Return: Represents the average annual change in the value of an investment over the periods indicated.

Batting Average: Shows how consistently the portfolio return met or beat the market.

Beta: A measure of your portfolio's risk relative to a benchmark. A portfolio with a beta of 1.5, for example, would be expected to return roughly 1.5 times the benchmark's return. A high Beta indicates a riskier portfolio.

Bond Credit Rating: A grade given to bonds by a private independent rating service that indicates their credit quality. Ratings are the opinion of Standard & Poor's or other agencies as noted and not the opinion of U.S. Bank.

Consumer Price Index (CPI): A measure of the average change in prices over time in a market basket of goods and services and is one of the most frequently used statistics for identifying periods of inflation and deflation.

Convexity to Stated Maturity: A measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as the interest rate changes. Convexity is used as a risk-management tool and helps to measure and manage the amount of market risk to which a portfolio of bonds is exposed. This version of convexity measures the rate change in duration of a bond as the yield to (stated) maturity changes.

Definitions of report and statement terms (page 2 of 5)

Cost basis/book value: The original value of an asset at the time it was acquired. This is normally the purchase price or appraised value at the time of acquisition. This data is for information purposes only.

Cumulative Excess Return: Shows the difference between the annualized linked returns of a portfolio and the model benchmark. Performance reports provided use unannualized returns in periods up to one year, but annualized returns for periods exceeding one year.

Downside Capture: The downside capture ratio reflects how a portfolio compares to a benchmark during periods when the benchmark is down. A downside capture ratio of 0.80 (or 80 percent) means the portfolio has historically declined only 80 percent as much as the benchmark during down markets.

Downside Deviation: The deviation of returns that fall below a minimum acceptable return (MAR). Although the numerator includes only returns below the MAR, the denominator includes all returns in the performance period. This risk statistic is similar to the downside standard deviation except the sum is restricted to returns less than the MAR instead of the mean.

Downside Standard Deviation: The deviation of returns that fall below the mean return. Although the numerator includes only returns below the mean, the denominator includes all returns in the performance period. This risk statistic is similar to the downside deviation except the sum is restricted to returns less than the mean instead of the minimum acceptable return (MAR).

Effective Maturity: The date of a bond's most likely redemption, given current market conditions, taking into consideration the optional and mandatory calls, the optional, mandatory and recurring puts, and the stated maturity.

Estimated annual income: The amount of income a particular asset is anticipated to earn over the period indicated. The shares multiplied by the annual income rate.

Gain/loss calculation: If an asset was sold, the difference between the proceeds received from the sale compared to the cost of acquiring the asset. If the value of the proceeds is the higher of the two numbers, then a gain was realized. If the value of the proceeds is the lower of the two numbers, a loss was incurred. This data is for information purposes only.

Information Ratio: The information ratio compares the average excess return of the portfolio over its associated benchmark divided by the tracking error.

M-Squared: The hypothetical return of the portfolio after its risk has been adjusted to match a benchmark.

Definitions of report and statement terms (page 3 of 5)

Market Value: Publicly traded assets are valued using market quotations or valuation methods from financial industry services believed by us to be reliable. Assets, that are not publicly traded, may be reflected at values from other external sources or special valuations prepared by us. Assets for which a current value is not available may be reflected as not valued, at par value, or at a nominal value. Values shown do not necessarily reflect prices at which assets could have been bought or sold. Values are updated based on internal policy and may be updated less frequently than statement generation.

Market Value Over Time: Many factors can impact the portfolio value over time, such as contributions to the account, distributions from the account, the investment of dividends and interest, the deduction of fees and expenses, and market performance.

Modified Duration to Effective Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration takes into consideration a “horizon date/price” that is, given current conditions, the most likely redemption date/price using the set of calls/puts, as well as stated maturity.

Modified Duration to Stated Maturity: A formula that expresses the measurable change in the value of a security in response to a change in interest rates. This version of Modified Duration uses stated maturity as the “horizon date/price” and ignores any potential call/put/pre-refunding, even if they are mandatory.

Price/Earnings Ratio (P/E): The P/E ratio of a company is calculated by dividing the price of the company’s stock by its trailing 12-month earnings per share. A high P/E usually indicates that the market is paying a premium for current earnings because it believes in the firm’s ability to grow its earnings. A low P/E indicates the market has less confidence that the company’s earnings will increase. Within a portfolio, P/E is the weighted average of the price/earnings ratios of the stocks in the portfolio.

Qualified Purchaser: Some private placement securities require that investors be Qualified Purchasers in addition to being Accredited Investors. For natural persons, the criteria is generally met when the client (individually or jointly) owns at least \$5 million in investments. For other entities, such as corporations, partnerships, trusts and employee benefit plans, the criteria is met with at least \$25 million in investments though there are other eligibility tests that may apply. See full definition in Section 2(a)(51) of the Investment Company Act of 1940.

R-Squared: Measures the portion of the risk in your portfolio that can be attributed to the risk in the benchmark.

Realized and Unrealized Gains/Losses: Are calculated for individual tax lots based on the records we have available. Some data may be incomplete or differ from what you are required to report on your tax return. Some data used in these calculations may have been obtained from outside sources and cannot be verified by U.S. Bank. The data is intended for informational purposes only and should not be used for tax reporting purposes. Please consult with your tax or legal advisor for questions concerning your personal tax or financial situation.

Definitions of report and statement terms (page 4 of 5)

Residual Risk: The amount of risk specific to the assets in a portfolio distinct from the market, represented by a benchmark.

Return: An indication of the past performance of your portfolio.

Sharpe Ratio: Measures of risk-adjusted return that calculates the return per unit of risk, where risk is the Standard Deviation of your portfolio. A high Sharpe ratio indicates that the portfolio is benefiting from taking risk.

Sortino Ratio: Intended to differentiate between good and bad volatility. Similar to the Sharpe ratio, except it uses downside deviation for the denominator instead of standard deviation, the use of which doesn't discriminate between up and down volatility.

Spread: The difference between the yields of two bonds with differing credit ratings (most often, a corporate bond with a certain amount of risk is compared to a standard traditionally lower risk Treasury bond). The bond spread will show the additional yield that could be earned from a bond which has a higher risk.

Standard Deviation: A measure of the volatility and risk of your portfolio. A low standard deviation indicates a portfolio with less volatile returns and therefore less inherent risk.

Time-weighted Return: The method used to calculate performance. Time-weighted return calculates period by period returns that negates the effect of external cash flows. Returns for periods of greater than one year are reported as an annualized (annual) rate of return. Returns of less than one year are reported on a cumulative return basis. Cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period involved.

Tracking Error: A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead.

Traditional Investments: As used by U.S. Bank, an investment made in equity, fixed income or cash securities, mutual funds or exchange-traded funds (ETFs) where the investor buys at a price with the goal that the investment will go up in value.

Top 10 Holdings: The 10 assets with the highest market values in the account.

Total Portfolio Gross of Fees: Represents all assets included in the calculation of the portfolio, before the deduction of trust and asset management fees, and is inclusive of all applicable third-party security fees and expenses. Details of those fees and expenses are provided in the security's prospectus or offering documents.

Definitions of report and statement terms (page 5 of 5)

Total Return: The rate of return that includes the realized and unrealized gains and losses plus income for the measurement period.

Treynor Ratio: Measures the performance of a sector relative to risk by dividing the return of the sector in excess of the risk-free return by the sector's Beta. The higher the Treynor ratio, the better the return relative to risk.

Turnover Percent: Indicates how frequently asset are bought and sold within a portfolio.

Turnover Ratio: The percentage of a mutual fund's or other investment vehicle's holdings that have been "turned over" or replaced with other holdings in a given year.

Unrealized gain (loss) — The difference between the current market value (at the end of the statement period) and the cost to acquire the asset. If the current market value is higher than the cost, a gain is reflected. If the current market value is lower than the cost paid, a loss is reflected. This data is for information purposes only.

Upside Capture: The upside capture ratio reflects how a portfolio compares to the selected model benchmark during periods when the benchmark is up. An upside capture ratio of 1.15 (or 115 percent) means the portfolio has historically beat the benchmark by 15 percent during up markets.

Yield: The annual rate of return on an investment, expressed as a percentage. For bonds, it is the coupon rate divided by the market price. For stocks, it is the annual dividend divided by the market price.

Frequently used indexes (page 1 of 5)

Bloomberg Barclays 1-3 year U.S. Treasury Index: Measures the performance of the U.S. government bond market and includes public obligations of the U.S. Treasury with a maturity between one year and up to (but not including) three years.

Bloomberg Barclays 1-5 year U.S. Treasury Index: Includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to one year and less than five years, are rated investment grade and have \$250 million or more of outstanding face value.

The Bloomberg Barclays 1-5 year Municipal Index: Measures the performance of municipal bonds with time to maturity of more than one year and less than five years.

Bloomberg Barclays 7-year Municipal Index: Includes municipal bonds with a minimum credit rating of Baa that have been issued as part of a transaction of at least \$50 million, have a maturity value of at least \$5 million and a maturity range of four to six years.

Bloomberg Barclays Global Aggregate Index ex-U.S. Index: Measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Global Treasury ex-U.S. Index: Includes government bonds issued by investment-grade countries outside the United States, in local currencies, that have a remaining maturity of one year or more and are rated investment grade.

Bloomberg Barclays High Yield Municipal Bond Index: An unmanaged index made up of bonds that are non-investment grade, unrated or below Ba1 bonds.

Bloomberg Barclays Intermediate Aggregate Index: Consists of one- to 10-year governments, one- to 10-year corporate bonds, all mortgages and all asset-backed securities within the Aggregate Index.

Bloomberg Barclays Mortgage-Backed Securities Index: Covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid adjustable-rate mortgages) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Aggregate Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

Bloomberg Barclays U.S. Corporate Bond Index: Measures the investment grade, fixed-rate, taxable corporate bond market and includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Frequently used indexes (page 2 of 5)

Bloomberg Barclays U.S. Corporate High Yield Bond Index: Measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market.

Bloomberg Barclays U.S. Municipal Bond Index: Measures the investment grade, U.S. dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured and pre-refunded bonds.

Bloomberg Barclays U.S. Treasury Index: Measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index: An unmanaged index includes all publicly issued, U.S. TIPS that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

Cambridge U.S. Private Equity Index: This index is based on returns data compiled for U.S. private equity funds (including buyout, growth equity and mezzanine funds) that represent the majority of institutional capital raised by private equity partnerships formed since 1986. Returns may be delayed by up to six months. Quarterly performance is prorated based on the cube root for the months of the quarter.

Citigroup 3-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last three-month Treasury Bill issues.

Citigroup 6-Month Treasury Bills: An unmanaged index and represents monthly return equivalents of yield averages of the last six-month Treasury Bill issues.

Credit Suisse Leverage Loan Index: Represents tradable, senior-secured, U.S. dollar-denominated non-investment grade loans.

Dow Jones Industrial Average (DJIA): The price-weighted average of 30 significant U.S. stocks traded on the New York Stock Exchange and NASDAQ. The DJIA is the oldest and single most watched index in the world.

Dow Jones Select REIT Index: Measures the performance of publicly traded REITs and REIT-like securities in the U.S. and is a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

HFRI Indices: The Hedge Fund Research, Inc. (HFRI) indexes are a series of benchmarks designed to reflect hedge fund industry performance by constructing composites of constituent funds, as reported by the hedge fund managers listed within the HFR Database.

Frequently used indexes (page 3 of 5)

HFR Equity Hedge Total Index: Uses the HFR (Hedge Fund Research) database and consists only of equity hedge funds with a minimum of \$50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

HFR Relative Value Fixed Income Corporate Index: Uses the HFR (Hedge Fund Research) database and consists of only relative value fixed income corporate funds with a minimum of \$50 million assets under management or a 12-month track record and that reported assets in U.S. dollars.

ICE BofAML 1-3 Year Corporate Index: Tracks U.S. dollar-denominated investment grade public debt issued in the U.S. bond market with maturities of one to three years.

ICE BofAML 1-5 Year Corporate and Government Index: Tracks the performance of short-term U.S. investment grade government and corporate securities with maturities between one and five years.

ICE BofAML U.S. 7-10 Year Index: Tracks the performance of U.S. dollar denominated investment grade rated corporate debt publicly issued in the U.S. domestic market and includes all securities with a remaining term to maturity of greater than or equal to seven years and less than 10 years.

ICE BofAML Global Broad Market Index: Tracks the performance of investment grade public debt issued in the major domestic and Eurobond markets, including global bonds.

ICE BofAML U.S. High Yield Master II Index: Commonly used benchmark index for high yield corporate bonds and measures the broad high yield market.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global): Tracks total returns for traded external debt instruments in the emerging markets.

London Interbank Offered Rate (LIBOR) 3-months: The interest rate offered by a specific group of London banks for U.S. dollar deposits with a three-month maturity.

London Interbank Offered Rate (LIBOR) 9-months: The interest rate offered by a specific group of London banks for U.S. dollar deposits with a nine-month maturity.

MSCI All Country World Index (ACWI): Designed to measure the equity market performance of developed and emerging markets.

Frequently used indexes (page 4 of 5)

Russell 2000 Value Index: Measures companies in the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. securities based on total market capitalization.

Russell Midcap Index: Measures the 800 smallest companies in the Russell 3000 Index.

Russell Midcap Growth Index: Measures companies in the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index: Measures companies in the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.

MSCI All County World ex-U.S. Index (ACWI, excluding United States): Tracks the performance of stocks representing developed and emerging markets around the world that collectively comprise most foreign stock markets. U.S. stocks are excluded from the index.

MSCI EAFE Index: Includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East.

MSCI Emerging Markets (EM) Index: Designed to measure equity market performance in global emerging markets.

MSCI World Index: Tracks equity market performance of developed markets through individual country indices.

NAREIT Index: Includes REITs (Real Estate Investment Trusts) listed on the New York Stock Exchange, NASDAQ and American Stock Exchange.

NASDAQ Composite Index: A market capitalization-weighted average of roughly 5,000 stocks that are electronically traded in the NASDAQ market.

NCREIF Property Index (NPI): Measures the investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index and is representative of the U.S. large capitalization securities market.

Frequently used indexes (page 5 of 5)

Russell 1000 Growth Index: Measures companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 1000 Value Index: Measures companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values. It includes the largest 1,000 firms in the Russell 3000 Index.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index and is representative of the U.S. small capitalization securities market.

Russell 2000 Growth Index: Measures companies in the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values, and is representative of U.S. securities exhibiting growth characteristics. The Russell 2000 Index includes the 2,000 firms from the Russell 3000 Index with the smallest market capitalizations.

S&P 500 Index: Consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market.

S&P Global ex-U.S. Property Index: Measures the investable universe of publicly traded property companies domiciled in developed and emerging markets excluding the United States. The companies included are engaged in real estate related activities such as property ownership, management, development, rental and investment.

S&P GSCI: A composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

S&P/Case-Shiller Home Price Indexes: A group of indexes that track changes in home prices throughout the United States. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

Swiss Re Global Cat Bond Total Return Index: Tracks the aggregate performance of all U.S. dollar-denominated euros and Japanese yen-denominated catastrophe bonds, capturing all ratings, perils and triggers.

U.S. Dollar Index: Indicates the general international value of the U.S. dollar by averaging the exchange rates between the U.S. dollar and six major world currencies.

Wilshire 5000 Index: Composed of more than 6,700 publicly-traded U.S. companies and is designed to track the overall performance of the American stock markets.



CITY OF CUPERTINO

Agenda Item

25-13935

Agenda Date: 4/28/2025

Agenda #: 4.

Subject: INFORMATIONAL ITEM Receive the Internal Audit and Fraud, Waste, and Abuse programs update

Receive the Internal Audit and Fraud, Waste, and Abuse programs update

Presenter: Moss Adams

4:40(15)

April 21, 2025

To: City of Cupertino Audit Committee
From: Moss Adams LLP
Subject: Internal Audit Status Report January 21 through April 21, 2025

FY24-25 INTERNAL AUDIT PROGRAM	GRANTS MANAGEMENT INTERNAL CONTROLS REVIEW	SPECIAL REVENUE FUND PROCESS REVIEW	RECOMMENDATION VALIDATION PROCESS ESTABLISHMENT	ONGOING INTERNAL AUDIT SERVICES
Objective	Assess the internal controls in place over the City's grants management activities (including applications, review, administration, and reporting).	Document the process used for special revenue fund accounting, identify gaps compared to best practices, and conduct testing of prior years' accounting.	Inventory prior internal and external audit recommendations, collaborate with City staff to develop a tracking mechanism and process to report and validate recommendation implementation.	Attend Audit Committee and Council meetings, prepare status reports, manage internal audit program, and monitor FWA hotline.
Schedule	April through June 2025	August 2024 through July 2025	July 2024 through June 2025	July 2024 through June 2025
Activities for This Period	N/A	Completed interviews and moved into analysis and testwork phase. Began development of preliminary observations.	Developed initial tracking spreadsheet, requested documentation to begin validating recommendations City staff report as implemented, and reviewed documentation to determine status.	Met monthly with City staff, monitored FWA hotline, and provided assistance at the City's request.
Activities for Next Period	Conduct kickoff and initiate analysis	Complete analysis and testwork, finalize preliminary observations and develop draft report.	Continue to validate recommendations City staff report are implemented to determine status.	Continue to monitor FWA hotline and provide ongoing support to City.
Issues	None	Schedule delays due to staff capacity	None	None

FRAUD, WASTE, AND ABUSE HOTLINE STATISTICS: QUARTERLY					
Complaint Type	Complaints Received This Quarter	Under Review	Referred to Appropriate City Official(s)	Closed	Open
Compliance & Ethics	4	2	4	2	2
Fraud	0	0	0	0	0
Employment Matters	0	0	0	0	0

HOTLINE STATISTICS: LIFETIME (OCTOBER 2022-PRESENT)	
Total Reports	33
Reports Closed	26
Reports Open	7

OUTSTANDING REPORTS – DAYS OPEN	
Open Reports	Days Outstanding
Report 2000302663	423
Report 2000309461	401
Report 2000311746	393
Report 2000320154	366
Report 2000320491	364
Report 2000423152	38
Report 2000435031	1



CITY OF CUPERTINO

Agenda Item

25-13936

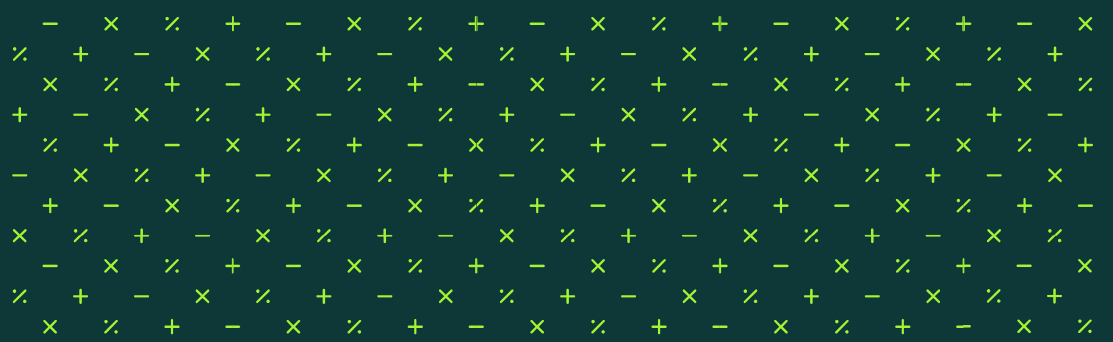
Agenda Date: 4/28/2025
Agenda #: 5.

Subject: ACTION ITEM Internal Audit Work Program Review

Receive the Internal Audit Work Program and forward to City Council for approval

Presenter: Moss Adams

4:55(15)



City of Cupertino

FY 25-26 Internal Audit Program

Audit Committee Meeting

April 2025

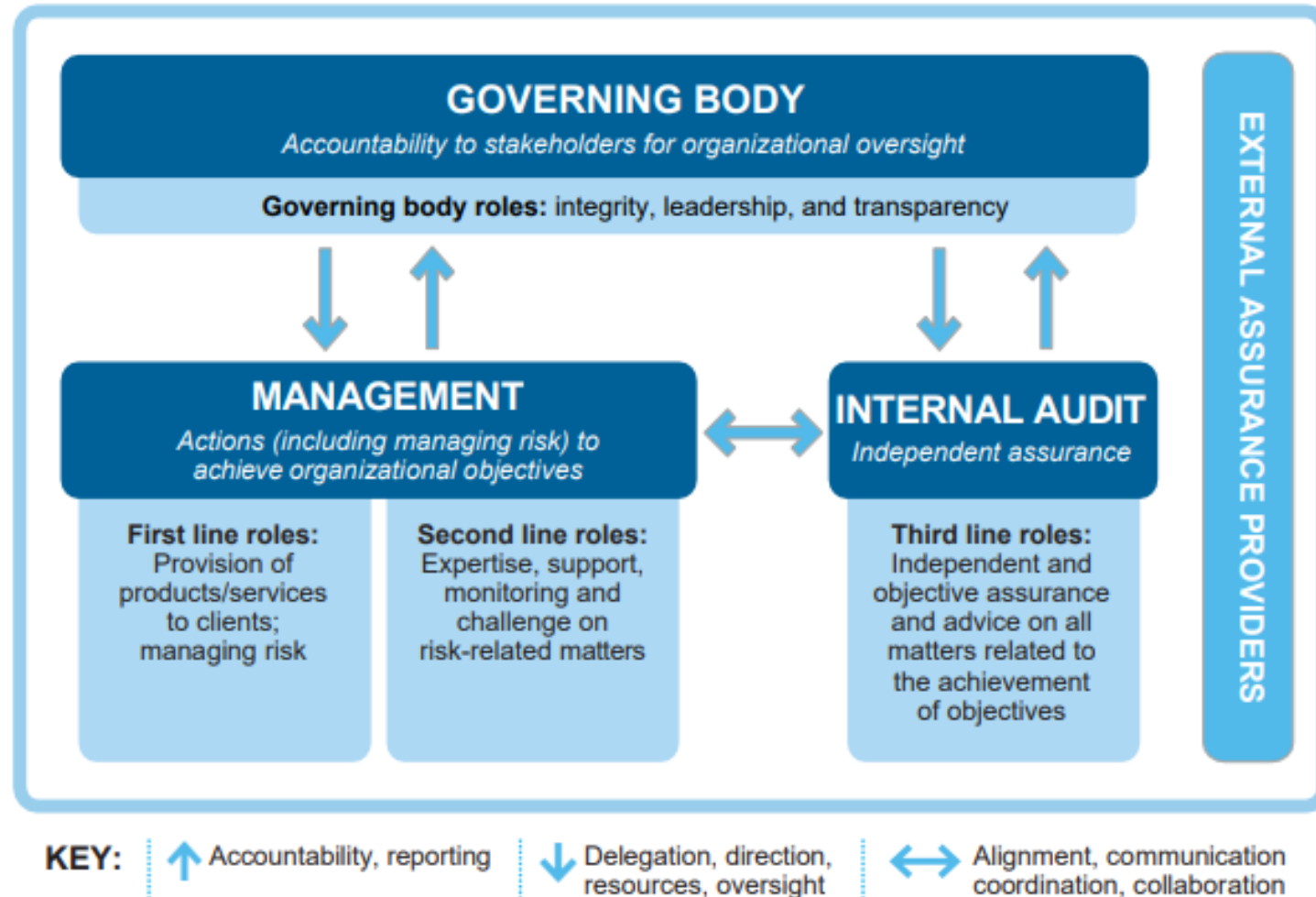


Internal Audit Overview

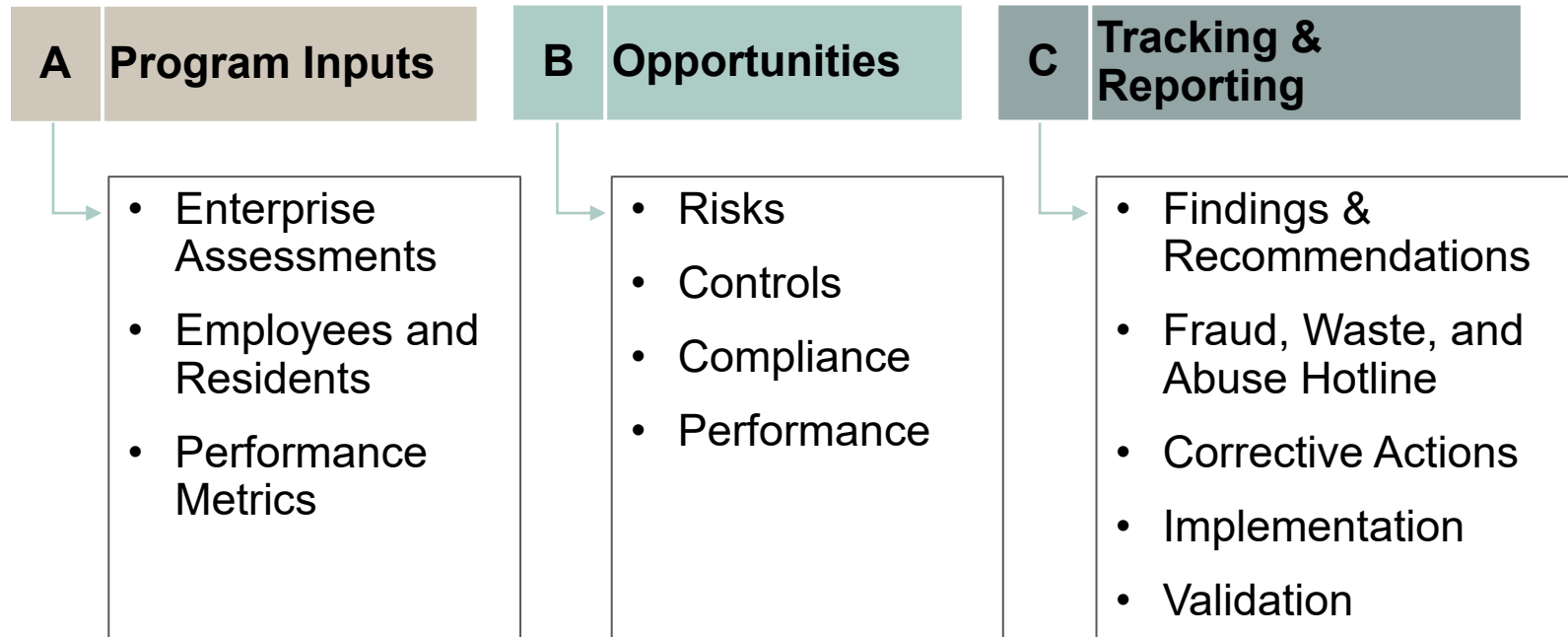
- The City retained Moss Adams to serve as the designated Internal Auditor and conduct projects focusing on:
 - Risks
 - Internal controls
 - Efficiency and effectiveness
 - Best practices
 - Compliance
- Work is being completed under appropriate industry standards (IIA, GAGAS, AICPA)

Role of Internal Audit

The IIA's Three Lines Model



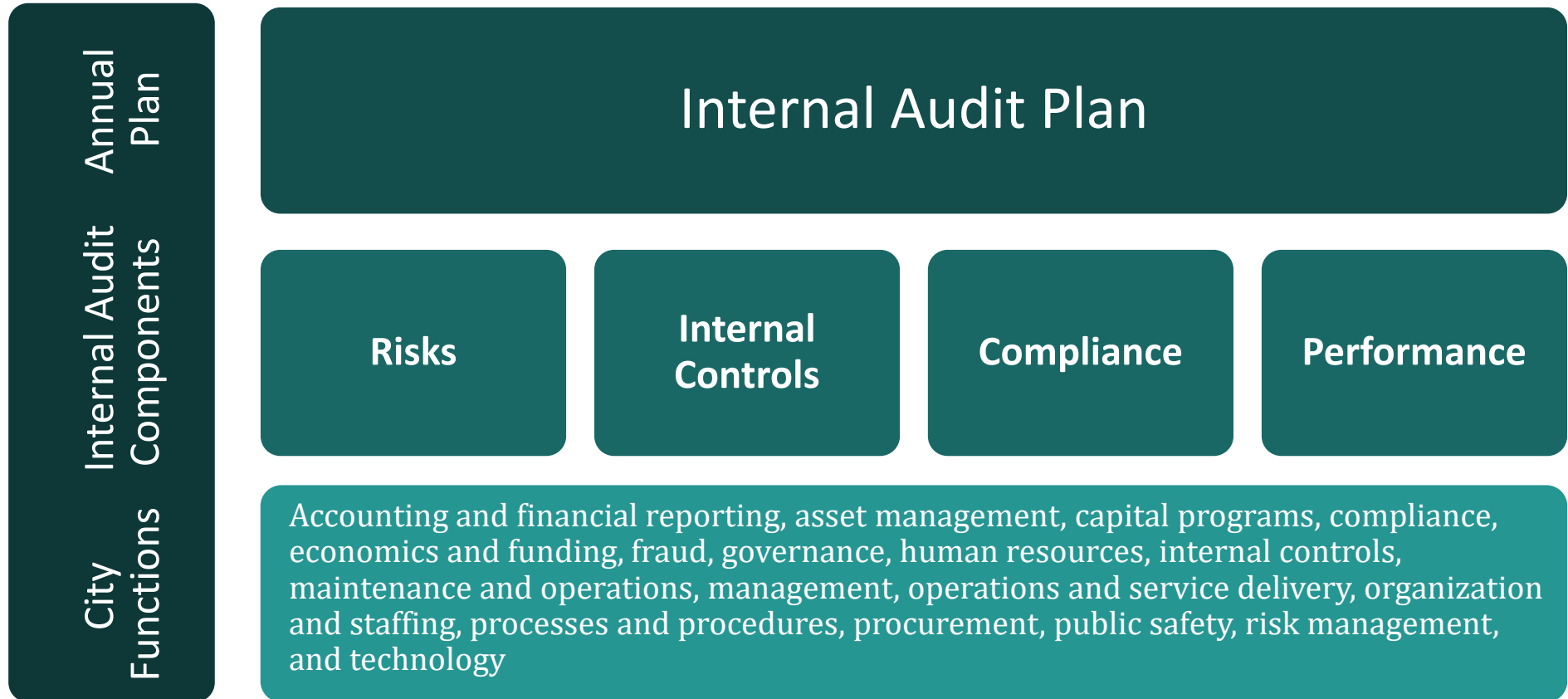
Holistic Internal Audit Program Components



Internal Audit Program Components



5



Program Review

Focus

- Enterprise Risk Assessments
- Internal Controls Projects Completed
 - *Grant Management Internal Controls*
- Performance/Efficiency Projects Completed
 - *Special Revenue Fund Process*
- Policies Reviewed
- Recommendations Delivered
- Ethics Hotline Reports Received
- *Recommendations Validated in FY25*

Accomplishments

2021, 2024

2

FY25

5

FY25

139

52

33 reports

45



Departments Covered

Department	Projects
Administrative Services	Procurement (22) Finance P&Ps (22) Budget Process Review (23) Grants Management Internal Control Review (25) Special Revenue Fund Process (25)
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), Recommendation Validation (25)

Potential FY25-26 Internal Audit Projects

Performance Projects

1. Permitting Efficiency Study
2. CIP Implementation

Internal Controls and Compliance Projects

1. Council-Wide Policy Review Inventory
2. City-Wide Internal Controls Review
3. Investment/Cash Flow Policy Review/Recommendation
4. Credit Card Testing

Program Management:

1. Ongoing Internal Audit Services
2. Ongoing Recommendation Validation



Recommended FY25-26 Internal Audit Projects

1. **Council-Wide Policy Review Inventory (already approved by City Council)** Review and provide recommendations to align council policies with best practices(16 weeks, \$40,000)
2. **City-Wide Internal Control Review** Conduct a review of the City's internal controls framework in key areas that are deemed important to protecting City assets and resources. (16 weeks, \$45,000)
3. **Investment/Cash Flow Policy Review/Recommendation** Review and provide best practice recommendations over the City's investment/Cash Flow policy. (8 weeks, \$10,000)
4. **Ongoing Internal Audit Services** Attend Audit Committee and Council meetings, prepare status reports, recommendation validation manage internal audit program, and monitor FWA hotline. (\$25,000)





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.

+ x - % 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



11





CITY OF CUPERTINO

Agenda Item

25-13938

Agenda Date: 4/28/2025
Agenda #: 6.

Subject: ACTION ITEM Annual Review of the City's Investment Policy

Annual Review of the City's Investment Policy and forward to City Council for Adoption

Presenter: Jonathan Orozco, Finance Manager, and Chandler

5:25(15)



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109
CUPERTINO.ORG

AUDIT COMMITTEE STAFF REPORT

Meeting: April 28, 2025

Subject

Annual Review of the City's Investment Policy

Recommended Action

Receive Updated City's Investment Policy and forward to City Council for Adoption

Reasons for Recommendation

Background

To ensure the City's investment policy is up-to-date and aligned with its investment objectives, the Audit Committee conducts an annual review before presenting it to the City Council. The most recent review and acceptance of the investment policy by the Audit Committee occurred on April 22, 2024, followed by approval from the City Council on May 2, 2024.

The investment policy is the foundation of the City's investment goals and priorities. It can help protect the City's assets if it is carefully researched, effectively drafted, and regularly reviewed to ensure that it continues to meet the City's investment objectives. The existence of an approved investment policy demonstrates that the City is performing its fiduciary responsibilities, thereby inspiring trust and confidence among the public that it serves.

The policy also provides guidance on the proper management of the City's temporary idle cash, outlining protocols to maximize cash efficiency.

California Government Code (Code) section 53646(a)(2) states:

[T]he treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

Assembly Bill 2853 (Chapter 889, Statutes of 2004) amended section 53646(a)(2) to make presentation of the investment policy to the City Council optional. While no longer required by Code, the City annually presents the investment policy to the Audit Committee before submitting it to City Council for approval.

Chandler Asset Management

In FY 2018-19, the City conducted a Request for Proposal (RFP) for investment management services and selected Chandler Asset Management. Under the City's Treasurer's direction, Chandler Asset Management manages the City's investment portfolio in accordance with the City's investment objectives. The City's investment objectives, in order of priority, are to provide:

- Safety to ensure the preservation of capital in the overall portfolio
- Sufficient liquidity for cash needs
- A market rate of return consistent with the investment program

The performance objective is to earn a total rate of return through a market cycle equal to or above the return on the benchmark index. To achieve the objective, Chandler Asset Management invests in high-quality fixed-income securities consistent with the City's investment policy and Code.

Investment Policy Review

Chandler Asset Management completed its annual review of the City's Investment Policy for compliance with California Government Code and alignment with current industry best practices. Overall, Chandler concluded that the City's Investment Policy continues to be well-written and effective in guiding the management of the City's investment portfolio.

Although no updates to the Investment Policy are required at this time due to recent changes in the Government Code, Chandler recommended several best practice enhancements and minor clarifications. These updates have been incorporated into the attached redline version of the policy (Attachment A) and are summarized below:

- **Clarification of Credit Quality Requirements:** Policy language now specifies that credit quality requirements apply at the time of purchase.
- **Federal Agencies (GSEs):** The per-issuer limit for securities issued by Federal Agencies has been increased from 25% to 30%, reflecting the sector's relative safety and providing additional flexibility.
- **Asset-Backed Securities:** Language has been updated to reflect that passthrough securities issued by governmental issuers are governed by Government Code Sections 53601(b) and 53601(f), not 53601(o), consistent with changes from SB 882.

- **Money Market Mutual Funds:** Policy language permitting the use of money market mutual funds has been updated to better reflect current Government Code language.
- **Local Government Investment Pools (LGIPs):** LGIPs have been added as a permitted investment type to enhance liquidity management options.
- **Trade Settlement Periods:** Consistent with SB 1489, language has been added to explicitly prohibit the purchase of securities with trade settlement periods longer than 45 days.

Staff concurs with Chandler's recommendations and has incorporated these revisions into the Investment Policy. The revised policy ensures continued compliance with state law while providing the City with greater clarity and flexibility to manage its investments in a prudent and efficient manner.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

Prepared by: Jonathan Orozco, Finance Manager


Reviewed by: Kristina Alfaro, Director of Administrative Services and City Treasurer

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Cupertino Investment Policy (redline)

B – Cupertino Investment Policy Statement Review Memo

 City Investment Policy	Citywide Policy Manual
Effective Date: May 14, 2024 July 1, 2025 through June 30, 2026	Attachments: N/A
Related Policies & Notes: Pension Investment Policy, OPEB Investment Policy	Responsible Department: Administrative Services

POLICY

Under authority granted by the City Council, the City Treasurer and Deputy Treasurer are responsible for investing the surplus funds of the City.

The investment of the funds of the City of Cupertino is directed to the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53600 et seq. By adopting this Policy, the City Council delegates to the City Treasurer the authority to invest or to reinvest City funds, or to sell or exchange securities so purchased pursuant to Government Code Section 53607.

The primary objective of the investment policy of the City of Cupertino is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the City of Cupertino the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

SCOPE

The investment policy applies to all financial assets of the City of Cupertino as accounted for in the Annual Comprehensive Financial Report (ACFR). Policy statements outlined in this document focus on the City of Cupertino's pooled, surplus funds, but will also apply to all other funds under the City Treasurer's span of control unless specifically exempted by statute or ordinance. This policy is applicable, but not limited to all funds listed below:

- General Fund
- Special Revenue Funds
- Capital Project Funds

- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund unless specifically exempted

Investments of bond proceeds shall be governed by the provisions of the related bond indentures and/or cash flow requirements and therefore may extend beyond the maturity limitations as outlined in this document. Other post-employment benefit (OPEB) and Pension trust investments are governed by California Government Code Sections 53620 through 53622 and trust documents. The trusts are governed by separate investment policies entitled Investment Policy Statement City of Cupertino Investment Trust that were reviewed by the City of Cupertino Audit Committee on October 23, 2023 and City Council on December 5, 2023.

PRUDENCE

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

It is the City’s intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market, or individual security valuation fluctuations. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return. The City Treasurer and Deputy Treasurer, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

OBJECTIVES

The primary objectives, in order of priority, of the City of Cupertino's investment activities shall be:

A. Safety of Principal

Safety of principal is the foremost objective of the City of Cupertino. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.

B. Liquidity

The City's investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated and provide the City with adequate cash flows to pay its obligations over the next six months. Additionally, the portfolio should consist largely of securities with active secondary resale markets.

C. Return

The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with Cupertino's investment risk constraints and cash flow characteristics of the portfolio.

MAXIMUM MATURITIES

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Investment of surplus funds shall comply with the maturity limits as set forth in the California Government Code 53600, et seq. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security that at the time of the investment has a term remaining to maturity in excess of five years from date of trade settlement, unless the Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the Council no less than three months prior to the investment. Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the City Treasurer. Investment performance statistics and activity reports are generated on a quarterly basis for presentation to the oversight (audit) committee, City Manager and City Council. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. The City's investment portfolio shall be designed to attain a market average rate of return through economic cycles. The Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the Treasurer's quarterly report. The Treasurer shall select an appropriate, readily available index to use as a market benchmark. Whenever possible, and consistent with risk limitations as defined herein and prudent investment principles, the Treasurer shall seek to augment return above the

market average rate of return. The City may select alternative benchmarks for identified pools of City funds that have different objectives.

DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code, Sections 41006 and 53600 et seq. The Treasurer is responsible for investment management decisions and activities per City Council Resolution.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Treasurer is not present.

No officer or designee may engage in an investment transaction except as provided under terms of this policy and the procedures by the Treasurer and approved by the City Manager/Council. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

If an investment adviser is retained by the City, the investment adviser, registered under the Investment Advisers Act of 1940, must have at least five years' experience investing in the securities and obligations authorized by California Government Code 53601 subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000). External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

OVERSIGHT COMMITTEE

An audit committee consisting of appropriate internal and external members, appointed by the City Council, shall be established to provide general oversight and direction concerning the policies related to management of the City's investment pool, OPEB trust, and Pension Rate Stabilization Program trust. The City Treasurer shall serve in a staff and advisory capacity. The committee shall meet at least quarterly to review policy changes, new legislation and portfolio status.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the City Treasurer and the Deputy Treasurer are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party custodian acting as agent for the City under the terms of a custody agreement. All trades executed by a dealer will settle delivery versus payment (DVP) through the City's safekeeping agent. In order to verify investment holdings, an external auditor, on an annual basis, shall independently verify securities held in custody for the City. Additionally, the City Treasurer shall include a listing of holdings provided by the City's custodian to the quarterly investment report as verification between annual reviews by the external auditor.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money mutual funds, since the purchased securities are not deliverable. All other exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in the quarterly report to City Council.

INTERNAL CONTROL

Separation of duties between the Treasurer's function and Finance is designed to provide proper internal controls to prevent the potential for converting assets or concealing transactions. Dual transaction controls, separate and independent notifications, and reports provided by financial institutions shall be used to help implement these controls.

Wire transfers shall be approved prior to being submitted to the financial institution. Wire transfers initiated by Treasury staff must be reconfirmed by the appropriate financial institution to Finance staff. Proper documentation is required for each investment transaction and must include a broker trade confirmation and a cash disbursement wire transfer confirmation. Timely bank reconciliation is conducted to ensure proper handling of all transactions. The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by Finance staff on a monthly basis.

An annual agreed-upon procedures engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants shall be conducted by an auditor solely to assist management in determining the City's compliance with this investment policy. At the conclusion of such engagement, the agreed-upon procedures report detailing all procedures performed and findings noted (if applicable) shall be provided to the Audit Committee of the City.

REPORTING

Monthly transaction reports will be submitted by the Treasurer to the City Council within 30 days of the end of the reporting period in accordance with California Government Code Section 53607.

The City Treasurer shall also prepare a quarterly investment report, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. The report will be prepared in a manner that will report all information required under this policy and as recommended by California Government Code. The Treasurer will submit the report to Council no later than the second regular council meeting, or approximately 45 days following the end of the quarter covered by the report.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND QUALIFIED BROKER/DEALERS

To the extent practicable, the Treasurer shall endeavor to complete investment transactions using a competitive bid process whenever possible. The City's Treasurer will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The Treasurer shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:

- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the City may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Treasurer with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 et seq. and the City's investment policy. The Treasurer will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

COLLATERAL REQUIREMENTS

CERTIFICATES OF DEPOSIT (CDS). The City shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

REPURCHASE AGREEMENTS. The City requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The City shall receive monthly statements of collateral.

AUTHORIZED INVESTMENTS

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, subject to the restrictions below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit quality requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At

the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Obligations issued by Federal agencies or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:
 - No more than ~~25~~30% of the portfolio may be invested in any single Agency/GSE issuer.
 - The maximum maturity does not exceed five (5) years.
 - The maximum percent of agency callable securities in the portfolio will be 20%.
3. Banker's Acceptances (bills of exchange or time drafts drawn on and accepted by commercial banks) may not exceed 180 days to maturity or 40% of the portfolio.
 - They are issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
 - No more than 5% of the portfolio may be invested in any single issuer.
4. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by ~~California state law~~the California State Treasurer. LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio..
5. Commercial paper issued by corporations organized and operating in the United States having assets in excess of \$500,000,000, ranked "A-1" or its equivalent or better by at least one Nationally Ranked Statistical Rating Organization (NRSRO), issued by corporations which have long-term obligations

rated in a rating category of “A” or its equivalent or better by one NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the portfolio. Under a provision sunsetting on January 1, 2026, no more than 40% of the City’s portfolio may be invested in Commercial Paper if the City’s investment assets under management are greater than \$100,000,000. No more than 5% of the portfolio may be invested in any single issuer. No more than 10% of the total investments may be invested the in commercial paper and medium term notes combined of any single issuer.

6. Negotiable Certificates of Deposits issued by nationally or state-chartered banks, state or federal savings associations, or state or federal credit unions, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of Negotiable Certificates of Deposit may not exceed 30% of the portfolio. No more than 5% of the portfolio may be invested in any single issuer. A maturity limitation of five years is applicable. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
7. Repurchase agreements that specify terms and conditions may be transacted with banks and broker dealers. The maturity of the repurchase agreements shall not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A PSA Master Repurchase Agreement is required between the City of Cupertino and the broker/dealer or financial institution for all repurchase agreements transacted.
8. Reverse repurchase agreements are not authorized.
9. Certificates of Deposit (time deposits), non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks, savings and loan associations, or credit unions. Within a limit of 30% of the portfolio, these institutions may use a private sector entity to assist in the placement of the time deposits under the conditions specified by the Government Code.
10. Medium Term Corporate Notes issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated in the rating category of “A” or better by at least one NRSRO. Purchase of medium term note-s may not exceed 30% of the portfolio. No more than 5% of the portfolio may be

invested in any single issuer. No more than 10% of the total investments may be invested in the commercial paper and medium term notes combined of any single issuer.

11. Municipal securities, including obligations of the City, the State of California, and any local agency within the State of California, provided that:

- The securities are rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- No more than 5% of the portfolio may be invested in any single issuer.
- No more than 30% of the portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

12. Municipal securities (Registered Treasury Notes or Bonds) of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

- The securities are rated in a rating category of “A” or its equivalent or better by at least one nationally recognized statistical rating organization (“NRSRO”).
- No more than 5% of the portfolio may be invested in any single issuer.
- No more than 30% of the portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

13. Asset-backed, mortgage-backed, mortgage pass-through securities, and collateralized mortgage obligations not defined in paragraphs 1 and 2 of the Authorized Investments section of this policy, provided that:

- The securities are rated in a rating category of “AA” or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. ~~There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a Federal Agency/GSE.~~
- The maximum legal final maturity does not exceed five (5) years.

14. Supranationals, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
- The securities are rated in a rating category of “AA” or its equivalent or better by

a NRSRO.

- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

15. Money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

- Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
- Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.

~~Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the City of Cupertino may be purchased as allowed under State of California Government Code.~~ Only funds holding U.S. Treasury obligations, Government agency obligations, or repurchase agreements collateralized by U.S. Treasury or Government agency obligations can be utilized and may not exceed 20% of the cost value of the portfolio.

15-16. Local Government Investment Pools. There is no limitation for Local Government Investment Pools (LGIP)

PROHIBITED INVESTMENT VEHICLES AND PRACTICES

Ineligible investments are those that are not described herein, including but not limited to, common stocks and long-term (over five years in maturity) notes and bonds are prohibited from use in this portfolio. It is noted that special circumstances arise that necessitate the purchase of securities beyond the five-year limitation. On such occasions, requests must be approved by City Council prior to purchase. Additionally:

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero-interest accrual if held to maturity is prohibited. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future

- direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.
- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- Securities with trade settlement periods longer than 45 days are prohibited.

RISK MANAGEMENT AND DIVERSIFICATION

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.

- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or City’s risk preferences.
- If the credit ratings of any security owned by the City are downgraded to a level below the quality required by this investment policy, it will be the City’s policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
- If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
- If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in

different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years as measured from trade settlement date, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

DEPOSITS

To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities.

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

REVIEW OF INVESTMENT PORTFOLIO

The Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the City Council.

POLICY REVIEW

The City of Cupertino's investment policy shall be adopted by resolution of the City Council on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, and yield, and its relevance to current law and financial and economic trends.

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “Fannie Mae,” issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as “Ginnie Mae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER’S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS). A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a

lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).

A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

City Manager's signature: _____

Date: _____

Director of Administrative Services' signature: _____

Date: _____

Revisions:

April 24, 2025

Kristina Alfaro, Administrative Services Director
Jonathan Orozco, CPA, Finance Manager
City of Cupertino

Dear Kristina and Jonathan,

We have completed our annual review of City of Cupertino's (City) investment policy for compliance with the statutes of California Government Code (Code) that govern the investment of public funds, as well as for inclusion of current best practices.

The City's investment policy continues to be well-written and effective for the management of the Authority's funds. There were minimal changes to California Government Code for 2024 effective 2025 related to augmented concentration limits on certain bank deposits. None of the changes require the City to update the policy, nor do we recommend the adoption of these Code modifications at this time. We do, however, recommend adoption of some other recent Code updates, as well as inclusion of additional best practices. Please find a brief summary of the changes below:

- **Authorized Investments:** We recommend the City include language specifying that minimum credit quality requirements apply at time of purchase.
- **Authorized Investments; 2. Federal Agencies:** Chandler recommends the City increase the current limit of 25% per Federal Agency/GSE to 30%. Given the sector's relative safety, the increase will provide the City the opportunity to increase its holdings per issuer in this stable sector if needed.
- **Authorized Investments; 13. Asset-Backed Securities:** Pursuant to SB 882, passthrough securities (asset-backed and mortgaged-backed securities) issued by governmental issuers are governed by 53601(b) and 53601(f), which describe permitted governmental issuers, rather than 53601(o), which describes issuers of private label passthrough securities. We recommend the City adopt language to reflect this change in Code.
- **Authorized Investments; 15. Money Market Mutual Funds:** We recommend the City update its policy language permitting the use of money market mutual funds to better reflect the language currently used in Code.
- **Authorized Investments; 16. Local Government Investment Pools:** Chandler recommends the City include local government investment pools (LGIP) as a permitted investment. LGIPs in California are organized as joint powers authorities formed to provide short-term investment options for local governments wishing to maintain funds very liquid. LGIPs are generally rated in a high rating category, and can provide local governments with additional options for funds needed in the short term.

- **Prohibited Investment Vehicles and Practices:** Pursuant to SB 1489, we recommend including language specifically prohibiting the purchase of securities with trade settlement periods longer than 45 days.

Please do not hesitate to contact us with any questions you may have, or if further review is needed.

Sincerely,

Carlos Oblites
Senior Portfolio and Investment Pool Strategist
Chandler Asset Management



CITY OF CUPERTINO

Agenda Item

25-13939

Agenda Date: 4/28/2025

Agenda #: 7.

Subject: INFORMATIONAL ITEM Receive the Single Audit and Agreed Upon Procedures (AUP) Reviews - GANN Limit, Investment Policy, Storm Drain

Receive the Single Audit and Agreed Upon Procedures (AUP) Reviews - GANN Limit, Investment Policy, Storm Drain

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

5:40(15)

City of Cupertino

Cupertino, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2024

City of Cupertino
Single Audit and Independent Auditors' Reports
For the Year Ended June 30, 2024

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

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

We have audited, in accordance with the 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 ("*Government Auditing Standards*"), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cupertino, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 25, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 2

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
November 25, 2024



**REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Cupertino, California's (the "City") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2024. The City's major federal program is identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"), and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002 to be significant deficiencies.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 3

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated November 25, 2024, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 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 GAAS. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California

March 18, 2025, except for the Schedule of Expenditures of Federal Awards, which is as of November 25, 2024

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City of Cupertino
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Pass - Through Grantor/Program Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Program:</i>				
CDBG - Entitlement/Special Purpose Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B23MC060057	\$ 193,777	\$ 147,564
Community Development Block Grants/Entitlement Grants	14.218	Program Income	7,942	-
Total CDBG – Entitlement/Special Purpose Grants Cluster			201,719	147,564
Total U.S. Department of Housing and Urban Development			201,719	147,564
<u>U.S. Department of Transportation</u>				
<i>Passed through State of California Department of Transportation:</i>				
Highway Planning and Construction	20.205	CML-5318 (033)	1,000,000	-
Highway Planning and Construction	20.205	BPMP-5318(029)	5,822	-
Total Highway Planning and Construction			1,005,822	-
Total U.S. Department of Transportation			1,005,822	-
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through National Association of County and City Health Officials:</i>				
Medical Reserve Corps Small Grant Program	93.008	22-0039	4,129	-
Total U.S. Department of Health and Human Services			4,129	-
Total Expenditures of Federal Awards			\$ 1,211,670	\$ 147,564

City of Cupertino
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Cupertino, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of City, it is not intended to and does not present the financial position of the City.

Note 3 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 4 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

Note 5 – Subrecipients

During the year ended June 30, 2024, the City provided federal funds to the following subrecipients:

Assistance Listing Number	Program Name / Subrecipient Name	Amount Provided to Subrecipients
14.218	CDBG - Entitlement/Special Purpose Grants Cluster:	
	Rebuilding Together Silicon Valley	\$ 92,536
	Live Oak Adult Day Services	19,054
	West Valley Community Services	35,974
		<u>\$ 147,564</u>

City of Cupertino
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2024-001 and 2024-002

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$ 1,005,822
	Total Expenditures of All Major Federal Programs	\$ 1,005,822
	Total Expenditures of Federal Awards	\$ 1,211,670
	Percentage of Total Expenditures of Federal Awards	83.01%

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No current year financial statement findings were noted.

B. Prior Year Findings – Financial Statement Audit

2023-001 – Internal Control Over Financial Reporting – Prior Year Adjustments, Year-End Closing, and Delay in Issuance of the Single Audit

Condition:

During the year ended June 30, 2023, the City 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.

The City has experienced significant delays in the preparation of the annual comprehensive financial report and issuance of the Single Audit required under Uniform Guidance. Due to the delay in issuance of the Single Audit report, the Data Collection Form was not submitted timely.

Recommendation:

We recommend the City update its policy to review and reconcile the general ledger. The policy and procedures should also include the year-end closing procedures and the accounts to be reconciled in accordance with Governmental Accounting Standards Board Statements and provide training to staff to properly perform the reconciliation and closing.

In addition, the policy and procedures should include critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates.

Status:

This finding was resolved during the year ended June 30, 2024.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2024-001 – Procurement, Suspension, and Debarment – Internal Control over Procurement and Verification Against the System for Award Management (“SAM”) (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number: 20.205
Assistance Listing Title: Highway Planning and Construction
Federal Agency: Department of Transportation
Pass-Through Entity: State of California Department of Transportation
Federal Award Number and Award Year: CML-5318(033)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our audit, we noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally funded purchases.

Cause:

The City does not have a process to require departments to perform suspension or debarment over vendors that the City makes contracts with federally-funded projects.

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-001 – Procurement, Suspension, and Debarment – Internal Control over Procurement and Verification Against the System for Award Management (“SAM”) (Significant Deficiency) (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City establish internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

View of Responsible Officials:

Management concurs the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-002 – Special Tests and Provisions – Internal Control over Quality Assurance Program (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number: 20.205
Assistance Listing Title: Highway Planning and Construction
Federal Agency: Department of Transportation
Pass-Through Entity: State of California Department of Transportation
Federal Award Number and Award Year: CML-5318(033)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

In accordance with the City's adopted Quality Assurance Program Manual, Quality Assurance Program (QAP) pertains to a sampling and testing program that will provide assurance that the materials and workmanship incorporated into the construction project are in conformance with the contract specifications. The main elements of a QAP are the Acceptance Testing (AT) and the Independent Assurance Program (IAP). AT refers to the sampling and testing, or inspection, to determine the degree of compliance with contract requirements while IAP refers to the verification that AT is being performed correctly by qualified testers and laboratories. The abovementioned QAP elements should be monitored through these forms/checklists: Materials Certificate (Appendix K), Checklist to Assist Local Agencies Monitor Acceptance Testing Requirements (Appendix E), and Checklist to Assist Local Agencies to Monitor Independent Assurance Requirements (Appendix L).

Condition:

Quality Assurance Tests were performed during the fiscal year for the federal project; however, we found that the corresponding monitoring forms and checklists were not completed in a timely manner in accordance with the adopted QAP Manual. The Appendices K, E, and L checklists were all accomplished after the project completion which deviates from the intended purpose of the QAP.

Cause:

The City did not follow the adopted QAP properly to complete Appendices K, E, and L forms/checklists timely.

Effect or Potential Effect:

Without completing the forms and checklists timely, the City might overlook some of the important matters and testing needed in monitoring the federal project.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-002 – Special Tests and Provisions – Internal Control over Quality Assurance Program (Significant Deficiency) (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City to adhere with the QAP manual on the timely accomplishment of the abovementioned forms and checklists in line with the federal project timeline.

View of Responsible Officials:

Management concurs the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

2023-002 – Reporting – Internal Control and Compliance over Reporting (Material Weakness)

Condition:

The City did not have proper segregation of duties in place for the preparation, approval and submission of the ARPA-related reportorial requirements to the U.S. Department of Treasury. Further, the audit team noted that the City did not properly obligate the funds related to revenue replacement category on its annual project and expenditures report resulting to incorrect reporting.

Recommendation:

We recommend that the City strengthen their report submission process and procedures to ensure all required reports are properly reviewed and approved and submitted. Further, we recommend the City to have in depth staff training with regard to the grant compliance requirements in order to avoid misinterpretation of the necessary requirements.

Status:

This finding was resolved during the year ended June 30, 2024.

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City of Cupertino

Cupertino, California

Independent Accountants' Report on Applying Agreed-Upon Procedures to Appropriations Limit Schedule

For the Fiscal Year Ending June 30, 2025



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below on the accompanying Appropriation Limit Schedule of the City of Cupertino, California (the "City") for the year ending June 30, 2025. The City's management is responsible for the Appropriations Limit Schedule.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of meeting the requirements set forth in Section 1.5 of Article XIII-B of the California Constitution. These procedures, which were suggested by the League of California Cities and presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*, were performed solely to assist you in meeting the requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and associated findings are as follows:

1. We obtained the completed worksheets used by the City to calculate its appropriations limit for the year ending June 30, 2025, and agreed that the limit and annual calculation factors were adopted by resolution of the City Council. We also verified that the population and inflation options were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Schedule, we added the prior year's limit to the total adjustments, and agreed the resulting amount to the current year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We agreed the current year information presented in the accompanying Appropriations Limit Schedule to corresponding information in worksheets used by the City.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the appropriations limit presented in the accompanying Appropriations Limit Schedule to the appropriations limit adopted by the City Council.

Finding: No exceptions were noted as a result of our procedures.

To the Honorable Mayor and Members of City Council
of the City of Cupertino
Cupertino, California
Page 2

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on agreed-upon procedures applied to the appropriations limitation schedule. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

The PwC Group, LLP

Santa Ana, California
November 16, 2024

City of Cupertino
Appropriations Limit Schedule
For the Year Ending June 30, 2025

	<u>Amount</u>	<u>Source</u>
A. Appropriations Limit FY 2023-2024	\$ 127,886,394	Prior year appropriation limit adopted by the City
B. Calculation Factors:		
1) Population increase %	1.0362	California Department of Finance
2) Inflation increase %	<u>1.0002</u>	California Department of Finance
3) Total adjustment %	1.0364	(B1 x B2)
C. Annual Adjustment Increase	<u>4,655,991</u>	{(B3-1) x A}
D. Other Adjustments:		
1) Loss responsibility (-)	-	N/A
2) Transfer to private (-)	-	N/A
3) Transfer to fees (-)	-	N/A
4) Assumed responsibility (+)	-	N/A
E. Total Adjustments	<u>4,655,991</u>	(C+D)
F. Appropriations Limit FY 2024-2025	<u><u>\$ 132,542,385</u></u>	(A+E)

City of Cupertino
Notes to the Appropriations Limit Schedule
For the Year Ending June 30, 2025

Note 1 – Purpose of Limited Procedures Review

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), California governmental agencies are restricted as to the amount of annual appropriations from proceeds of taxes. Effective for years beginning on or after July 1, 1990, under Section 1.5 of Article XIII B, the annual calculation of the appropriations limit is subject to the agreed-upon procedures in connection with the annual audit.

Note 2 – Method of Calculation

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July 1990, the appropriations limit is required to be calculated based on the limit for the fiscal year 1986-87, adjusted for the inflation and population factors discussed in Notes 3 and 4 below.

Note 3 – Population Factors

A California governmental agency may use as its population factor either the annual percentage change of the jurisdiction's own population or the annual percentage change in population of the county where the jurisdiction is located. The factor adopted by the City for the year ending June 30, 2025, represents the annual percentage change in population for the County of Santa Clara.

Note 4 – Inflation Factors

A California governmental agency may use as its inflation factor either the annual percentage change in the 4th quarter per capita personal income (which percentage is supplied by the California Department of Finance) or the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction. The factor adopted by the City for the year ending June 30, 2025, represents the annual percentage change for per capita personal income.

Note 5 – Other Adjustments

A California government agency may be required to adjust its appropriations limit when certain events occur, such as the transfer of responsibility for municipal services to, or from, another government agency or private entity. The City had no such adjustments for the year ending June 30, 2025.

City of Cupertino

Cupertino, California

Independent Accountants' Report on Applying Agreed-Upon Procedures to Investments

For the Year Ended June 30, 2024



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below on the investments of the City of Cupertino, California (the "City") for the year ended June 30, 2024. The City's management is responsible for the investments.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose, which is assisting users in understanding the Investment Policy. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report, and as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. Obtained the Investment Policy (policy), applicable for the fiscal year, approved by the Honorable Mayor and the City Council, and compared the investments authorized by the policy with the investments listed in the June 2024 Treasurer's Investment Report to determine if all investment types are allowed by the investment policy.

Findings: No exceptions were noted as a result of our procedures.

2. Compared the City's Investment Policy with California Government Code Section 53601 to determine whether the City's Investment Policy complied with California Government Code Section 53601.

Findings: No exceptions were noted as a result of our procedures.

3. Compared the June 2024 Treasurer's Investment Report with California Government Code Section 53646 to ensure that the June 2024 Treasurer's Investment Report complied with California Government Code Section 53646.

Findings: No exceptions were noted as a result of our procedures.

4. Inquired of the Finance Manager and verify whether investment performance statistics and activity reports are generated on a quarterly basis for presentation to the oversight (audit) committee, City Manager and the Honorable Mayor and the City Council, as required by the Investment Policy.

Findings: No exceptions were noted as a result of our procedures.

5. Inquired of the Finance Manager and document our understanding of the wire transfer procedures.

Findings: No exceptions were noted as a result of our procedures.

6. Randomly selected three investment sales/maturities from various quarters of Treasurer's Reports and perform the following:
 - Traced investment type to the supporting broker's confirmation and the Chandler Report.
 - Traced the maturity date to the supporting broker's confirmation and the Chandler Report.
 - Traced the amount of the investment sold to the supporting broker's confirmation and the Chandler Report.

Findings: No exceptions were noted as a result of our procedures.

7. Randomly selected two investments purchased during the year from the City's investment files, and performed the following:
 - Traced the purchased investments to the corresponding Treasurer's Investment Report for the month in which the investments were acquired.
 - Agreed the amount, terms, and interest rate to the Treasurer's Investment Report.
 - Verified that the investment type is authorized by the Investment Policy by comparing the type of investment to the allowable types per the Investment Policy.

Findings: No exceptions were noted as a result of our procedures.

8. Obtained the Chandler Asset Management report and confirm the investment details (investment description, par value/units, coupon rate), and the amounts reported in the Treasurer's investment report and verify the amount reported in the general ledger.

Findings: No exceptions were noted as a result of our procedures.

9. Traced three randomly selected Federal Agency investments that were purchased in fiscal year 2024 and traced the reported ratings to Moody's rating online.

Findings: No exceptions were noted as a result of our procedures.

10. Obtained independently third-party corroborating evidence from Chandler and Principal of the City's investments as of June 30, 2024, and verified that investment types are matching on the two (2) reports.

Findings: No exceptions were noted as a result of our procedures.

11. Randomly picked five (5) samples and determined if the type of investments, which occurred during the Fiscal Year, complied with the Investment Policy's 'Authorized Investments' section.

Findings: No exceptions were noted as a result of our procedures.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 3

We were engaged by the City to perform this agreed-upon procedure engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on investments. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Members of the City Council and management of the City and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
April 13, 2025

City of Cupertino

Cupertino, California

Independent Accountants' Report on Applying Agreed-Upon Procedures on 2019 Clean Water and Storm Protection Fee

For the Calendar Year Ended December 31, 2024

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**www.pungroup.cpa

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

We have performed the procedures enumerated below on the City of Cupertino, California (the "City") in evaluating whether the 2019 Clean Water and Storm Protection Fee is in accordance with the provisions for the calendar year ended December 31, 2024. The City's management is responsible for receipt of 2019 Clean Water and Storm Protection fees.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting users in understanding the 2019 Clean Water and Storm Protection Fee. The City's management has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the ends of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. We selected 100% of the revenue transactions recorded in the Environmental Management/Clean Creeks Special Revenue Fund (Fund 230) and recorded in the Charges for Services General Service Fees (GL account #230-81-802-450-405) for the period January 1, 2024 through December 31, 2024 and performed the following procedures:
 - a. Observed the Clean Water and Storm Protection fees have been deposited and recorded in Fund 230 within the account #230-81-802-450-405 per Section 3.38.160A of the Cupertino Municipal Code.
 - b. Obtained the County tax remittance statement for each specific receipt (as provided by the County) and observed the cash collected in total on the statement agrees to the amount deposited in Fund 230 in accordance with Section 3.38.070 of the Cupertino Municipal Code, which specifies that the City elects to have fees collection on the tax roll in the same manner as property taxes.
 - c. Obtained the City support (e.g., schedule of fees billed to property owners in situation where the fee was not included in the annual tax assessment) and observed the cash collected in total per the Schedule agrees to the amount deposited in Fund 230 in accordance with Section 3.38.090 of the Cupertino Municipal Code, which specifies that the City Finance Department bills out fees to property owners in situations where the fee was not included in the annual tax assessment.

Findings: No exceptions were noted as a result of our procedures. However, we noted that the 2024 storm drain fees were not fully received until the current fiscal year brought by the ongoing discussions on billed storm drain fees to Caltrans Department of Transportation amounted to \$1,206.

2. We selected 60% of the non-payroll expenditure transactions recorded in Fund 230 for the period January 1, 2024 thru December 31, 2024 and performed the following procedures:
 - a. Obtained the City invoices and purchase orders for the expenditures selected, and observed the description of expenditures on the invoice and purchase order, as well as the assigned object code on the purchase order from the City were for allowed purposes per Section 3.38.010B of the Cupertino Municipal Code, which specifies allowable activities are defined as acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system of the City or related green infrastructure or other activities required by the City's NPDES permits, to repay principal and interest on any bonds which may hereafter be issued for said purposes, to repay loans or advances which may hereafter be made for said purposes.
 - b. Obtained the City invoices and purchase orders for the nonpayroll expenditures selected and observed the description of expenditures on the invoice and purchase order were for allowed purposes per Section 3.38.0160A and 3.38.0160B of the Cupertino Municipal Code. Section 3.38.160A of the Cupertino Municipal Code specifies allowable from the overall perspective as direct costs and administrative costs, while 3.38.160B of the Cupertino Municipal Code specifically defines direct costs as wages and salaries and costs of employee fringe benefits and mileage reimbursement attributable to said collection activities, with administrative costs as all costs for computer service, materials, postage supplies and equipment.
 - c. Obtained the City documentation for all refunds issued and observed the Finance Director authorized the refund through written approval in accordance with Section 3.38.170 of the Cupertino Municipal Code.

Findings: No exceptions were noted as a result of our procedures.

3. We sampled one pay period (selected on a haphazard basis) between January 1, 2024 and December 31, 2024 to recompute employee allocation in the general ledger for activity recorded in Fund 230 and compared to the City's calculations as follows:
 - a. Sampled at least 10% of the time cards of applicable employees charged in Fund 230 to the selected payroll period (selected on a haphazard basis) and observed written approval by supervisors.
 - b. Obtained documentation of the general ledger distribution for the payroll period selected and recalculated the distribution and agreed the results to the budgeted allocation and the functional allocation matrix established by management. The budgeted allocation shall be specified by City-established allocation worksheets used to estimate the amount of actual time spent on the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system of the City or related green infrastructure or other activities required by the City's NPDES permits.

Findings: No exceptions were noted as a result of our procedures.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 3

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the 2019 Clean Water and Storm Protection Fee. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the City Council and the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

The PwC Group, LLP

Santa Ana, California
April 21, 2025



CITY OF CUPERTINO

Agenda Item

25-13940

Agenda Date: 4/28/2025

Agenda #: 8.

Subject: ACTION ITEM Updated Budget Format Implementation Action Plan (IAP)

Receive the Updated Budget Format Implementation Action Plan (IAP) and forward to City Council for approval.

Presenter: Kirstina Alfaro, Director of Administrative Services

5:55(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: April 28, 2025

Subject

Updated Budget Format Implementation Action Plan (IAP)

Recommended Action

Receive the Updated Budget Format Implementation Action Plan (IAP) and forward to City Council for approval.

Background

On March 4, 2024, the Draft Budget Format Implementation Plan (IAP) was presented to the City Council. This plan included 32 recommendations that were prioritized 1-3, with 1 being the highest priority.

At this meeting the City Council also recommended the following edits to the draft IAP and staff committed to bringing back an updated IAP before budget adoption.

- Item 12, Remove the full financial policies to retain in an appendix with the budget and any revision dates
- Item 15, Review the architecture and links in OpenGov to ensure accuracy
- Item 18, Eliminate the program budget information in the departmental sections (pages 23 to 29) – Hold off on this for a while
- Capital Improvement Program (CIP) item - set as a priority one, if possible
- Quarterly tracking of the CIP priorities - set as a priority two instead of priority three
- Item 26, Special Projects Policy - set as a priority one instead of a priority three
- Conduct a study session to review the Performance Measures Updates in Q1

All recommended changes have been included, and the updated IAP is being presented for City Council's review.

Implementation dates align with priorities as follows:

Priority 1 – FY26 Proposed Budget

Priority 2 – FY27 Proposed Budget

Priority 3 – FY27 or FY28 Proposed Budget

Reasons for Recommendation and Available Options

The proposed action is recommended to update the Budget IAP and begin implementation. This will provide City Council and residents with expectations of when changes to budget format will be completed. “Based on the findings outlined above, staff recommends City Council receive the updated Budget Format Implementation Action Plan.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

City Work Program (CWP) Item/Description

None.

Council Goal:

None.

California Environmental Quality Act

No California Environmental Quality Act impact.

Prepared by: Toni Oasay-Anderson

Reviewed by: Kristina Alfaro, Director of Administrative Services

Tina Kapoor, Deputy City Manager

Floy Andrews, City Attorney (*As needed*)

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Redline Budget Format Implementation Action Plan

B – Updated Budget Format Implementation Action Plan

City of Cupertino – Budget Document Improvements and Performance Measures

~~Draft~~ Updated Implementation Action Plan

~~March~~ April 2025

Making the Most of the Draft Implementation Action Plan

Baker Tilly has developed this draft Implementation Action Plan to assist the City of Cupertino with the phasing and scheduling of 33 recommendations in the project report. That report sets forth the analysis leading to each recommendation. The work involved in implementing the recommendations will need to be integrated into the other work of the departments tasked with their completion, along with appropriate assignments of responsibility and with identification of specific planned completion dates. The draft Action Plan begins that process with guidance about a recommended priority assignment. Priority 1 recommendations are those that we believe are the most important to accomplish without delay or are easy to accomplish. Priority 2 recommendations have less importance in the near term or have an added element of complication to complete or require a significant amount of resources (perhaps internal and external) to assist with completion. Priority 3 recommendations are the least urgent to complete, either due to span of control or complexity. Department.

We suggest that you use this document to prepare a final Action Plan for the City of Cupertino. In doing so, the management team will need to identify specific target dates for completing implementation activities associated with each recommendation. Additionally, you may want to modify the described activities for implementing an individual recommendation based on internal knowledge of what will be required for completion or adjust the assignment of responsibility based on pending or future workload or other considerations. Where a draft task calls for an event to occur “regularly” or with a preset frequency (e.g., quarterly, monthly) you’ll want to ensure that your implementing procedure or policy is written to accomplish that objective. Prudent implementation of most recommendations will require “circling back” after the work of implementation has begun to fine-tune the work or the milestones based on experience. This step is not explicitly called out for each recommendation; however, assessing the progress of implementation (via “circling back”) should be a part of your normal management system. We would be happy to set up a consultation with you to support the conversion of this draft into the final Action Plan you can use to manage implementation.

To turn this draft into the Action Plan that is used to manage implementation, replace the column titled “Priority” with actual completion dates. Target dates can be specific (e.g., September 1) or by month or quarter (e.g., 3Q 2025), as appropriate to the individual action.

All of the work to implement the strategies is in addition to the normal work of involved City staff. Baker Tilly has staff associates who are experienced in implementing many of the actions identified in this draft Action Plan. We welcome the opportunity to assist you in doing so, and in any case, we remain available to consult with you in whatever way we can be helpful. Please do not hesitate to contact Carol Jacobs at 949-809-5588 or Steve Toler at 408-385-3414 if we can be of assistance. Steve Toler can be reached by email at Steve.Toler@bakertilly.com.

The discipline of project planning is basic to the successful execution of the work ahead. We hope that you find the draft Implementation Action Plan useful in that regard.

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
1	Ensure the document includes a title page, improved table of contents, consistent layout and orientation.	<ul style="list-style-type: none">Review the budget document for consistent formatting including font, font size, page orientationEnsure title page and table of contents are properly formatted	1	Admin Services	FY26 Implementation
2	Isolate the Budget Message as a standalone section.	<ul style="list-style-type: none">Move the Strategic Goals Budget Message section to the front of the document in the Introduction Section	2	Admin Services	FY26 Implementation
3	Incorporate the City’s Mission in the Budget Guide section with the Strategic Goals subsection and move them to the Introduction section after the City’s organization chart.	<ul style="list-style-type: none">Condense the City’s Mission in the Budget Guide section areas of the Budget MessageMove to the introduction section	2	Admin Services	FY26 Implementation
4	Eliminate the Notable Accomplishments and New Initiatives sections by condensing its content into a bulleted one or two sentence description for each accomplishment and relocate each relevant accomplishment to the respective Department section.	<ul style="list-style-type: none">Condense Notable Accomplishments and New Initiatives sections into small bulleted or narrative list by DepartmentMove each bulleted description into relevant Department sectionRemove Notable Accomplishments and New Initiatives sections	2	Admin Services	FY26 Implementation
5	Summarize high-level notable accomplishments and new initiatives within the City Manager’s Budget Message	<ul style="list-style-type: none">Summarize high-level notable accomplishments and new initiatives into a small paragraphPut this paragraph in the City Manager’s Budget Message	2	Admin Services/ City Manager’s Office	FY26 Implementation
6	Elevate the Budget Overview subsection as its own section in the budget document.	<ul style="list-style-type: none">Add the existing Budget Overview subsection as it’s own new sectionInclude the following subsections:<ul style="list-style-type: none">Budget Roadmap,Changes to the Budget and Policies,Budget by Fund,Service-Level Reductions,Special Projects,Current Economic Update,Key Budget Assumptions, andOngoing Challenges	2	Admin Services	FY26 Implementation

¹Priority 1: Important to accomplish without delay and/or easy to accomplish.
Priority 2: Second tier of importance to accomplish and/or may involve some complexity or time to complete.
Priority 3: Least urgent to complete and/or may take longer to set-up or to execute.
²To establish clear accountability there should be a single manager assigned responsibility for completing implementation of each recommendation. Where more than one manager is identified in this column, responsibility should be clarified when the Final Action Plan is prepared.

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
7	Report Department reductions at the summary level and refer to the Department section for further detail.	<ul style="list-style-type: none">• Use the newly created Budget Overview section in Recommendation #6 to create a four page narrative• Refer to the individual Department sections for further detail	2	Admin Services	FY26 Implementation
8	Complete and publish the FY 2024-25 Budget at a Glance document to summarize the budget for the casual user.	<ul style="list-style-type: none">• Publish the above four page narrative from Recommendation #7 as a separate City’s Budget at a Glance document	2	Admin Services	April 2025
9	Move the Mission Statement to the strategic goals section.	<ul style="list-style-type: none">• Move the Mission Statement from the Budget Guide section to the Strategic SGoals section.	2	Admin Services	FY26 Implementation
10	Move the Elements of the Budget Document, Glossary of Budget Terminology, Commonly Used Acronyms, and Revenues/Expenditures/Fund Balance Table to the Appendix.	<ul style="list-style-type: none">• Move the following Elements of the Budget Document to the appendix<ul style="list-style-type: none">○ Glossary of Budget Terminology○ Commonly Used Acronyms○ Revenues/Expenditures/Fund Balance Table	2	Admin Services	FY26 Implementation
11	Eliminate the City Profile, Education, Programs and Applications, Community and Recreation Services and Things to Do and See subsections of the Community Profile section from the budget document.	<ul style="list-style-type: none">• Remove the following subsections of the Community Profile section<ul style="list-style-type: none">○ City Profile○ Education○ Programs and Applications○ Community and Recreation Services○ Things to Do and See	2	Admin Services	FY26 Implementation
12	Update all policies to provide a summary of the policy and include a link to the official policy on the City’s website.	<ul style="list-style-type: none">• Remove the full financial policies from the budget document <u>to retain in an appendix with the budget and any revision dates</u>• Include a summary of the relevant financial policies and a link to the full policy on the City’s website	3	Admin Services	FY26 Implementation
13	Eliminate the Flow of Funds Chart and replace it with a narrative description of how taxes are used to fund City services within the Budget Overview section of the budget.	<ul style="list-style-type: none">• Eliminate the Flow of Funds Chart in the All Funds Financial Schedule section• Include a narrative of how taxes are used to fund City services within the Budget Overview section	3	Admin Services	FY28 Implementation
14	Revise the General Fund Contribution Schedule subsection to include a brief narrative of General Funds resources that are being contributed to other funds, refer to the General Fund Transfers subsection, and eliminate the existing table.	<ul style="list-style-type: none">• Develop a draft narrative summary for City Manager’s Office review and feedback• Eliminate the existing table of the General Fund Contribution Schedule in the General Fund Financial Schedules sections• Refer to the General Fund Transfers subsection in the narrative	2	Admin Services	FY27 Implementation

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
		<ul style="list-style-type: none">• Publish the updated section for incorporation into the annual budget document			
15	Refer the reader to the Department section or OpenGov for further detail.	<ul style="list-style-type: none">• Review architecture and links in OpenGov to ensure accuracy and usability of financial schedules that provide the same or similar information as in the current budget document• Make revisions to OpenGov as required• Modify text references in the General Fund Financial Schedules section in each department to direct readers to the department sections, appendix and/or OpenGov• Condense Revenues section detail• Add reference to Open Gov to show further detail	2	Admin Services	FY27 Implementation
16	Condense the General Fund Revenues to provide an overview of the key revenue sources, and include the more detailed descriptions and analysis in the General Fund Forecast subsection.	<ul style="list-style-type: none">• Develop a revised draft of a condensed General Funds revenue section (e.g., start with an outline, then complete a draft based on prior budget)• Move the more detailed descriptions and analysis in the General Fund Forecast subsection• Ensure consistency in formatting and align structure across both sections for clarity• Publish the updated section as part of the draft budget	2	Admin Services	FY26 Implementation
17	Review each Department section to include the following components: 1) Department description; 2) Organizational chart (by division/program including number of assigned personnel FTE equivalents); 3) Personnel summary (subtotals by position); 4) Key priorities, with emphasis on how they achieve the citywide strategic plan/priorities; 5) Performance measures with a reference to key departmental priorities and citywide strategic plan/priorities; and 6) Revenue and Expenditure summary by division/program and by expenditure type (personnel costs, materials and services, capital outlay, etc.).	<ul style="list-style-type: none">• Review each Department section to ensure there is consistency in including the following components:<ul style="list-style-type: none">○ Department description○ Organizational chart○ Personnel summary○ Key priorities○ Performance measures○ Revenue and Expenditure summary	3	Admin Services	FY27 Implementation
18	Eliminate the program budget information in the Department sections and refer the user to OpenGov to obtain further detail.	<ul style="list-style-type: none">• Eliminate the program budget information in the departmental sections• Add reference to Open Gov for the reader to obtain further detail at the program budget level	2	Admin Services	Per Council hold off on this for awhile. FY27 Implementation

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
19	Develop a minimum five-year Capital Improvement Plan (CIP) and incorporate the CIP plan into the budget document.	<ul style="list-style-type: none">• Develop the Capital Improvement Plan should be created and include the following elements:<ul style="list-style-type: none">○ CIP Overview○ CIP Process that explains the definition of a project and the planning process○ Project descriptions○ Financial Summary by Year○ Funding Availability• The CIP should be included as part of the annual budget with similar timelines so that the recommended operating and capital budgets are published within the budget schedule.	2 1	Public Works/ Admin Services	<u>FY26 Implementation</u>
20	Affirm primary responsibility and lead role of the development of the CIP Plan to Public Works as a shared responsibility and collaboration with other departments.	<ul style="list-style-type: none">• Assign the lead role of development of the CIP to the Public Works Department• Conduct cross-departmental CIP meetings to ensure input is received• Develop a department coordination framework that defines roles, responsibility for input and collaboration• Discuss and disseminate the framework with departments.• Conduct periodic check-ins on CIP plan development to include the City Manager, and representatives from Public Works and Administrative Services	1	City Manager’s Office, delegated to Public Works	<u>FY26 Implementation, internal Standard Operating Procedure (SOP)</u>
21	Assign compilation and publication of the CIP Plan section of the budget document to the Administrative Services Department’s Budget division.	<ul style="list-style-type: none">• Assign the lead role of compilation and publication of the CIP to the Admin Services Department• Standardize CIP formatting and structure to ensure consistency in CIP descriptions, budget projections and reporting• Establish a review and submission timelines for the draft and final CIP version in the context of the broader budget process• Collaborate with Public Works to inform final development of the finalized CIP plan• Incorporate the capital budget in the recommended budget document.	1	City Manager’s Office, delegated to Admin Services	<u>FY26 Implementation</u>
22	Complete the FY 2024-25 Capital Budget and issue as Volume 2 of the current adopted budget.	<ul style="list-style-type: none">• Complete the FY 2024-25 Capital Budget already in progress (performed by Public Works)	1	Public Works/ Admin Services	<u>Completed April 2025</u>

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
		<ul style="list-style-type: none"> Issue the Capital Budget as Volume 2 of the current adopted budget. 			
23	Provide clear quarterly tracking of CIP priorities, progress, and alignment with Council work programs.	<ul style="list-style-type: none"> Develop a quarterly reporting framework to define reporting element such as progress tracking, estimated time of construction and completion, and tracking against budget Establish a reporting calendar to set quarterly review deadlines on City Council agendas Implement the CIP progress reporting Check-in with City Council and department leaders to evaluate CIP progress reporting and opportunities to improve it 	3 2	City Manager’s Office, delegated to Public Works	FY27 Implementation
24	Create a detailed appendix for fund transfers, enterprise funds, and grant funding usage.	<ul style="list-style-type: none"> Create a framework to report the following: <ul style="list-style-type: none"> Fund transfers Enterprise funds Grant funding Compile the fund transfer and grant data to document all sources and uses of funds Publish the developed report(s) 	2	Admin Services	FY27 Implementation
25	Ensure all appropriated funds and consulting services are tracked and reported against original purposes.	<ul style="list-style-type: none"> Review current trancking mechanisms and implement any necessary changes based on feedback received from City Councilmembers regarding past reports Review the current expense report that shows budget and actual expenditures for all appropriated funds Create a report in OpenGov that highlights the consulting services expenses compared to the original budget. Keep clear documentation of all consulting services budgets. 	3	Admin Services	FY28 Implementation
26	Develop and implement a Special Projects policy to address such issues as definitions, approval authorities, timelines, projects spanning multiple fiscal years, budget carryovers for projects extending into a subsequent fiscal year, and periodic reporting timelines and form.	<ul style="list-style-type: none"> Develop a special projects policy that addresses: <ul style="list-style-type: none"> Definition of special projects Form of reporting Frequency of reporting Follow-up on items and direction from City Council 	3 1	City Manager’s Office	Completed April 2025

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
27	Review the City’s annual budget resolution and/or expenditure and budget policies to ensure they align with City Council authorities provided to the City Manager or designee in managing the annual budget, including use of contracted and/or consulting services to achieve the City’s annual service delivery goals expressed in the adopted budget.	<ul style="list-style-type: none">Review the City’s annual budget resolution and/or expenditure and budget policies to ensure the following:<ul style="list-style-type: none">Authorities provided to the City ManagerUse of contracted or consulting servicesMake any changes or updates as needed	1	City Manager’s Office	<u>FY26 Implementation</u>
28	Review the City’s current budget community engagement strategy with the City Council to ensure it is successfully meeting the needs for identifying community priorities and to inform the community about how City services are funded.	<ul style="list-style-type: none">Present the City’s current budget community engagement strategy to the City CouncilSolicit feedback on additional community engagement strategiesMake any changes or updates as needed	1	City Manager’s Office	<u>FY26 Implementation</u>
29	Review educational content on the budget’s role as a financial planning tool and document in light of any changes to the engagement strategy using easy-to-understand content and graphics.	<ul style="list-style-type: none">Review the proposed changes to the community engagement strategiesUpdate educational content and engagement strategy with easy-to-understand content and graphics based on proposed changes	1	Admin Services/ City Manager’s Office	<u>FY26 Implementation</u>
30	Leverage tools like OpenGov to create interactive, department-focused summaries for each user type including the community, council and staff.	<ul style="list-style-type: none">Review the current OpenGov design and layout for departments and solicit feedback for improvementsMove the current year so the newest information is listed first on the main pageDevelop content based on the needs of the community and councilInclude links in the budget document to OpenGov to create more tailored content	1	Admin Services	<u>FY27 Implementation, will need more time to develop and implement this recommendation</u>
31	Develop a citywide strategic plan that includes a review of the core values, mission and vision by the City Council to form the appropriate strategic goals and priorities for the organization and its operating departments.	<ul style="list-style-type: none">Determine if the strategic plan will be done with assistance from consultants or in houseWork with City Council to create a city-wide strategic plan according to the following framework<ul style="list-style-type: none">Core ValuesMissionVisionOrganizational GoalsOrganizational StrategiesStrategic PrioritiesPersonal Priorities	1	City Manager’s Office	<u>FY26 Implementation, a FY26 Proposed Budget request will be made for dollars to complete a strategic plan.</u>

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
		<ul style="list-style-type: none">• Incorporate strategic plan into planning for the budget document and performance measures			
32	Establish performance standards for each performance measure and reevaluate at least biennially.	<ul style="list-style-type: none">• Review Baker Tilly’s suggested performance measures by Department• Obtain City Council approval on the set of performance measures to be implemented, informed by the Baker Tilly report and any subsequent creation of a citywide strategic plan• Identify roles and responsibilities within each department to identify the metrics to be tracked, gather the data, and develop the reports• Implement a tracking mechanism by developing a reporting structure to monitor compliance and effectiveness (e.g., quarterly, semi-annually)• Create a process for reviewing performance and updating performance measures with the City Council periodically (semi-annually) and as part of the annual budget process	1	City Manger’s Office, delegated to each department	<u>FY26/FY27 Implementation this will follow the strategic plan to ensure alignment with City Council vision and priorities</u>
<u>33</u>	<u>Conduct a study session to review the Performance Measures update in Q1</u>	<ul style="list-style-type: none">• <u>Review updated performance measures</u>• <u>Bring to City council as a study session</u>	<u>1</u>	<u>City Manger’s Office, delegated to each department</u>	<u>FY26/FY27 Implementation, this will follow the strategic plan to ensure alignment with City Council vision and priorities.</u>

City of Cupertino – Budget Document Improvements and Performance Measures Updated Implementation Action Plan

April 2025

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
1	Ensure the document includes a title page, improved table of contents, consistent layout and orientation.	<ul style="list-style-type: none">Review the budget document for consistent formatting including font, font size, page orientationEnsure title page and table of contents are properly formatted	1	Admin Services	FY26 Implementation
2	Isolate the Budget Message as a standalone section.	<ul style="list-style-type: none">Move the Strategic Goals Budget Message section to the front of the document in the Introduction Section	2	Admin Services	FY26 Implementation
3	Incorporate the City’s Mission in the Budget Guide section with the Strategic Goals subsection and move them to the Introduction section after the City’s organization chart.	<ul style="list-style-type: none">Condense the City’s Mission in the Budget Guide section areas of the Budget MessageMove to the introduction section	2	Admin Services	FY26 Implementation
4	Eliminate the Notable Accomplishments and New Initiatives sections by condensing its content into a bulleted one or two sentence description for each accomplishment and relocate each relevant accomplishment to the respective Department section.	<ul style="list-style-type: none">Condense Notable Accomplishments and New Initiatives sections into small bulleted or narrative list by DepartmentMove each bulleted description into relevant Department sectionRemove Notable Accomplishments and New Initiatives sections	2	Admin Services	FY26 Implementation
5	Summarize high-level notable accomplishments and new initiatives within the City Manager’s Budget Message	<ul style="list-style-type: none">Summarize high-level notable accomplishments and new initiatives into a small paragraphPut this paragraph in the City Manager’s Budget Message	2	Admin Services/ City Manager’s Office	FY26 Implementation
6	Elevate the Budget Overview subsection as its own section in the budget document.	<ul style="list-style-type: none">Add the existing Budget Overview subsection as it’s own new sectionInclude the following subsections:<ul style="list-style-type: none">Budget Roadmap,Changes to the Budget and Policies,Budget by Fund,Service-Level Reductions,Special Projects,Current Economic Update,Key Budget Assumptions, andOngoing Challenges	2	Admin Services	FY26 Implementation

¹Priority 1: Important to accomplish without delay and/or easy to accomplish.
Priority 2: Second tier of importance to accomplish and/or may involve some complexity or time to complete.
Priority 3: Least urgent to complete and/or may take longer to set-up or to execute.
²To establish clear accountability there should be a single manager assigned responsibility for completing implementation of each recommendation. Where more than one manager is identified in this column, responsibility should be clarified when the Final Action Plan is prepared.

Rec No.	Recommendation	Implementation Steps	Priority ¹	Department Responsible ²	Comments
7	Report Department reductions at the summary level and refer to the Department section for further detail.	<ul style="list-style-type: none">• Use the newly created Budget Overview section in Recommendation #6 to create a four page narrative• Refer to the individual Department sections for further detail	2	Admin Services	FY26 Implementation
8	Complete and publish the FY 2024-25 Budget at a Glance document to summarize the budget for the casual user.	<ul style="list-style-type: none">• Publish the above four page narrative from Recommendation #7 as a separate City’s Budget at a Glance document	2	Admin Services	April 2025
9	Move the Mission Statement to the strategic goals section.	<ul style="list-style-type: none">• Move the Mission Statement from the Budget Guide section to the Strategic Goals section.	2	Admin Services	FY26 Implementation
10	Move the Elements of the Budget Document, Glossary of Budget Terminology, Commonly Used Acronyms, and Revenues/Expenditures/Fund Balance Table to the Appendix.	<ul style="list-style-type: none">• Move the following Elements of the Budget Document to the appendix<ul style="list-style-type: none">○ Glossary of Budget Terminology○ Commonly Used Acronyms○ Revenues/Expenditures/Fund Balance Table	2	Admin Services	FY26 Implementation
11	Eliminate the City Profile, Education, Programs and Applications, Community and Recreation Services and Things to Do and See subsections of the Community Profile section from the budget document.	<ul style="list-style-type: none">• Remove the following subsections of the Community Profile section<ul style="list-style-type: none">○ City Profile○ Education○ Programs and Applications○ Community and Recreation Services○ Things to Do and See	2	Admin Services	FY26 Implementation
12	Update all policies to provide a summary of the policy and include a link to the official policy on the City’s website.	<ul style="list-style-type: none">• Remove the full financial policies from the budget document to retain in an appendix with the budget and any revision dates• Include a summary of the relevant financial policies and a link to the full policy on the City’s website	3	Admin Services	FY26 Implementation
13	Eliminate the Flow of Funds Chart and replace it with a narrative description of how taxes are used to fund City services within the Budget Overview section of the budget.	<ul style="list-style-type: none">• Eliminate the Flow of Funds Chart in the All Funds Financial Schedule section• Include a narrative of how taxes are used to fund City services within the Budget Overview section	3	Admin Services	FY28 Implementation
14	Revise the General Fund Contribution Schedule subsection to include a brief narrative of General Funds resources that are being contributed to other funds, refer to the General Fund Transfers subsection, and eliminate the existing table.	<ul style="list-style-type: none">• Develop a draft narrative summary for City Manager’s Office review and feedback• Eliminate the existing table of the General Fund Contribution Schedule in the General Fund Financial Schedules sections• Refer to the General Fund Transfers subsection in the narrative	2	Admin Services	FY27 Implementation

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CITY OF CUPERTINO

Agenda Item

25-13941

Agenda Date: 4/28/2025

Agenda #: 9.

Subject: INFORMATIONAL ITEM Receive the proposed Audit Committee 2025 Schedule and Workplan

Receive the proposed Audit Committee 2025 Schedule and Workplan

Presenter: Jonathan Orozco, Finance Manager

6:05(10)

CITY OF CUPERTINO - AUDIT COMMITTEE 2025 SCHEDULE AND WORK PLAN					
January 27, 2025 Regular Meeting	February 18, 2025 Special Meeting	April 28, 2025 Regular Meeting	July 28, 2025 Regular Meeting	October 27, 2025 Regular Meeting	November/December 2025 Special Meeting
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	Moss Adams Status Report Update	Appoint Audit Committee Chair and Vice Chair	OPEB & Pension Trust Performance Report for Quarter Ending June 30, 2025	OPEB & Pension Trust Performance Report for Quarter Ending September 30, 2025	Review of FY 2024-25 ACFR and Supplemental Reports
OPEB & Pension Trust Performance Report for Quarter Ending December 31, 2024	Baker Tilly - Budget Format Review	OPEB & Pension Trust Performance Report for Quarter Ending March 31, 2025	Quarterly Treasurer's Investment Report for Quarter Ending June 30, 2025	Quarterly Treasurer's Investment Report for Quarter Ending September 30, 2025	
Quarterly Treasurer's Investment Report for Quarter Ending December 31, 2024		Quarterly Treasurer's Investment Report for Quarter Ending March 31, 2025	Internal Audit and Fraud, Waste, and Abuse Program Update	Internal Audit and Fraud, Waste, and Abuse Program Update	
Internal Audit and Fraud, Waste, and Abuse Programs Update		Internal Audit and Fraud, Waste, and Abuse Programs Update		Annual Review of OPEB and Pension Trust Investment Policies	
		Annual Review of City Investment Policy		Fiscal Year 2024-25 ACFR Update	
		Internal Audit Program		Budget Format Review (Tentative)	
		FY 23-24 Agreed Upon Procedures (AUP) Review - GANN Limit, Investment Policy, Storm Drain			
		Updated Budget Format Implementation Action Plan (IAP)			

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:	
	To review the annual audit report and management letter; To recommend appointment of auditors; To review the quarterly Treasurer's Investment report; To recommend a budget format; To review City investment policies and internal controls of such policies. To recommend appointment of internal auditors; To review internal audit reports. To review quarterly Fraud, Waste, and Abuse Program reports. (Ord. 22-2243 § 1, 2023; Ord. 20-2208, § 1, 2020; Ord. 1679, § 1 (part), 1995)