



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Cypress, California (City), as of and for the fiscal year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Subsequent to the basic financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including the City. These actions by the State include:

- 8% of Property Taxes borrowed -- to be repaid in 3 years
- Gas Tax payments deferred -- to be paid after January 1, 2010
- Redevelopment Agency funds -- proposed to be taken for fiscal year 2010

These above amounts are significant to the City and may affect its ongoing operations. Certain lawsuits are in process to stop such State actions. For more detailed information, see Note 17 attached in the Notes to the Financial Statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with generally accepted accounting principles in the United States.

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As described in Note 1 to the basic financial statements, the City adopted Statement of Governmental Accounting Standards Board No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, No. 49. *Accounting and Financial Reporting for Pollution Remediation Obligation*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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

Capricci & Carson

Irvine, California
December 9, 2009