Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

New Barbara Lee Senior Center Opened in August 2010

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

Prepared by

THE DEPARTMENT OF FINANCIAL SERVICES

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2011-2012, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Responded to 4,075 emergency incidents with an average response time of 4.32 minutes.
- Presented fire prevention information at over 120 public events.
- Conducted 850 plan reviews, issued 900 approvals/permits and performed 1,200 fire inspections.
- Certified 229 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Reduced violent crimes (murder, rape, robbery and aggravated assault) by 8.6%, to a 42-year low.
- Reduced average emergency response time to 2:42 minutes in 2012, the lowest average emergency response time in the last eleven years.
- Completed a grant-funded "Every 15 Minutes" drunk-driving prevention program for high school students.
- Implemented grant-funded web-based crime mapping service designed for public access.

Engineering

- Participated in the Bay Area Rapid Transit (BART) project design and construction team for the extension of BART to the South Bay. The project is administered by the Valley Transportation Authority.
- Constructed Milpitas Boulevard seismic backbone waterline, Street Resurfacing and sewer projects.
- Replaced 72 aging traffic signal controllers and completed signal retiming.
- Coordinated major flood control improvements with the Santa Clara Valley Water District.

Public Works Maintenance

- Completed State mandated water distribution operator training for Utilities Maintenance staff and appropriate standby personnel.
- Investigated 3,500 customer service requests and provided immediate response for urgent/safety related service requests.
- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Responded immediately to all roadway hazards, graffiti abatement, and emergency storm service requests.

Planning/Neighborhood Services

- Standardized planning inspections through different stages of construction.
- Completed a staff cross training program with the Building and Engineering departments.
- Implemented the Housing Element Goals & policies within the timeframe stated in the Five Year Implementation Plan.
- Surveyed customers to evaluate performance of planning services.

Human Resources and Recreation

- Enhanced the Section 457 Deferred Compensation Plan to include a loan feature.
- Amended CalPERS contract to include 2% at 60 formula for new hired miscellaneous employees and 3% at 55 formula for new hired public safety employees.
- Senior Center Case Manager served over 1,680 needy senior clients with social services including housing, Medicare, medical, social security, disability and supplemental security income assistance during the fiscal year.
- Maintained full capacity for the After the Bell Program at all four school sites despite increased fees.

Building & Safety

- Introduced on-line "Business Resource Center" to provide step-by-step guidelines for new and existing business owners to establish their business in Milpitas.
- Continued web site enhancement to create an efficient public access tool by updating plan check and inspection checklists, submittal requirements and introducing construction guidelines.
- Continued to utilize the same inspector from start to finish for public and private projects, provided same day and outside business hours services as requested.
- Participated in Building Safety Month to promote building safety awareness in the community, published newsletter and introduced customer satisfaction survey.

Administration

- Implemented financial strategies that ensure cost effective City service delivery while limiting budget expenditures.
- Continued to reorganize City departments and divisions to improve staff utilization, increase efficiency, accountability and savings to the City.
- Continued to improve the economic base of the City.
- City Clerk Office received and managed the process for two ballot measures from voters, one initiative and one referendum.

City Attorney

- Provided training on Brown Act, open government, and ethics.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Drafted all ordinances/resolutions to activate the Housing Authority.
- Represented the City in numerous administrative/court cases.

Information Services

- Completed the 911 Computer Aided Dispatch (CAD) system upgrade.
- Updated the Telecommunications Master Plan.
- Completed City Fiber Optical Network Upgrade.
- Implemented EComm Regional Public Safety Telecommunications Network.

CITY OF MILPITAS
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December 19, 2012

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2012. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

A separate single audit report has been prepared in conformity with the provisions of the Federal Single Audit Act amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments."

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Redevelopment Agency (the Agency), the Milpitas Economic Development Corporation (the EDC), the Milpitas Housing Authority (the Housing Authority) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. In accordance with the criteria of the Government Accounting Standards Board Statement 14, the basic financial statements include the financial activity of the City, the Agency, the EDC, and Terrace Gardens. During fiscal year 2012, the Milpitas Redevelopment Agency was dissolved as a result of ABx1 26 which was validated by the State Supreme Court on December 28, 2011. The Agency's assets and liabilities were transferred to the Successor Agencies effective January 31, 2012. The EDC, Housing Authority, and Terrace Gardens are separate legal entities from the City and are controlled by the City. The EDC and the Housing Authority have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

General Information: 408-586-3000

The City provides a full range of municipal services. These include: police, fire, community services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, redevelopment, and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, Public Art Committee and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 40 years, the population growth has increased from 26,561 in 1970 to over 66,790 in 2010 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2002 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. The section below entitled "Major Development Activities in the City" will discuss some of the development activities that are occurring in Milpitas.

There are approximately 1,790 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks and 550 manufacturing plants. An estimated 410 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

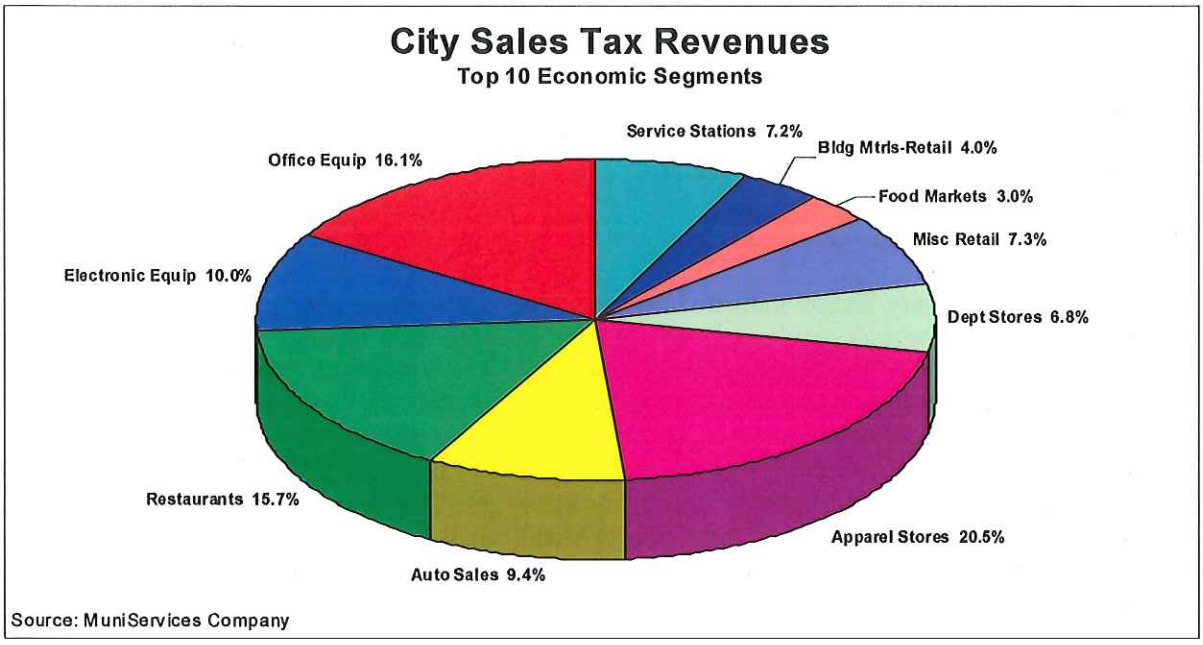
The leading economic segments are office equipment, apparel stores, restaurants, and electronic equipment. The five largest manufacturing employers are Cisco Systems, Inc., KLA-Tencor Corporation., LSI Logic Corporation, SanDisk Corporation and Flextronics. Several of these top employers including SanDisk Corporation and Linear Technology make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

Consumer Confidence Level

The consumer confidence survey report showed that the index increased slightly compared to a year ago, reflecting an improved outlook on the economy, albeit only moderately. Consumers continue to express concerns about current business and labor market conditions.

Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about $15.1 million, with the top ten economic segments generating about $13 million. Sectors such as apparel stores and auto sales increased over a year ago while office equipment, department stores, and building materials decreased. The light industry is no longer one of the top 10 sales tax generators and was replaced by the food markets segment.



Many of the major activities initiated in FY11-12 are consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown area that will enhance the City's long-term financial condition.

Major Development Activities in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include the construction of a County Health Center, a parking garage and a 103-unit Senior Housing apartment building. Major residential development that is under construction include the Centria West project for 366 condominium dwelling units. The project completion date is December 2012.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008 which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. Current development activities include a 276 unit single family attached homes and condo project and a mixed-use commercial and high density residential project that will be constructed in phases. Both of these projects are in the site preparation stage.

Residential Development – Although residential development activities in this region were impacted by the soft housing market in the last few years, there is a renewed interest in residential developments recently. Outside of the Midtown and Transit Area, there are several residential developments that are under construction. These projects include Cerrano (374 apartment units), Murphy Ranch Townhomes (285 townhomes), Robson Homes (83 units) and Sinclair Renaissance (80 single family detached units).

Non-residential Development – There are no large scale commercial construction projects currently. Non-residential development primarily consists of tenant improvements in existing commercial buildings. Building permits were issued to KLA/Tencor for tenant improvements and to Irvine Company for site improvements. The City also received permit applications from SanDisk for tenant improvements for their new 2 story 154,200 square foot facility.

Budget Strategies in Fiscal 2011-12

The fiscal 2012 preliminary budget indicated that the General Fund had a budget deficit of $12 million. The gap was resolved through employees' concessions in salary and benefits from 7% to 16% of the payroll costs, reducing Fire department overtime, reducing the non personnel budget by $1.1 million and restructuring several non-core programs that saved about $500,000. The solutions also included a $3.6 million loan payment from the Redevelopment Agency for the purchase of City properties and the use of $2 million of the General Fund unrestricted reserve. The use of the General Fund reserve was approved by the City Council but was not necessary due to improved revenues in fiscal 2012. The City continued to maintain core services and programs and implemented several major capital improvement projects to serve the community. These accomplishments will be discussed in the next section, City Annual Performance Report.

Finance

- Implemented the new and improved My CalPERS Reporting system for pension reporting.
- Assumed the financial functions of the Successor Agency due to the Redevelopment Agency (RDA) dissolution that included staffing the Oversight Board and preparation of various enforceable obligations schedules required by the State.
- Provided extensive information to the State Controller and County Auditor/Controller to enable their audits of the former RDA assets, liabilities and asset transfers.
- Bid various frequently used commodities and services and created annualized contracts with the vendors to achieve savings and efficiency.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council and the members of the Agency by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total General Fund budget, although the appropriations must be reported to the City Council on a periodic basis. Periodic reports of revenue, expense, and investment activity are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as reservations of the fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

	Category and Fund Type
Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as Agency Funds. The modified accrual basis of accounting is used as explained in the Notes to the Financial Statements.

FINANCIAL ANALYSIS

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Milpitas' MD&A can be found immediately following the report of the independent auditors.

INDEPENDENT AUDIT

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, a separately issued document contains the auditors' reports on the internal control structure and compliance with applicable laws and regulations related specifically to the single audit.

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-three of the last twenty-four years (fiscal years ended 1988-2011). The 1992-93 report was not submitted to GFOA due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I extend my appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, I extend a special "thank you" to the City's Finance Operations Division staff and our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,

Emma C. Karlen

Emma C. Karlen, CPA
Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2012

City Council

Mayor	Jose S. Esteves
Vice-Mayor	Pete McHugh
Councilmember	Debra Giordano
Councilmember	Armando Gomez, Jr
Councilmember	Althea Polanski

City Manager
Thomas C Williams

Police Chief
Dennis Graham

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Brian Sturdivant

City Clerk
Mary Lavelle

City Attorney
Michael Ogaz

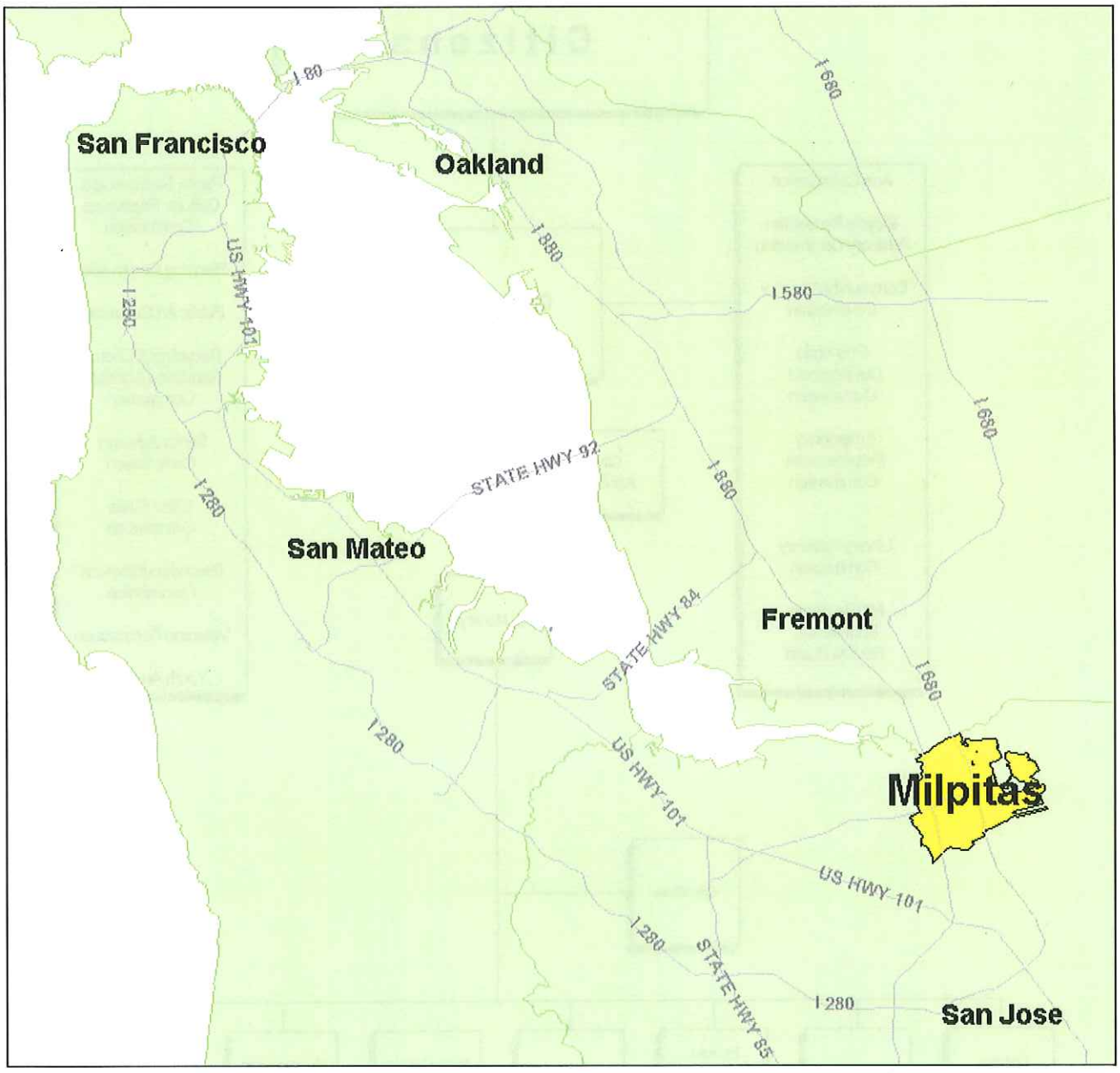
Chief Information Officer
William Marion

Human Resources and Recreation Director
Carmen Valdez

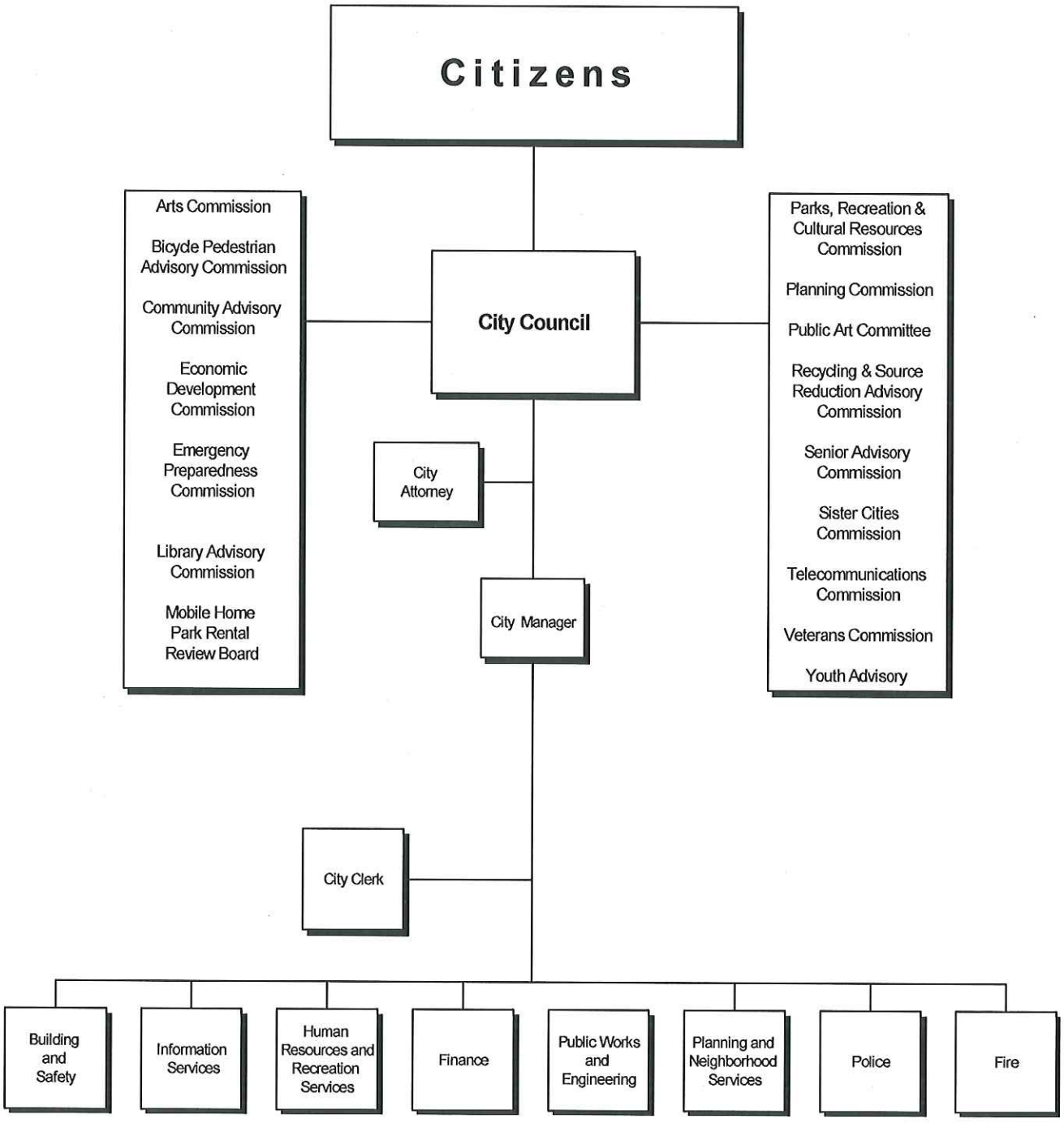
Public Works Director/City Engineer
Greg Armendariz

Planning & Neighborhood Svc Director
Felix Reliford, Acting

Chief Building Officer
Keyvan Irannejad



The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the "Crossroads of Silicon Valley" with most of its 13.56 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.


Citizens
Arts Commission
Bicycle Pedestrian Advisory Commission
Community Advisory Commission
Economic Development Commission
Emergency Preparedness Commission
Library Advisory Commission
Mobile Home Park Rental Review Board
City Council
Parks, Recreation & Cultural Resources Commission
Planning Commission
Public Art Committee
Recycling & Source Reduction Advisory Commission
Senior Advisory Commission
Sister Cities Commission
Telecommunications Commission
Veterans Commission
Youth Advisory
City Attorney
City Manager
City Clerk
Building and Safety
Information Services
Human Resources and Recreation Services
Finance
Public Works and Engineering
Planning and Neighborhood Services
Police
Fire

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milpitas California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

INDEPENDENT AUDITOR'S REPORT

MAZE & ASSOCIATES

To the Honorable Members of the City Council
City of Milpitas, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2011, which represent 1.26%, 1.97%, and 1.27% of the assets, net assets, and revenues, respectively, of the primary government. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for 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 financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Milpitas as of June 30, 2012, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court on December 28, 2011, the Milpitas Redevelopment Agency has been dissolved and its assets turned over to and liabilities assumed by a Housing Successor and a Successor Agency effective January 31, 2012. Certain transactions undertaken by the Milpitas Redevelopment Agency prior to the date of dissolution were subjected to a review by the State and the State has ordered the return of certain assets to the Successor Agency to the Redevelopment Agency. The order includes assets that had been transferred in fiscal 2011 to the Milpitas Economic Development Corporation, a component unit of the City, pursuant to operating, assignment and assumption agreements. The City complied with certain aspects of the State's order during fiscal year 2012 and transferred applicable assets to the Housing Successor, but the City contends that the remaining transactions undertaken were legally placed with the Economic Development Corporation at the time of the transfer. Therefore, assets totaling $58,309,672, comprised of current assets of $35,942,644 and capital assets of $22,367,028, remain with the Economic Development Corporation as of June 30, 2012. As discussed in Note 16, the City is awaiting the results of a Due Diligence Review to determine the correct amount of the remaining assets that should be transferred to the Milpitas Successor Agency, but the effect of that review can not be determined as of June 30, 2012.

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E maze@mazeassociates.com
W **mazeassociates.com**

Prior to the Redevelopment Agency dissolution, the Agency board approved various agreements which obligated it to repay certain advances to the City. These advances have been recorded as liabilities by the Successor Agency as management believes these amounts are valid obligations, as discussed in Note 16. Repayment of these agreements is subject to certain administrative procedures and review and approval by the California Department of Finance and/or the Oversight Board, and as a result the amount disallowed is not determinable at this time.

The City's position on these matters is not a position of settled law and there is considerable legal uncertainty regarding these matters. It is possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue favorably or unfavorably to the City. No provision for liabilities resulting from the outcome of these uncertain matters has been recorded in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Mann & Associates

December 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2012. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2012 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2012 reflect a long over-due economic recovery in the South Bay region, primarily driven by improved employment in the information technology and construction industries. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2012 was at 8.7%, an improvement over last year's 10.4%. The property tax revenue is still recovering from the aftermath of the housing market meltdown caused by the sharp decline of home prices and sub-prime mortgages. However, foreclosures and property tax appeals have been trending downward. Sales taxes, building permit fees and Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

In fiscal 2012, pursuant to ABx1 26 adopted by the State of California which was validated by the California Supreme Court in December 2011, redevelopment agencies established in the State of California were dissolved effective January 31, 2012. The Milpitas Housing Authority and the City of Milpitas, respectively, elected to become the Successor Housing Agency and Successor Agency (non-housing) of the former Milpitas Redevelopment Agency ("RDA"). Any remaining assets and liabilities other than unencumbered cash were assumed by the successor agencies. Unencumbered cash is to be remitted to the County's Auditor-Controller office who will in turn distribute to all the taxing entities within the Milpitas taxing jurisdiction. While the Milpitas Housing Authority is governed by a board comprised of the Milpitas City Council, the Successor Agency is overseen by an Oversight Board comprised of members from various taxing entities in the Milpitas taxing jurisdiction. Any tax increment revenue, after satisfying recognized obligation payments and the Successor Agency's administration costs, will be distributed to the taxing entities. (Please refer to Note 16 for detailed discussion on the Agency's dissolution and Successor Agency's activities). Since the Successor Agency is governed by an outside board, its activities are recorded in the Fiduciary Fund Group in the financial statements.

Fiscal 2012 financial highlights include the following:

City-wide:

- The City's total net assets were $517.5 million at June 30, 2012. Of this total, $363.3 million were Governmental assets and $154.2 million were Business-type assets.
- City-wide revenues include program revenues of $58.5 million, general revenues and transfers of $65.1 million, and an extraordinary item of $68.9 million related to the redevelopment agency dissolution, totaling $134 million, an increase of $2.4 million from the prior year's total of $131.6 million.
- Total City-wide expenses were $113 million, a decrease of $5.7 million from the prior year's $118.7 million.

Fund Level:

- Governmental Fund balances were $116.3 million, a decrease of $22.6 million from fiscal 2011.
- Governmental Fund revenues were $93.6 million in fiscal 2012, down $11.7 million from the prior year's $105.3 million.
- Governmental Fund expenditures were $116.2 million in fiscal 2012, an increase of $6.7 million from fiscal 2011's level of $109.5 million.
- General Fund revenues of $62.9 million represented an increase of $7.4 million from fiscal 2011's revenues of $55.5 million.

- Total other financing sources of the General Fund were $2.6 million in fiscal 2012, $30.9 million less than fiscal 2011's $33.5 million.
- General Fund balance of $35.7 million at the fiscal 2012 year-end, $40.4 million less than the fund balance at fiscal 2011 year-end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Supplementary Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net assets for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City acts solely as a depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of these Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks & recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The basic financial statements can be found in pages 21-22 of this report.

All of the City's enterprise activities, including water, recycled water, and sewer are also reported in the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's governmental activities include the activities of four separate legal entities, the Milpitas Redevelopment Agency (RDA), Milpitas Economic Development Corporation (EDC), the Milpitas Housing Authority (Housing Authority), and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has six other Major Governmental Funds in fiscal 2012 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Reserve Fund, Housing Authority Fund, the Redevelopment Project Fund, the Street Improvement Fund and the Transit Area Impact Fee Fund, each of which is discussed in detail below.

All three of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds, which in the City's case includes only the Housing Reserve Fund.

Fiduciary Statements

The City is the Successor Agency of the former Redevelopment Agency and the agent for certain local improvement districts. The City holds property tax revenue distributed from the Redevelopment Property Tax Trust Fund ("RPTTF") to pay outstanding recognized obligations. The City also holds amounts collected from property owners which await transfer to these Districts' bond trustees. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets, Statement of Changes in Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net assets and changes in net assets of the City as a whole. Comparisons of the current year's net assets and activities with fiscal 2011 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

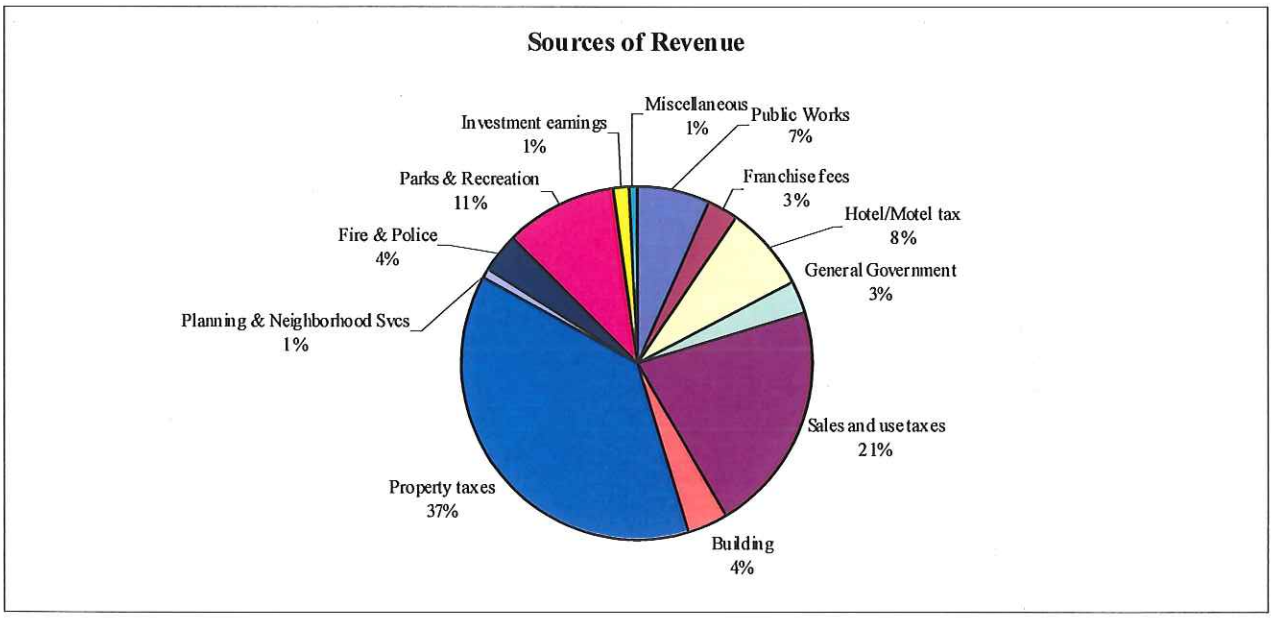
Table 1
Governmental Net Assets at June 30
(in Millions)

	Governmental Activities	
	2012	2011
Cash and investments	$113.4	$129.9
Other assets	54.5	58.3
Capital assets	233.1	326.2
Total assets	**401.0**	**514.4**
Long-term debt outstanding	14.0	202.9
Other liabilities	23.7	22.5
Total liabilities	**37.7**	**225.4**
Net assets:		
Invested in capital assets, net of related debt	219.0	218.1
Restricted	90.9	115.5
Unrestricted	53.4	(44.6)
Total net assets	**$363.3**	**$289.0**

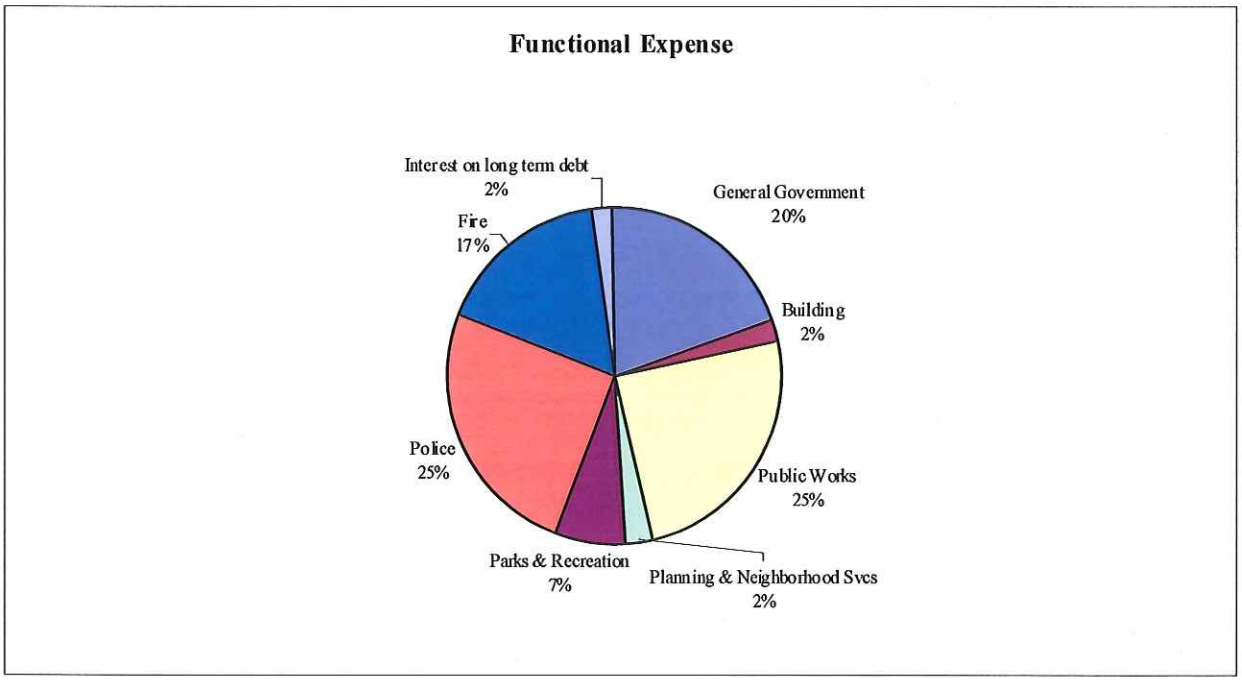
The City's governmental net assets were $363.3 million at June 30, 2012, an increase of $74.3 million from 2011. This increase is reflected as Change in Net Assets in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments decreased $16.5 million principally due to transfer of cash and other assets to the Successor Agency as a result of the RDA dissolution.
- Other assets decreased $3.8 million from last year primarily due to the transfer of a property to the Successor Agency with a book value of $7 million, disposal of one affordable housing unit with a book value of $0.4 million and the purchase of a property for $4.2 million in fiscal 2012.
- Capital assets decreased $93.1 million from last year, as a result of $23.4 million asset additions net of retirements in fiscal 2012, reduced by $14.6 million depreciation of the capital assets, and transfer of $101.9 million of capital assets to the Successor Agency.
- Long-term debt decreased $188.9 million due to addition of $21.7 million debt from a Purchase Agreement with Mission West for a property, reduced by $13.1 million debt payments and transfer of $197.5 million debt to the Successor Agency as a result of the RDA dissolution.
- Other liabilities increased $1.2 million due to increased accounts payable.

Fiscal Year 2012 Governmental Activities



As the Sources of Revenue Chart above shows, $34 million or 37% of the City's fiscal 2012 governmental activities revenue came from property taxes, while $18.8 million or 21% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, investment earnings and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2012's capital assets is shown in detail at Table 8.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets as summarized below.

Table 2
Changes in Governmental Net Assets
(in Millions)

	Governmental Activities	
	2012	2011
Expenses		
General Government	$17.4	$21.4
Building	2.0	2.0
Public Works	21.8	16.8
Planning & Neighborhood Svcs	2.1	2.2
Parks & Recreation	5.8	6.5
Police	22.6	22.7
Fire	14.9	15.1
Interest on long term debt	2.1	9.5
Total expenses	88.7	96.2
Revenues		
Program revenues:		
Charges for services	11.7	10.0
Operating contributions and grants	6.1	4.9
Capital Grants	8.3	5.7
Total program revenues:	26.1	20.6
General revenues:		
Taxes:		
Property taxes	34.0	55.6
Sales and uses taxes	18.8	16.4
Hotel/Motel taxes	7.1	6.1
Other taxes	0.5	0.4
Franchise fees	3.2	3.1
Investment earnings	1.1	0.4
Miscellaneous	0.1	0.4
Total general revenues	64.7	82.4
Total Revenues	90.8	103.0
Surplus (Deficit) before transfers	2.1	6.8
Transfers	3.3	3.4
Extraordinary item	68.9	
Changes in net assets	74.3	10.2
Beginning net assets	289.0	278.8
Ending net assets	**$363.3**	**$289.0**

Table 2 compares fiscal 2012 expenses and revenues with those of fiscal 2011. Expenses decreased $7.5 million in fiscal 2012, attributed to a decrease in interest expense on long term debt when the long-term liability was transferred to the Successor Agency at the end of January 2012. Various program expenses experienced increases or decreases due to the allocation of resources. General Government expenses decreased $4 million due to dissolution of the RDA. Public Works program expenses increased by $5 million due to increased resource allocation for street improvement projects. However, aside from interest expense, overall program expenses were similar to last year.

Table 2 shows that total government revenues decreased $12.2 million in fiscal 2012. Program revenues increased $5.5 million while general revenues decreased $17.7 million. The increase in program revenues was due to increased charges for services, increased operating grants and increased capital grants. The decrease in general revenues was due to a combination of decreased property tax revenue and increased sales tax revenue and transient occupancy tax revenue. Property tax revenue in fiscal 2012 was $21.6 million less than last year primarily due to dissolution of the RDA. Beginning February 1, 2012, tax increment revenues were distributed to the Successor Agency to pay recognized obligation payments and administration costs only. Sales tax revenue in fiscal 2012 was $2.4 million more than fiscal 2011, reflecting improved consumer spending in the apparel stores, office equipment and electronic equipment economic segments. Transient Occupancy Tax increased $1 million in fiscal 2012 reflecting recovery in the economy. An extraordinary item of $68.9 million was reported in fiscal 2012 due to net liabilities assumed by the Successor Agency

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, planning & neighborhood services, parks & recreation, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased $13 million. The primary reasons are increased program revenues and decreased program costs due to reduction of interest expense as a result of Successor Agency assuming the liabilities of the 2003 Tax Allocation Bond debt and other long-term debt.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2012	2011
General Government	$(14.6)	$(18.9)
Building	1.4	0.8
Public Works	(15.4)	(10.5)
Planning & Neighborhood	(1.4)	(1.6)
Parks & Recreation	3.7	(1.6)
Police	(20.6)	(20.6)
Fire	(13.6)	(13.7)
Interest on long term debt	(2.1)	(9.5)
Totals	**$(62.6)**	**$(75.6)**

Business-type Activities

Table 4
Business-Type Net Assets at June 30
(in Millions)

	Business-Type Activities	
	2012	2011
Cash and investments	$40.1	$36.4
Other assets	7.4	7.1
Capital assets	116.8	115.8
Total assets	**164.3**	**159.3**
Other liabilities	2.4	2.6
Long-term Debt	7.7	7.7
Total liabilities	**10.1**	**10.3**
Net assets:		
Invested in capital assets	109.1	107.7
Restricted	25.3	20.7
Unrestricted	19.8	20.6
Total net assets	**$154.2**	**$149.0**

The net assets of business-type activities were $154.2 million in fiscal 2012, an increase of $5.2 million from fiscal 2011. Total assets increased $5.0 million while total liabilities decreased $0.2 million. The increase in net assets was due to increased customer service charges for the Water, Sewer and Recycled Water Funds.

Table 5
Changes in Business-Type Net Assets
(in Millions)

	Business-Type Activities	
	2012	2011
Expenses		
Water Utility	$15.2	$12.8
Recycled Water Utility	0.6	0.5
Sewer Utility	8.4	9.2
Total expenses	24.2	22.5
Revenues		
Program revenues:		
Charges for services	30.6	27.9
Operating Grant	0.1	0.1
Capital Grants	1.6	0.2
Total program revenues:	32.3	28.2
General revenues:		
Investment earnings	0.4	0.4
Total general revenues	0.4	0.4
Total Revenues	32.7	28.6
Excess before transfers	8.5	6.1
Transfers	(3.3)	(3.4)
Changes in net assets	5.2	2.7
Beginning net assets	149.0	146.3
Ending net assets	**$154.2**	**$149.0**

Table 5 compares fiscal 2012 expenses and revenues with those of fiscal year 2011. Expenses increased $1.7 million in total in fiscal 2012 due to increased water purchase expense and increased usage. Total program revenue increased by $4.1 million primarily due to increased charges for services and increased capital contributions received from developers. Total general revenue was $0.4 million from interest earnings, same as last year. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

Table 6
Financial Highlights of Governmental Funds at Fund Level at June 30
(in Millions)

	2012	2011
Total assets	$182.9	$225.8
Total liabilities	66.6	86.9
Total fund balances	116.3	138.9
Total revenues	93.6	105.3
Total expenditures	116.2	109.6
Total other financing sources	25.1	3.4
Total extraordinary items	(25.1)	

At June 30, 2012, the City's governmental funds reported combined fund balances of $116.3 million, a decrease of $22.6 million from last year. The fund balances of the General Fund, Economic Development Corporation, Housing Reserve Fund, Street Improvement Fund, and Transit Area Impact Fee Fund decreased $40.4 million, $20.8 million, $20.3 million, $1.2 million and $0.8 million respectively while the fund balances of the Housing Authority Fund, Redevelopment Project Fund, and Other Governmental Funds increased $22.2 million, $32.2 million, and $6.5 million, respectively.

Revenues at the fund level totaled $93.6 million, a decrease of $11.7 million. Revenues for the General Fund, Economic Development Corporation, Housing Authority Fund, Transit Area Impact Fee Fund and Other Governmental Funds increased $7.4 million, $0.1 million, $0.8 million, $1.8 million and $3.6 million respectively while the Housing Reserve Fund, Redevelopment Project Fund, and Street Improvement Fund declined $1.5 million, $22.9 million and $1 million, respectively. The Housing Authority Fund did not have any activities in fiscal 2011.

Expenditures increased $6.6 million this year to $116.2 million from last year's $109.6 million. The expenditures of the Economic Development Corporation, Housing Authority Fund , Street Improvement Fund and Other Governmental Funds increased $30.3 million, $0.1 million, $2.3 million, and $0.4 million, respectively while the General Fund, Housing Reserve Fund, Redevelopment Project Fund, Street Fund and Transit Area Impact Fee Fund decreased by $0.7 million, $2.9 million, $22.5 million, and $0.4 million, respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to $62.9 million this fiscal year, up $7.4 million from the prior fiscal year. Increases came from property taxes, sales taxes, other taxes, licenses and fines, use of money and property, intergovernmental, and charges for services categories. Property tax revenue increased $0.7 million due to a combination of $1.3 million distribution from the Redevelopment Property Tax Trust Fund ("RPTTF") as a result of the RDA dissolution and decreased City's property tax revenue as a result of the resolution of appeals on assessed valuations from previous years.

Sales tax increased by approximately $2.4 million reflecting improved consumer spending in the apparel stores, office equipment and electronic equipment economic segments. Other taxes increased by $1.2 million primarily due to increased Transient Occupancy Tax revenue. Licenses and permits increased $0.6 million primarily from the building permit and inspection fees as a result of increased development activities. Intergovernmental revenues increased by $0.3 million due to the cost reimbursement received from the RPTTF for administration of the RDA wind down and Successor Agency activities. Charges for services also increased by $0.7 million due to increased revenues for planning and engineering fees received from private developments.

Interest income was up $1.4 million due to a combination of lower interest earnings from the investment portfolio as reinvestment yields declined and increased interest received from the Redevelopment Agency on a promissory note. The terms of the promissory note allow the City to demand principal and interest payments from the Redevelopment Agency when needed. In fiscal 2012, the interest payment received from the Redevelopment Agency was $3.6 million. A similar interest payment received in fiscal 2011 was $2 million. As a result of the RDA dissolution, the $3.6 million interest payment received in fiscal 2012 was the final payment until the Successor Agency receives a Finding of Completion from the State (see Notes 5L and 16).

General Fund expenditures decreased $0.7 million to $63.0 million in fiscal 2012. Despite increases in employee benefits costs such as pension costs and medical premiums and absolving the RDA administration expenditures for five months due to Dissolution of the RDA, the City achieved savings in personnel costs through attritions and belt tightening on other expenditures.

Net transfers were approximately $2.6 million, down $31 million from last year. Net transfers consist of $6.8 million reimbursements from other funds for administrative and overhead expenditures and transfers out of $4.2 million. The transfers out of $4.2 million were primarily for funding of capital projects and the transfer of property held for resale to the Housing Reserve Fund and Housing Authority Fund described below.

In fiscal year 2011, the General Fund received properties held for resale with book values at $24.5 million from the RDA for the purpose of aiding and co-operating in the planning, construction and management of redevelopment projects. In fiscal year 2012, one housing property with a book value of $0.4 million was sold and the proceeds were transferred to the Housing Fund. One property held for resale with the book values of $1.8 million was transferred to the RDA. As part of the RDA wind down activities pursuant to AB1x 26 and AB 1484, the rest of the housing assets with book values of $15.4 million were returned to the Housing Authority Fund as these assets were deemed Housing Assets by the State Department of Finance. The remaining property held for resale with a book value of $7 million was returned to the Successor Agency.

An interfund loan of $20.5 million between the City and the former RDA was written down to $9.4 million to reflect the revised interest rate stipulated by AB 1484. The loan was further offset by an allowance for doubtful accounts as it cannot be repaid until the State Department of Finance issues a Finding of Completion. (Please refer to Note 5 for further details). All these transactions were reported as an Extraordinary Item in the Statement of Revenues, Expenditures and Changes in Fund Balances.

Compared to the final budget, expenditures were under budget by $4 million. The savings were primarily from attritions of work force mentioned above and careful monitoring of expenditures. The differences of $1.1 million between the original budget and final budget were primarily attributable to additional budget appropriations to hire a temporary building inspector and consultants due to increased development activities and increased workload. In addition, the General Fund budget was increased to cover RDA operating expenditures that were disallowed by the Successor Agency's Oversight Board and the State Department of Finance.

Economic Development Corporation

The fund accounts for the activities of the Economic Development Corporation. The EDC is a tax-exempt organization that was formed in fiscal 2011 for the purpose of facilitating and fostering the City's economic development and elimination of blight through public-private partnerships. The EDC entered into an operating agreement with the Redevelopment Agency whereby the Agency will transfer an initial start up working capital of up to $50 million cash to the EDC along with net current assets.

During fiscal 2012, EDC received approximately $0.3 million in interest earnings and rental income. Expenditures of $30.3 million were primarily for consulting services, and acquisition of land. The EDC assumed the liability of the RDA for the purchase of one property located in the Transit Area. Under the Purchase and Sale Agreement with Mission West, the EDC was to pay the purchase price of $21.8 million in installments, as stipulated in a promissory note. In fiscal 2012, $6 million of the EDC fund along with $1.7 million collected from the City's Transit Area Impact Fee Fund were applied toward the repayment of the promissory note.

Net operating transfers out were approximately $12.5 million in fiscal 2012. The EDC transferred $9.8 million to the Agency to pay for debt service, administrative costs and capital improvement project costs incurred by the Agency. A property valued at $4.2 million that was bought in fiscal 2012 was transferred to the Housing Authority for affordable housing developments. In addition, $0.6 million representing capital funding previously received from the City was returned to the City due to completion of those capital improvement projects under budget. The operating transfers out were offset by $2.1 million operating transfers in from the City's Transit Area Impact Fee Fund and the former RDA. The transfer of $1.7 million from the Transit Area Impact Fee Fund was to pay a portion of the promissory note as mentioned above while the transfer of $0.4 million from the former RDA was to return remaining capital project money funded by bond proceeds. The capital projects were completed under budget.

Housing Reserve

This Fund accounted for Redevelopment Agency activities designed to increase the amount of low and moderate-income housing available in the City. Due to dissolution of the RDA, the Housing Reserve Fund was closed as of January 31, 2012. All the Housing Fund properties that were transferred to the City in fiscal 2011 and loans receivable were subsequently transferred to the Housing Authority Fund, upon recognition of these assets as Housing Assets by the State Department of Finance. In compliance with the State order, unencumbered cash amounted to $6.5 million and was remitted to the County Auditor-Controller's Office after year end for distribution to the taxing entities within Milpitas taxing jurisdiction.

During its seven months' operation, the Housing Fund received $0.2 million in revenue, primarily from interest and rental income. Expenditures of $0.4 million were for administration of the "Silent Second" loan program and management of ten housing units that were owned by the RDA. The housing units were purchased from the homebuyers to maintain affordability restrictions of these units and are intended for future resale.

The net transfers out of $4.9 million comprised of a transfer in of $0.4 million from the City for the sale of one affordable housing unit and transfer out of $5.3 million to the City's General Fund and Redevelopment Project Fund to reimburse Housing Reserve Fund's share of administration costs and debt service payment, and to return excess housing reserve set-aside in fiscal 2011 that was above the 20% requirement.

The reporting of an extraordinary item of $15.2 million was to close out the Housing Reserve Fund and transfer its assets and liabilities to the Housing Authority Fund, the Successor Housing Agency, as part of the RDA wind down transactions (see Note 16 for detailed explanation).

Housing Authority

This Fund accounts for the housing activities of the City of Milpitas, primarily to act as the Successor Housing Agency during its first five months of operation. Total revenues were $0.8 million in fiscal 2012, comprised of $0.4 million of interest and rental income, and $0.4 million from repayment of a housing loan. Total expenditures were $0.1 million for administration and operation of the "Silent Second" loan program and management of ten housing units that were transferred from the Housing Reserve Fund.

The operating transfer in of $4.2 million from the Economic Development Corporation was related to a property that was acquired for housing development purposes. This property was deemed as a Housing Asset by the State Department of Finance.

An extraordinary item of $17.3 million was reported to reflect the transfer of housing assets from the Housing Reserve Fund and the Redevelopment Project Fund. The assets transferred were deemed as Housing Assets by the State Department of Finance.

Redevelopment Project

This Fund accounted for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas. Due to dissolution of the RDA, the Redevelopment Project Fund was closed as of January 31, 2012. During its seven months' operation, the Fund received $16.7 million in revenue; primarily from tax increment revenues.

Fund expenditures were $13.4 million and consisted of $1 million administration costs, $0.8 million capital outlay and $11.6 million interest and principal payments on debt. Transfers in of $15.9 million comprised of $9.8 million from the Economic Development Corporation for reimbursement of RDA expenditures, $1.8 million from the General Fund for the return of one property held for resale, and $4.3 million from the Housing Reserve Fund for reimbursement of the Housing Fund's share of the debt payments and return of excess housing reserve set-aside received in previous fiscal years. Transfers out of $2.7 million to the City's General Fund were to reimburse the RDA's share of administration and overhead costs incurred by the City and to return capital project funding for completed projects.

The reporting of an extraordinary item of $15.6 million was to close out the Redevelopment Project Fund and transfer its assets and liabilities to the successor agencies (see Note 16 for detailed explanation).

Street Improvement Capital Project

This Capital Project Fund accounts for the majority of the capital projects activity in the City that is not developed in the redevelopment area. The Fund's revenues were $0.7 million in fiscal 2012, a decrease of $1 million from fiscal 2011. The decrease was due to decreased intergovernmental revenues. Fund expenditures were $5.2 million in fiscal 2012, an increase of $2.3 million from fiscal 2011 due to increased capital outlay.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2012, fund revenues were $1.8 million, primarily from fees collected from developers. Expenditures were $0.8 million, consisted of $0.2 million capital improvement project expenditures and $0.6 million for accrued interest on advances received from other funds. The advances bear simple interest of 5% annually.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Fund Balance Classifications

Fund balances are classified in five categories: nonspendable, restricted, committed, assigned and unassigned based on a hierarchy of constraint. Further details on fund balance classifications can be found in Note 10B.

Table 7 shows the classification of the fund balances of the major governmental funds.

Table 7
Fund Balances at June 30 – Major Governmental Funds
(in Millions)

	2012	2011
General Fund		
Nonspendable	$ 0.6	$21.0
Restricted	0.0	24.6
Committed	5.4	5.4
Assigned	13.9	9.7
Unassigned	15.8	15.4
Total	$35.7	$76.1
EDC Fund		
Nonspendable	$ 9.8	
Restricted	21.8	$52.4
Total	$31.6	$52.4
Housing Reserve fund		
Restricted	$ 0.0	$20.3
Housing Authority fund		
Restricted	$22.2	$ 0.0
Redevelopment Project Fund		
Unassigned	$ 0.0	$(32.2)
Street Improvement Fund		
Restricted	$10.7	$11.9
Transit Area Impact Fee Fund		
Unassigned	$(12.2)	$(11.5)

At June 30, 2012, the fund balance of the General Fund was $35.7 million. $0.6 million was classified as nonspendable, comprised of prepaid materials and supplies. $5.4 million for PERS Rate Stabilization was classified as committed. $13.9 million of the fund balance comprised of $5.7 million for library and performance arts programs, $4.9 million for capital improvement, $2.8 million for uninsured claims and $0.5 million for encumbrances, was classified as assigned. $15.8 million was classified as unassigned. In fiscal 2012, $24.6 million of the restricted fund balance comprised of properties held for resale and housing assets were transferred to the Housing Authority Fund and Successor Agency.

The fund balance of the Economic Development Corporation Fund was $31.6 million. $9.8 million of the EDC's fund balance was classified as nonspendable as it is composed of advances to other funds. Remaining fund balance of $21.8 million was classified as restricted for economic development purposes.

The fund balances of the Housing Authority Fund and Street Improvement Fund were also classified as restricted because the amounts were restricted for specific purposes.

The fund balance of the Transit Area Impact Fee Fund was classified as unassigned due to its negative amount.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased $2.8 million from last year, while operating expenses increased $1.7 million. Total revenues and total operating expenses were $30.7 million and $23.9 million respectively. Non-operating revenues of $0.2 million in fiscal 2012 were unchanged from the prior year. Capital contributions increased by $1.3 million while net transfers out decreased by $0.1 million.

Water Utility

Water fund revenues were $16.8 million in fiscal 2012, up $1.6 million from the prior year. The increase in revenues was primarily due to increased water rates. Expenses were $15.2 million in fiscal 2012, up $2.4 million from the prior year primarily due to increased purchased water expense. Net assets of the Water Utility Fund increased $1.5 million in the current year to a total of $64.3 million. The increase comprised $1.5 million in operating income for the current year, $0.1 million in non-operating revenues, $0.5 million capital contributions from developers, offset by net transfers out of $0.6 million. Transfers in of $1.1 million represent reimbursements for the cost of capital assets constructed by the Water Enterprise Fund for the other enterprise funds. The transfer out of $1.7 million was for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Assets includes $48.5 million invested in capital assets, $10.5 million in restricted net assets, and $5.3 million in unrestricted net assets.

Recycled Water Utility

Recycled Water fund revenues were $1.4 million in fiscal 2012, approximately $0.1 million more than prior year. Expenses were $0.6 million in fiscal 2012, $0.1 million more than last fiscal year. Net assets of the Fund decreased $0.4 million in the current year to a total of approximately $0.6 million. This decrease included $0.8 million in operating income and $0.1 million in non-operating income, offset by transfers out totaling $1.3 million. Transfers out were primarily reimbursements for the cost of capital assets constructed by the Water Enterprise Fund and administration costs incurred by the General Fund.

This Fund's Net Assets includes $0.2 million invested in capital assets, $0.6 million in restricted assets, and negative $0.2 million in unrestricted assets.

Sewer Utility

Sewer fund revenues were $12.4 million in fiscal 2012, up $1 million from the prior year due to increased sewer rates. Expenses were $8.1 million in fiscal 2012, down $0.8 million from the prior year due to decreased contribution requirements for the City's share of the operating expenses at the Waste Water Treatment Plant. Non-operating revenues in fiscal year 2012 consisted of $0.3 million interest income, $0.3 million interest expense, and $0.1 million developer contributions. Net assets of the Sewer Utility Fund increased $4.1 million in the current year to a total of $89.3 million. This increase comprised of $4.3 million in operating income, $0.1 million in non-operating income, $1.1 million in capital contributions by developers, and net transfers out of $1.4 million for reimbursements of administration costs incurred by the General Fund.

$14.2 million of the Fund's Net Assets was unrestricted at the fiscal year end. Of the remainder, $60.4 million was invested in capital assets and $14.7 million was restricted as to use.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2012, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

Table 8
Capital Assets at Year-end
(in Millions)

	2012	2011
Governmental Activities:		
Land	$ 58.6	$ 65.3
Construction in progress	8.8	86.0
Buildings and improvements	96.3	96.3
Other improvements	25.2	24.4
Machinery and equipment	34.7	35.3
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	225.6	221.6
Traffic system	18.8	18.5
Less accumulated depreciation	(338.9)	(325.1)
Totals	**$233.0**	**$326.2**
Business-type Activities:		
Land	$ 1.1	$ 1.1
Construction in progress	21.9	18.8
Distribution facilities	67.3	67.3
Service lines	12.9	12.5
Sewer lines	72.6	72.6
Capacity rights	41.3	39.7
Less accumulated depreciation	(100.3)	(96.2)
Totals	**$116.8**	**$115.8**

The principal additions in fiscal 2012 were to the street system and construction-in-progress. Construction in progress included the Alviso Adobe Renovation, City Hall AV system upgrades and Fire Station Improvements. In fiscal 2012, the Redevelopment Agency also transferred capital assets of $101.9 million to the Successor Agency due to the RDA dissolution. Further detail on capital assets, current year additions and construction in progress can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8.

DEBT ADMINISTRATION

Substantially all of the City's debt was issued to finance redevelopment projects and Sewer infrastructure improvements. These debt issues are secured by the tax increment revenue of the Redevelopment Agency, and sewer revenue. In fiscal 2012, all the Redevelopment Agency debts were transferred to the Successor Agency. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. At June 30, 2012 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2012	Balance June 30, 2011
Governmental Activity Debt:		
Purchase Agreement with Mission West Properties due February 15, 2016	$ 14.0	$ 0.0
Total Governmental Activity Debt	$ 14.0	$ 0.0
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026	$ 7.7	$ 8.1
Total Business-type Activity Debt	$ 7.7	$ 8.1

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2012, a total of $13.4 million in local improvement district debt was outstanding, issued by two local improvement districts. This debt is secured only by special assessments on the real properties in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479 or to the City's website at www.ci.milpitas.ca.gov.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the primary government. This column is followed by a column that displays the discretely presented component unit.

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

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

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

Both of these Statements include the financial activities of the City and the blended component unit: the Milpitas Redevelopment Agency (RDA) and the Economic Development Corporation (EDC). The RDA is a legally separate component unit of the City because it is controlled by the City and the City is financially accountable for the Agency's activities. The EDC is a California nonprofit public benefit Corporation that is also a legally separate component unit of the City because it is governed by a board consisting of the members of the City Council. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. are included in these statements as separate columns.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements.*

CITY OF MILPITAS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	$109,407,465	$40,094,143	$149,501,608	$33,918
Restricted investments (Note 3)	4,037,048		4,037,048	1,037,715
Receivables:				
Accounts	1,911,669	1,854,430	3,766,099	345
Due from other governments	2,130,370	24,352	2,154,722	
Interest	275,617	94,693	370,310	
Internal balances (Note 4)	(5,155,592)	5,155,592		
Loans receivable, net (Note 5)	33,224,641		33,224,641	
Prepaids, materials, supplies and deposits (Note 1E)	691,741	253,541	945,282	26,317
Property held for resale (Note 6)	21,399,645		21,399,645	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	67,413,990	23,049,160	90,463,150	1,565,277
Depreciable capital assets, net	165,656,676	93,806,434	259,463,110	7,740,762
Total assets	400,993,270	164,332,345	565,325,615	10,404,334
LIABILITIES				
Accounts payable	5,833,979	1,655,511	7,489,490	106,623
Accrued payroll	2,345,741	87,360	2,433,101	16,193
Interest payable		48,828	48,828	
Uninsured claims payable (Note 13):				
Due within one year	963,992		963,992	
Due in more than one year	2,753,892		2,753,892	
Refundable deposits	2,531,560	206,727	2,738,287	76,401
Unearned revenue	569,290		569,290	7,877
Accrued vacation (Note 12):				
Due within one year	552,175	107,398	659,573	
Due in more than one year	3,930,608	119,806	4,050,414	
Sick leave payable (Note 12):				
Due within one year	301,612	46,862	348,474	
Due in more than one year	3,844,882	126,702	3,971,584	
Long term debt (Note 9):				
Due within one year	3,000,000	395,000	3,395,000	
Due in more than one year	11,036,883	7,315,000	18,351,883	
Total liabilities	37,664,614	10,109,194	47,773,808	207,094
NET ASSETS (Note 10)				
Invested in capital assets and capacity rights, net of related debt	219,033,783	109,145,594	328,179,377	9,306,039
Restricted for:				
Capital projects	33,661,100	25,239,341	58,900,441	
Redevelopment and community development activities	57,216,919		57,216,919	
Total restricted net assets	90,878,019	25,239,341	116,117,360	
Unrestricted	53,416,854	19,838,216	73,255,070	891,201
Total net assets	$363,328,656	$154,223,151	$517,551,807	$10,197,240

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	$17,418,025	$1,349,232	$1,322,498	$181,413	($14,564,882)	
Building	2,029,747	3,436,355			1,406,608	
Public Works	21,786,865	2,439,654	3,013,076	894,247	(15,439,888)	
Planning and Neighborhood Services	2,143,789	237,019	472,374		(1,434,396)	
Parks and Recreation	5,822,774	1,832,586	485,138	7,218,059	3,713,009	
Police	22,619,596	1,133,687	826,921		(20,658,988)	
Fire	14,903,785	1,292,383	25,688		(13,585,714)	
Interest on long term debt	2,049,724				(2,049,724)	
Total Governmental Activities	88,774,305	11,720,916	6,145,695	8,293,719	(62,613,975)	
Business-type Activities:						
Water Utility	15,228,859	16,772,544		475,216		$2,018,901
Recycled Water Utility	599,049	1,447,356	43,393			891,700
Sewer Utility	8,399,323	12,445,162		1,153,810		5,199,649
Total Business-type Activities	24,227,231	30,665,062	43,393	1,629,026		8,110,250
Total Primary Government	$113,001,536	$42,385,978	$6,189,088	$9,922,745	(62,613,975)	8,110,250
Component Unit:						
Terrace Gardens Inc.	$1,652,708	$1,548,366	$93,591			
General revenues:						
Taxes:						
Property taxes					34,028,614	
Sales and use taxes					18,757,693	
Hotel/Motel taxes					7,067,412	
Other taxes					491,286	
Franchise fees, unrestricted					3,218,131	
Motor vehicle in lieu					35,398	
Investment earnings					1,092,802	390,356
Miscellaneous					66,617	
Transfers (Note 4)					3,304,053	(3,304,053)
Extraordinary item (Note 16):						
Assets transferred to/liabilities assumed by Successor Agency					68,882,130	
Total general revenues, transfers and extraordinary item					136,944,136	(2,913,697)
Change in Net Assets					74,330,161	5,196,553
Net Assets-Beginning					288,998,495	149,026,598
Net assets-Ending					$363,328,656	$154,223,151

See accompanying notes to financial statements

Total	Net (Expense) Revenue and Changes in Net Assets Component Unit Terrace Gardens Inc.
($14,564,882)	
1,406,608	
(15,439,888)	
(1,434,396)	
3,713,009	
(20,658,988)	
(13,585,714)	
(2,049,724)	
(62,613,975)	
2,018,901	
891,700	
5,199,649	
8,110,250	
(54,503,725)	
	($10,751)
34,028,614	
18,757,693	
7,067,412	
491,286	
3,218,131	
35,398	
1,483,158	3,568
66,617	
68,882,130	
134,030,439	3,568
79,526,714	(7,183)
438,025,093	10,204,423
$517,551,807	$10,197,240

FUND FINANCIAL STATEMENTS

The Fund Financial Statements present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

ECONOMIC DEVELOPMENT CORPORATION FUND

Established to account for the activities of the Milpitas Economic Development Corporation formed for the purpose of providing physical, economic and educational development, redevelopment and revitalization efforts within the City.

HOUSING RESERVE FUND

Established by the Redevelopment Agency of the City of Milpitas to account for tax allocations set aside for the purpose of increasing or improving the City's supply of low or moderate-income housing as required by California redevelopment law.

HOUSING AUTHORITY FUND

Established to plan and address the housing needs of the City and to act as the Housing Successor Agency for the former Redevelopment Agency.

REDEVELOPMENT PROJECT FUND

Established to account for the financing and construction activities in the redevelopment project areas.

STREET IMPROVEMENT FUND

Established to account for the construction and maintenance of the street system in Milpitas. Financing may be provided through state and federal grants.

TRANSIT AREA IMPACT FEE FUND

Established to account for capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General	Economic Development Corporation	Housing Reserve	Housing Authority	Redevelopment Project
ASSETS					
Cash and investments available for operations (Note 3)	$38,241,539	$22,041,602		$808,592	
Restricted investments (Note 3)		4,037,048			
Receivables:					
Accounts	1,732,279	2,395		18,116	
Due from other governments	1,742,095	10,729			
Interest	90,662	70,095		1,555	
Loans receivable, net (Note 5)	9,444,474			29,849,180	
Prepaids, materials, supplies and deposits (Note 1E)	576,896	2,000			
Property held for resale (Note 6)				21,399,645	
Advances to other funds (Note 4)		9,778,775			
Total Assets	$51,827,945	$35,942,644		$52,077,088	
LIABILITIES					
Accounts payable	$1,443,809	$3,161,684			
Accrued payroll	2,297,412	2,364			
Refundable deposits	2,477,611			$35,070	
Deferred revenue	9,895,369	1,149,614		29,851,235	
Advances from other funds (Note 4)					
Total Liabilities	16,114,201	4,313,662		29,886,305	
FUND BALANCES					
Fund balances (Note 10):					
Nonspendable	576,896	9,780,775			
Restricted		21,848,207		22,190,783	
Committed	5,432,703				
Assigned	13,904,056				
Unassigned	15,800,089				
TOTAL FUND BALANCES	35,713,744	31,628,982		22,190,783	
Total Liabilities and Fund Balances	$51,827,945	$35,942,644		$52,077,088	

Amounts reported for Governmental Activities in the Statement of Net Assets
are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Assets.

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.

LONG TERM ASSETS AND LIABILITIES
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:
Long-term debt
Interest payable
Non-current portion of accrued vacation and sick leave
Non-current portion of uninsured claims payable

NET ASSETS OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

Street Improvement	Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
$11,292,565	$2,708,573	$25,107,864	$100,200,735
			4,037,048
62,943		95,936	1,911,669
83,728		293,818	2,130,370
25,340	6,469	59,681	253,802
		3,290,896	42,584,550
		7,155	586,051
			21,399,645
			9,778,775
$11,464,576	$2,715,042	$28,855,350	$182,882,645
$712,892	$14,927	$472,008	$5,805,320
8,768		18,768	2,327,312
		18,843	2,531,524
		116,340	41,012,558
	14,934,367		14,934,367
721,660	14,949,294	625,959	66,611,081
		7,155	10,364,826
10,742,916		25,330,614	80,112,520
			5,432,703
		2,891,622	16,795,678
	(12,234,252)		3,565,837
10,742,916	(12,234,252)	28,229,391	116,271,564
$11,464,576	$2,715,042	$28,855,350	
			233,070,666
			9,306,317
			30,998,794
			(14,036,883)
			(8,563,918)
			(3,717,884)
			$363,328,656

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General	Economic Development Corporation	Housing Reserve	Housing Authority	Redevelopment Project
REVENUES					
Property taxes	$17,357,336				$16,671,278
Sales taxes	19,403,068				
Other taxes	11,075,904				
Licenses and fines	4,955,660				
Use of money and property	4,197,784	$281,921	$144,188	$392,426	20,500
Intergovernmental	1,439,783				31,129
Charges for services	4,419,055				
Developer contributions					
Other	115,867	400	57,030	398,636	
Total Revenues	62,964,457	282,321	201,218	791,062	16,722,907
EXPENDITURES					
Current:					
General Government	11,404,089	236,492	222,414	74,617	620,178
Building and Safety	2,059,594				
Public Works	6,669,689				305,196
Planning and Neighborhood Services	1,482,103		181,660		110,724
Parks and Recreation	5,180,131				
Police	21,660,778				
Fire	14,561,743				
Capital outlay	58,078	22,367,029			803,068
Debt service:					
Principal		7,743,117			5,410,000
Interest and fees					6,184,298
Total Expenditures	63,076,205	30,346,638	404,074	74,617	13,433,464
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(111,748)	(30,064,317)	(202,856)	716,445	3,289,443
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of property	7,588				
Issuance of long-term debt		21,780,000			
Transfers in (Note 4)	6,838,761	2,145,160	374,253	4,200,000	15,863,282
Transfers (out) (Note 4)	(4,205,471)	(14,669,107)	(5,288,084)		(2,671,904)
Total Other Financing Sources (Uses)	2,640,878	9,256,053	(4,913,831)	4,200,000	13,191,378
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	2,529,130	(20,808,264)	(5,116,687)	4,916,445	16,480,821
EXTRAORDINARY ITEMS (NOTE 16)					
Assets transferred to Housing Successor				17,274,338	
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor	(42,918,329)		(15,182,557)		15,669,594
NET CHANGE IN FUND BALANCES	(40,389,199)	(20,808,264)	(20,299,244)	22,190,783	32,150,415
Fund balances (deficits) at beginning of period	76,102,943	52,437,246	20,299,244		(32,150,415)
FUND BALANCES (DEFICITS) AT END OF PERIOD	$35,713,744	$31,628,982		$22,190,783	

See accompanying notes to financial statements

Street Improvement	Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
			$34,028,614
			19,403,068
		$1,153,720	12,229,624
			4,955,660
$46,280	$33,958	186,556	5,303,613
389,185		2,973,787	4,833,884
		306,556	4,725,611
268,354	1,743,117	5,537,825	7,549,296
		5,939	577,872
703,819	1,777,075	10,164,383	93,607,242
100,554		94,993	12,753,337
			2,059,594
830,654	22,929	943,304	8,771,772
		421,476	2,195,963
		80,987	5,261,118
		72,343	21,733,121
			14,561,743
4,297,916	153,537	1,196,560	28,876,188
			13,153,117
	638,573		6,822,871
5,229,124	815,039	2,809,663	116,188,824
(4,525,305)	962,036	7,354,720	(22,581,582)
			7,588
			21,780,000
3,343,312	5,000	2,223,963	34,993,731
(9,237)	(1,743,117)	(3,102,758)	(31,689,678)
3,334,075	(1,738,117)	(878,795)	25,091,641
(1,191,230)	(776,081)	6,475,925	2,510,059
			17,274,338
			(42,431,292)
(1,191,230)	(776,081)	6,475,925	(22,646,895)
11,934,146	(11,458,171)	21,753,466	138,918,459
$10,742,916	($12,234,252)	$28,229,391	$116,271,564

CITY OF MILPITAS

Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($22,646,895)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of $344,500 have already been added to capital assets)	28,844,088
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $775,468 which has already been allocated to serviced funds.)	(13,827,686)
Capital asset retirements are deducted from fund balance	(5,656,238)
Capital assets transferred to the Successor Agency	(101,928,140)
LONG TERM DEBT PAYMENTS	
Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of principal is added back to fund balance	13,153,117
Long-term debt assumed by the Successor Agency	197,507,967
Issuance of promissory note	(21,780,000)
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Non-current portion of accrued vacation and sick leave	624,628
Non-current portion of uninsured claims payable	(265,463)
Interest payable	2,727,628
Deferred revenue	(2,658,919)
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	236,074
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$74,330,161

See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	$16,597,500	$16,597,500	$17,357,336	$759,836
Sales taxes	16,747,650	16,747,650	19,403,068	2,655,418
Other taxes	9,826,000	9,826,000	11,075,904	1,249,904
Licenses and fines	4,155,000	4,244,345	4,955,660	711,315
Use of money and property	4,251,000	4,251,000	4,197,784	(53,216)
Intergovernmental	718,000	793,818	1,439,783	645,965
Charges for services	3,478,953	3,698,368	4,419,055	720,687
Other	72,114	77,247	115,867	38,620
Total Revenues	55,846,217	56,235,928	62,964,457	6,728,529
Expenditures				
Current:				
General Government:				
City Manager	1,953,611	1,953,611	1,688,355	265,256
City Attorney	678,549	923,687	898,983	24,704
Finance	2,410,720	2,410,720	2,111,447	299,273
Information Services	2,698,846	2,698,846	2,609,514	89,332
Human Resources	922,803	922,803	839,838	82,965
Non-departmental	5,113,921	4,997,744	3,582,931	1,414,813
Building and Safety	2,178,195	2,252,540	2,080,118	172,422
Public Works	6,117,663	6,729,663	6,729,254	409
Planning and Neighborhood Services	1,333,977	1,513,977	1,512,227	1,750
Parks and Recreation	5,594,881	5,605,713	5,180,474	425,239
Police	22,800,428	22,844,858	21,679,213	1,165,645
Fire	14,595,678	14,641,400	14,561,921	79,479
Total Expenditures	66,399,272	67,495,562	63,474,275	4,021,287
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,553,055)	(11,259,634)	(509,818)	10,749,816
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	3,000	1,253,000	7,588	(1,245,412)
Transfers in	9,112,858	9,112,858	6,838,761	(2,274,097)
Transfers (out)	(2,000,000)	(3,281,218)	(4,205,471)	(924,253)
Total Other Financing Sources (Uses)	7,115,858	7,084,640	2,640,878	(4,443,762)
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	(3,437,197)	(4,174,994)	2,131,060	6,306,054
EXTRAORDINARY ITEM				
Assets transferred to/liabilities assumed by Successor Agency			(42,918,329)	(42,918,329)
Net change in fund balance	($3,437,197)	($4,174,994)	(40,787,269)	($36,612,275)
Adjustment to budgetary basis:				
Capital outlay			(58,078)	
Encumbrance expenditures			456,148	
Fund balance, July 1			76,102,943	
Fund balance, June 30			$35,713,744	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING RESERVE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE PERIOD JULY 1, 2011 TO JANUARY 31, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	$216,000	$216,000	$144,188	($71,812)
Other			57,030	57,030
Total Revenues	216,000	216,000	201,218	(14,782)
Expenditures				
Current:				
General Government:				
City Manager	51,346	51,346	12,705	38,641
Non-departmental	2,163,110	2,163,110	209,709	1,953,401
Planning and Neighborhood Services	109,710	109,710	181,660	(71,950)
Total Expenditures	2,324,166	2,324,166	404,074	1,920,092
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,108,166)	(2,108,166)	(202,856)	1,905,310
OTHER FINANCING SOURCES (USES)				
Transfers in	10,679,000	10,679,000	374,253	(10,304,747)
Transfers (out)	(1,420,151)	(1,420,151)	(5,288,084)	(3,867,933)
Total Other Financing Sources (Uses)	9,258,849	9,258,849	(4,913,831)	(14,172,680)
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	7,150,683	7,150,683	(5,116,687)	(12,267,370)
EXTRAORDINARY ITEM				
Assets transferred to/liabilities assumed by Successor Agency			(15,182,557)	(15,182,557)
Net change in fund balance	$7,150,683	$7,150,683	(20,299,244)	($27,449,927)
Fund balance, July 1			20,299,244	
Fund balance, June 30				

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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

The concept of *major funds* extends to Proprietary Funds. The City has identified the funds below as major proprietary funds.

Financial reporting standards do not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER UTILITY FUND

Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

RECYCLED WATER UTILITY FUND

Accounts for the provision of recycled water services to businesses within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

SEWER UTILITY FUND

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collection.

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of computer systems on a cost reimbursement basis.

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
ASSETS					
Current Assets					
Cash and investments available for operations (Note 3)	$16,332,475	$536,830	$23,224,838	$40,094,143	$9,206,730
Receivables:					
Accounts	1,042,361	54,446	757,623	1,854,430	
Due from other governments	15,294		9,058	24,352	
Interest	38,628	1,156	54,909	94,693	21,815
Loans (Note 5)					84,565
Prepaids, materials, supplies and deposits (Note 1E)	235,224	2,068	16,249	253,541	105,690
Total current assets	17,663,982	594,500	24,062,677	42,321,159	9,418,800
Noncurrent assets:					
Advance to other funds (Note 4)			5,155,592	5,155,592	
Capital assets and capacity rights (Note 8):					
Land and construction in progress	16,242,715		6,806,445	23,049,160	
Depreciable capital assets, net	32,251,397	210,354	61,344,683	93,806,434	3,441,858
Total noncurrent assets	48,494,112	210,354	73,306,720	122,011,186	3,441,858
Total assets	66,158,094	804,854	97,369,397	164,332,345	12,860,658
LIABILITIES					
Current liabilities:					
Accounts payable	1,563,376	53,798	38,337	1,655,511	28,659
Accrued payroll	52,049	4,882	30,429	87,360	18,429
Interest payable			48,828	48,828	
Refundable deposits	44,120	162,607		206,727	36
Accrued vacation (Note 12)	53,699		53,699	107,398	9,629
Sick leave payable (Note 12)	23,431		23,431	46,862	5,099
Certificates of Participation (Note 9)			395,000	395,000	
Total current liabilities	1,736,675	221,287	589,724	2,547,686	61,852
Non-current liabilities:					
Accrued vacation (Note 12)	59,903		59,903	119,806	36,844
Sick leave payable (Note 12)	63,351		63,351	126,702	13,787
Certificates of Participation (Note 9)			7,315,000	7,315,000	
Total non-current liabilities	123,254		7,438,254	7,561,508	50,631
Total liabilities	1,859,929	221,287	8,027,978	10,109,194	112,483
NET ASSETS (Note 10)					
Invested in capital assets and capacity rights, net of related debt	48,494,112	210,354	60,441,128	109,145,594	3,441,858
Restricted for capital projects	10,526,210		14,713,131	25,239,341	
Unrestricted	5,277,843	373,213	14,187,160	19,838,216	9,306,317
Total net assets	$64,298,165	$583,567	$89,341,419	$154,223,151	$12,748,175

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
OPERATING REVENUES					
Charges for services	$16,517,822	$1,440,271	$12,383,361	$30,341,454	$2,452,230
Other operating revenue	254,722	7,085	61,801	323,608	
Total Operating Revenues	16,772,544	1,447,356	12,445,162	30,665,062	2,452,230
OPERATING EXPENSES					
Purchased water	10,548,807	403,156		10,951,963	
Sewer treatment services			3,601,619	3,601,619	
Personnel services	2,164,966	168,294	1,235,682	3,568,942	590,231
Services and supplies	1,034,362	7,382	553,060	1,594,804	776,666
Depreciation	1,376,205	20,217	2,689,120	4,085,542	775,468
Repairs and maintenance	104,519		15,575	120,094	289,629
Total Operating Expenses	15,228,859	599,049	8,095,056	23,922,964	2,431,994
Operating Income (Loss)	1,543,685	848,307	4,350,106	6,742,098	20,236
NONOPERATING REVENUES					
Interest income	75,052	3,343	311,961	390,356	41,699
Interest expense			(304,267)	(304,267)	
Subventions and grants		43,393		43,393	
Gain on sale of assets					33,040
Developer contributions	13,435		70,260	83,695	
Total Nonoperating Revenues	88,487	46,736	77,954	213,177	74,739
Income (Loss) Before Contributions and Transfers	1,632,172	895,043	4,428,060	6,955,275	94,975
Capital contributions					141,099
Capital contributions - connection fees	461,781		1,083,550	1,545,331	
Transfers in (Note 4)	1,137,000	3,222	3,598	1,143,820	
Transfers (out) (Note 4)	(1,725,562)	(1,288,102)	(1,434,209)	(4,447,873)	
Change in net assets	1,505,391	(389,837)	4,080,999	5,196,553	236,074
Total net assets-beginning	62,792,774	973,404	85,260,420	149,026,598	12,512,101
Total net assets-ending	$64,298,165	$583,567	$89,341,419	$154,223,151	$12,748,175

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds				Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Recycled Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$16,824,277	$1,483,788	$12,419,541	$30,727,606	$2,452,230
Payments to suppliers	(11,475,865)	(397,072)	(4,240,434)	(16,113,371)	(1,083,255)
Payments to employees	(2,190,957)	(166,233)	(1,242,570)	(3,599,760)	(603,037)
Net cash provided by operating activities	3,157,455	920,483	6,936,537	11,014,475	765,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Subventions and grants		43,393		43,393	
Advance to other funds			(363,992)	(363,992)	
Loans receivable					(84,565)
Transfers in	1,137,000	3,222	3,598	1,143,820	
Transfers (out)	(1,725,562)	(1,288,102)	(1,434,209)	(4,447,873)	
Cash Flows from Noncapital Financing Activities	(588,562)	(1,241,487)	(1,794,603)	(3,624,652)	(84,565)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Principal paid on long-term debt			(380,000)	(380,000)	
Interest paid			(306,527)	(306,527)	
Proceeds from sale of capital assets					120,350
Acquisition of capital assets	(3,491,144)	(1)	(1,652,805)	(5,143,950)	(203,401)
Capital contributions - connection fees	461,781		1,083,550	1,545,331	
Developer contributions	13,435		70,260	83,695	
Cash Flows from Capital and Related Financing Activities	(3,015,928)	(1)	(1,185,522)	(4,201,451)	(83,051)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	94,816	6,168	338,709	439,693	49,855
Cash Flows from Investing Activities	94,816	6,168	338,709	439,693	49,855
Net increase (decrease) in cash and cash equivalents	(352,219)	(314,837)	4,295,121	3,628,065	648,177
Cash and investments at beginning of period	16,684,694	851,667	18,929,717	36,466,078	8,558,553
Cash and investments at end of period	$16,332,475	$536,830	$23,224,838	$40,094,143	$9,206,730
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$1,543,685	$848,307	$4,350,106	$6,742,098	$20,236
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,376,205	20,217	2,689,120	4,085,542	775,468
Change in assets and liabilities:					
Receivables, net	31,733	12,253	(25,621)	18,365	
Materials, supplies and deposits	(17,433)	(964)	6,650	(11,747)	26,339
Accrued payroll	(28,335)	2,061	(9,232)	(35,506)	
Accounts and other payables	251,600	38,609	(74,486)	215,723	(56,105)
Net cash provided by operating activities	$3,157,455	$920,483	$6,936,537	$11,014,475	$765,938
NONCASH TRANSACTIONS:					
Contributions and transfers of capital assets, net					$141,099
Retirement of capital assets, net					$87,310

See accompanying notes to financial statements

FIDUCIARY FUNDS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Enforceable Obligation Schedule and to dispose of assets and property of the former Redevelopment Agency for the benefit of the taxing agencies.

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	$16,973,858	$7,534,330
Interest receivable	24,954	12,143
Property held for resale (Note 16B)	6,988,800	
Capital assets (Note 16D):		
Land and construction in progress	101,928,140	
Total Assets	125,915,752	$7,546,473
LIABILITIES		
Refundable deposits		$2,109,412
Due to Local Improvement Districts		5,437,061
Interest payable	2,657,845	
Long-term obligations (Note 16E):		
Due in one year	8,302,357	
Due in more than one year	195,807,359	
Total Liabilities	206,767,561	$7,546,473
NET ASSETS (DEFICIT)		
Held in trust for other governments	($80,851,809)	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Taxes	$6,706,047
Use of money and properties	4,511
Total additions	6,710,558
Deductions:	
General and administrative	1,376,539
Debt Service:	
Interest and fees	7,879,585
Total deductions	9,256,124
Change in net assets before extraordinary item	(2,545,566)
EXTRAORDINARY ITEM (NOTE 16A)	
Assets transferred to/liabilities assumed by Successor Agency	(78,306,243)
Net change in net assets	(80,851,809)
Beginning net assets	
Ending net assets (deficit)	($80,851,809)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety, police, fire and building inspection; parks and streets; water; sanitation; recreation services; planning and zoning; general administration services, and redevelopment.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

PRIMARY GOVERNMENT

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Redevelopment Agency and the Milpitas Public Financing Authority, both of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

Blended Component Units

The Milpitas Redevelopment Agency is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency are included in the Housing Reserve Special Revenue Fund and the Redevelopment Project Capital Projects. As discussed in Note 16, the Agency was dissolved effective January 31, 2012.

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the Redevelopment Agency under the laws of the State of California. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation receives funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Economic Development Corporation Special Revenue Fund.

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Financial activities of the Housing Authority are included in the Housing Authority Special Revenue Fund.

Financial statements for the Milpitas Economic Development Corporation may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035 or www.ci.milpitas.ca.gov/government/finance. Separate financial statements are not issued for the Milpitas Redevelopment Agency, Public Financing Authority or the City of Milpitas Housing Authority.

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2011 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Assets and the Statement of Activities.

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including franchise fees that are based on gross receipts and all taxes, are presented as general revenues.

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

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

C. *Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

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

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, most street work and the other services described above.

Economic Development Corporation Fund – Established to account for the activities of the Milpitas Economic Development Corporation, a nonprofit public benefit Corporation formed in fiscal 2011 by the City and the Redevelopment Agency, established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Housing Reserve Fund – Established by the Redevelopment Agency of the City of Milpitas to account for tax allocations set aside for the purpose of increasing or improving the City's supply of low or moderate – income housing.

Housing Authority Fund – Established to plan and address the housing needs of the City and to act as the Housing Successor of the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

Redevelopment Project Fund – Established to account for the financing and construction activities in the redevelopment project areas.

Street Improvement Fund – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

Transit Area Impact Fee Fund – Established to account for the capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund – Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Recycled Water Utility Fund - Accounts for the provision of recycled water services to businesses within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Sewer Utility Fund – Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

The City also reports the following fund types:

Internal Service Fund – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis.

Fiduciary Funds – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. As discussed in Note 16, all California redevelopment agencies are dissolved as of January 31, 2012 and replaced with Successor Agencies responsible for winding down the affairs of the redevelopment agencies including disposing of their assets. This fund continues payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency funds are used to account for assets held by the City as an agent for negotiated employee benefits, the Senior Advisory Commission, and Local Improvement Districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes and interest revenue. Forfeitures, licenses, permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as deferred revenue.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with Government Accounting Standards Board pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaids, Materials, Supplies and Deposits

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

Prepaids, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. Property Tax

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. Revenue Recognition for Water Utility, Recycled Water Utility and Sewer Utility

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Funds and Closed Funds

The Housing Authority Special Revenue Fund was established to account for the activities of the Milpitas Housing Authority, and the Successor Agency to the Milpitas Redevelopment Agency Private Purpose Trust Fund was established to account for the activities of the Successor Agency to the former Redevelopment Agency.

The Housing Reserve Special Revenue Fund and Redevelopment Project Fund were closed as of January 31, 2012 as the result of the dissolution of the Redevelopment Agency discussed in Note 16.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgets and Budgetary Accounting

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund budget subject to the following. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is $20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed $20,000 require prior approval of the City Council.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

B. Adjustments to GAAP Basis from Budgetary Basis

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements. The Park Improvement, General Government Project, Storm Drain Development and Transit Area Impact Fee Capital Projects Funds are budgeted on a project length basis and therefore are not comparable on an annual basis. The bylaws of the Economic Development Corporation and the Housing Authority do not require the adoption of an annual budget.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

C. *Expenditures in Excess of Budget*

The Housing Reserve Special Revenue Fund had planning and neighborhood services expenditures in excess of budget in the amount of $71,950. Sufficient resources were available within the fund to finance these expenditures.

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. *Policies*

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

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

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Restricted Cash and Investments -Time certificates of deposit are restricted as to use by agreements that name other parties as beneficiaries and that require the interest on certain certificates to be credited to the parties who provided the funds. None of these certificates may be redeemed until the City has met the terms of its agreements with these parties; on redemption the proceeds of certain certificates must be paid by the City to the beneficiary parties.

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. *Classification*

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

Cash and investments available for operations	$149,501,608
Restricted investments	4,037,048
Total Primary Government cash and investments	153,538,656
Cash and investments available for operations	33,918
Restricted investments	1,037,715
Total Component Unit cash and investments	1,071,633
Cash and investments in Fiduciary Funds (separate statement)	24,508,188
Total cash and investments	$179,118,477

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

C. *Investments Authorized by the California Government Code and the City's Investment Policy*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	$50,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	$5 million or 10%
Commercial Paper	270 Days	Top Rating Category	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

(A) Eligible Commercial Paper and Medium Term Corporate Notes combined may not represent more than 10% of the outstanding paper of an issuing corporation.

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
U.S. Government Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	$50,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

(A) The combined total of commercial paper and medium term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

E. Investments Authorized for Terrace Gardens Inc.

Terrace Gardens, Inc. investments conform with the California Government Code.

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

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

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
City:				
U.S. Government Agency Issues	$20,092,445	$9,173,720	$46,207,826	$75,473,991
Corporate Notes		4,043,010	5,084,099	9,127,109
Commercial Paper	2,443,344			2,443,344
U.S. Treasury Notes	2,016,480	2,012,880	5,028,735	9,058,095
California Local Agency Investment Fund	76,092,693			76,092,693
Mutual Funds (U.S. Securities)	3,455,676			3,455,676
Terrace Gardens, Inc.:				
Certificates of Deposit	785,165			785,165
Total Investments	$104,885,803	$15,229,610	$56,320,660	176,436,073
Demand Deposits - City of Milpitas				2,395,936
Demand Deposits - Terrace Gardens				286,468
Total Cash and Investments				$179,118,477

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2012 these investments matured in an average of 268 days.

Mutual funds are available for withdrawal on demand and at June 30, 2012 matured in an average of 52 days.

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. *Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm/A-1	AA+	Total
U.S. Government Agency Issues	$1,996,680	$73,477,311	$75,473,991
Corporate Notes	1,006,600	8,120,509	9,127,109
Commercial Paper	2,443,344		2,443,344
Mutual Funds (U.S. Securities)	3,455,676		3,455,676
Totals	$8,902,300	$81,597,820	90,500,120
Not rated:			
California Local Agency Investment Fund			76,092,693
Exempt from credit rate disclosure:			
U.S. Treasury Notes			9,058,095
Total Investments			$175,650,908

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2012, all of Terrace Gardens' Time Certificate of Deposits were fully insured by Federal Deposit Insurance.

H. *Significant Investments*

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2012:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal agency securities	$36,307,805
Federal Farm Credit Bank	Federal agency securities	20,112,360
Federal National Mortgage	Federal agency securities	14,000,068

Investments in the securities of any individual issuers, other than U.S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of Agency Fund investments were as follows at June 30, 2012:

Issuer	Investment Type	Amount
HSBC Finance Corp	Commercial paper	$2,443,344

NOTE 4 - INTERFUND TRANSACTIONS

A. *Transfers Between Funds*

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
Major Funds:			
General Fund	Housing Reserve Special Revenue Fund	$1,032,754	(A)
General Fund	Redevelopment Project Capital Projects Fund	2,274,098	(A)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	240,047	(A)
General Fund	Hetch-Hetchy Ground Lease Special Revenue Fund	2,711	(A)
General Fund	Water Utility Enterprise Fund	1,703,840	(A)
General Fund	Recycled Water Utility Enterprise Fund	151,102	(A)
General Fund	Sewer Utility Enterprise Fund	1,434,209	(A)
Economic Development Corporation Special Revenue Fund	Redevelopment Project Capital Projects Fund	397,806	(B)
Economic Development Corporation Special Revenue Fund	Street Improvement Capital Projects Fund	4,237	(B)
Economic Development Corporation Special Revenue Fund	Transit Area Impact Fee Fund	1,743,117	(C)
Housing Reserve Special Revenue Fund	General Fund	374,253	(E)
Housing Authority Special Revenue Fund	Economic Development Corporation Special Revenue Fund	4,200,000	(D)
Redevelopment Project Capital Projects Fund	General Fund	1,801,218	(E), (F)
Redevelopment Project Capital Projects Fund	Economic Development Corporation Special Revenue Fund	9,806,734	(A)
Redevelopment Project Capital Projects Fund	Housing Reserve Special Revenue Fund	4,255,330	(A), (G)
Street Improvement Capital Projects Fund	General Fund	530,000	(F)
Street Improvement Capital Projects Fund	Economic Development Corporation Special Revenue Fund	194,812	(F)
Street Improvement Capital Projects Fund	Public Art Capital Projects Fund	1,000,000	(F)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	1,600,000	(F)
Street Improvement Capital Projects Fund	Water Utility Enterprise Fund	18,500	(F)
Transit Area Impact Fee Fund	Street Improvement Capital Projects Fund	5,000	(F)
Water Utility Enterprise Fund	Recycled Water Utility Enterprise Fund	1,137,000	(F)
Recycled Water Utility Enterprise Fund	Water Utility Enterprise Fund	3,222	(B)
Sewer Utility Enterprise Fund	Economic Development Corporation Special Revenue Fund	3,598	(F)
Non-Major Funds:			
Solid Waste Reduction and Services Special Revenue Fund	Economic Development Corporation Special Revenue Fund	1,569	(B)
Park Improvement Capital Project Fund	Economic Development Corporation Special Revenue Fund	200,000	(F)
General Government Project Capital Project Funds	General Fund	1,500,000	(F)
General Government Project Capital Project Funds	Economic Development Corporation Special Revenue Fund	233,804	(F)
General Government Project Capital Project Funds	Solid Waste Reduction and Services Special Revenue Fund	60,000	(F)
General Government Project Capital Project Funds	Lighting and Landscape Maintenance District Special Revenue Fund	200,000	(F)
Storm Drain Development Capital Project Fund	Economic Development Corporation Special Revenue Fund	28,590	(F)
Total Interfund Transfers		$36,137,551	

The reasons for these transfers are set forth below:

(A) Reimbursement of costs incurred
(B) Return of unused capital projects funds
(C) Transfer Park In Lieu Fees for payment related to purchase of McCandless property
(D) Transfer of property to the newly created Housing Authority
(E) Return property held for resale transferred to the City in 2011
(F) Transfer of capital projects amounts
(G) Return excess Low and Moderate Income Housing set-aside

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was $20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bears simple interest of 10% annually. The Agency repaid $3.6 million of the advance during the fiscal year and the balance of the advance, including principal and accrued interest, was $21,670,757 as of January 31, 2012. With the dissolution of the Agency effective February 1, 2012, the Successor Agency assumed the obligation to repay the advance and has recorded a loan payable to the General Fund as discussed in Notes 5L and 16 below.

On May 6, 2008, the City approved the purchase of 0.75 million gallons per day wastewater treatment capacity at the San Jose/Santa Clara Sanitary District via a purchase from the Cupertino Sanitary District (CuSD). The capacity is for build-out of the Transit Area Specific Plan. Funding for this purchase was included in the Transit Area Development Impact Fee Program. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. Therefore, the Redevelopment Project Capital Projects Fund advanced $4,549,161 to the Transit Area Impact Fee Capital Projects Fund to cover the payment to CuSD and $200,000 to cover other associated costs. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2012, the balance of the advance including principal and accrued interest was $5,468,028.

During fiscal year 2010 the Redevelopment Project Capital Projects Fund advanced $1,330,000 to the Transit Area Development Impact Fee Capital Projects Fund for the preparation costs of the Transit Area Specific Plan. The Sewer Utility Enterprise Fund advanced $4,356,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with the main sewage pump station improvements in the Transit Area. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2012, the balance of the Economic Development Corporation Special Revenue Fund advance including principal and accrued interest was $1,529,500 and the balance of the Sewer Utility Enterprise Fund advance including principal and accrued interest was $5,155,592.

During fiscal year 2011 the Redevelopment Project Capital Projects Fund advanced $2,550,000 to the Transit Area Development Impact Fee Capital Projects Fund for the Light Rail Median Landscaping Project. The advance is due on August 2, 2030 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. At June 30, 2012, the balance of the advance including principal and accrued interest was $2,781,247.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced $6,800,000 and $1,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of two land parcels. The $6,800,000 advance was due on April 17, 2037, and the $1,800,000 advance was due on February 15, 2031. Both advances bore simple interest of 5% annually. With the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the land purchased with the $1,800,000 advance as a housing asset. Therefore, the advance, with a balance of $1,830,822 at January 31, 2012, was forgiven by the Housing Reserve Fund and the Housing Authority Special Revenue Fund received the land held for resale. The balance of the $6,800,000 advance, including principal and accrued interest, was $7,094,356 as of January 31, 2012. With the dissolution of the Agency, the Successor Agency assumed the obligation to repay the advance to the Housing Authority as discussed in Notes 5L and 16 below.

C. Internal Balances

Internal balances are presented in the entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - LOANS RECEIVABLE

The City and Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012. In addition, the General Fund loan to the Redevelopment Project Capital Projects Fund was assumed by the Successor Agency to the Milpitas Redevelopment Agency.

These loans were comprised of the following at June 30, 2012:

Housing Authority Loans:	
Rehabilitation Loans	$3,290,896
Milpitas Housing Associates	4,439,502
Parc Metropolitan Housing Development	213,674
Montague Parkway Associates, LP	980,301
Parc North Associates LLC	1,531,951
Mid-Peninsula Milpitas Affordable Housing Associates	15,568,090
KB Home South Bay Inc.	1,800,000
Western Pacific Housing Inc.	1,957,000
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	2,558,662
Terracare Associates	84,565
Successor Agency	6,854,417
Total Housing Authority Loans Receivable	40,079,058
General Fund Loan:	
Successor Agency	9,444,474
Total Loans Receivable	49,523,532
Less: Allowances for Doubtful Accounts	(16,298,891)
Net Carrying Value	$33,224,641

NOTE 5 - LOANS RECEIVABLE (Continued)

A. Rehabilitation Loans

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2012 the City had outstanding rehabilitation loans of $3,290,896 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2012, the City received $166,100 from all participants, and made new loans totaling $88,561.

B. Milpitas Housing Associates Loan

In fiscal 1997, the Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, $3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During the year ended June 30, 2012, the Agency and Housing Authority received a payment of $229,566. As of June 30, 2012, principal and accrued interest totaled $4,439,502.

C. Parc Metropolitan Housing Development Loans

The Redevelopment Agency provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the period February 1, 2012 to June 30, 2012, the Housing Authority received principal payments of $2,780 and as of June 30, 2012, there were $213,674 in loans outstanding.

D. Montague Parkway Associates, LP

The Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, $1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal of $37,996 was paid in fiscal 2012. As of June 30, 2012, the outstanding balance totaled $980,301.

E. Parc North Associates LLC Loan

In September 2003, the Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of $1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. As of June 30, 2012, there were $1,531,951 of such loans outstanding.

NOTE 5 - LOANS RECEIVABLE (Continued)

F. Mid-Peninsula Milpitas Affordable Housing Associates

In December 2005, the Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of $1 million to the Developer and will provide a development loan up to $14.6 million to the Developer. No interest is accrued on the first $5 million of loan proceeds. The remaining $9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by second deed of trust on the property. Construction began in fiscal year 2006. During fiscal year 2012, interest of $288,789 was accrued, and as of June 30, 2012, principal and accrued interest outstanding totaled $15,568,090.

G. KB Home South Bay Inc. Loans

In January 2005, the Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the Agency would provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately $5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to the current housing market and stricter lending requirements which have created unforeseen challenges in finding qualified buyers for the affordable units, the Agency amended the Agreement in February 2009 to establish an in-lieu housing payment of $1,702,000 to remove the affordable restrictions on 46 of the 67 remaining unsold affordable units ($37,000 for each unit). This amount was paid in equal parts to the Agency and to the County. In addition, the commitment for silent-second mortgages was reduced $2,300,000 to $1,950,000, and the total number of affordable units was reduced from 110 to 64.

As of June 30, 2012, there were $1,800,000 of loans to Parcel C households outstanding. As of June 30, 2012 the Agency had provided subsidies totaling $4,707,542.

H. Western Pacific Housing Inc., Loans

In August 2005, the Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The Agency will provide a grant of $379,480 for permits, fees, and infrastructure. The Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2012, there were $760,000 such loans outstanding.

In August 2008 the Owner Participation Agreement was amended to reduce the number of units to be constructed by Western Pacific Housing Inc. to 137 and provide for the conversion of 7 of the moderate income units to low income units. In addition, in August 2008 the 327 unconstructed units of the project were sold to Lyon Milpitas LLC and the Agency entered into a new Owner Participation Agreement with Lyon Milpitas LLC to complete the construction of the affordable housing units.

NOTE 5 - LOANS RECEIVABLE (Continued)

In September 2006, the Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of $133,333 to each of the very low income households. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2012, there were $1,197,000 of silent second loans outstanding.

I. Shapell Industries

In June 2004, the Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of $800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the 37th month following the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2012, there were $800,000 of silent second loans outstanding.

J. MIL Aspen Associates, Ltd.

In April 2007, the Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a $2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. As of June 30, 2012, principal and accrued interest totaled $2,558,662.

K. Terracare Associates

In June 2012, the City entered into Contract, Promissory Note and Security Agreement with Terracare Associates, for Parks and Maintenance Service and the net negotiated value of the motor vehicles, trailers and equipment was $84,565; this amount is being financed by the City. Terracare and Associates' financing bears no interest and is payable in equal monthly installments of $3,524, over a twenty-four month period over the first two years of the Parks Maintenance Contract in the form of credit deductions from the monthly invoices to the City for parks and maintenance services. As of June 30, 2012, the principal outstanding was $84,565.

NOTE 5 - LOANS RECEIVABLE (Continued)

L. Successor Agency Loans

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was $20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The Agency repaid $3.6 million of the advance during the fiscal year and the balance of the advance, including principal and accrued interest, was $21,670,757 as of January 31, 2012. This loan had previously been reported as an interfund advance. However, with the transfer of the associated liability to the Successor Agency, repayment of the loan is based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 16. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted to reflect the revised interest rate and is now offset with deferred revenue in the General Fund, and this change has been reported as an Extraordinary Item as discussed in Note 16. The balance of the loan as of June 30, 2012 is $9,444,474, which has been offset by an allowance for doubtful accounts in the Statement of Net Assets.

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced $6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was $7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance. However, with the transfer of the housing assets to the Housing Authority Special Revenue Fund and the associated liability to the Successor Agency, repayment of the loan is based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 16. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan and the loan balance was adjusted to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance, therefore the City is unable to determine whether it is collectible from the Successor Agency and has been offset with an allowance for doubtful accounts, and this change has been reported as an Extraordinary Item as discussed in Note 16. The balance of the loan as of June 30, 2012 is $6,854,417.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

The Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

In August 2000, the Agency purchased land from the Santa Clara Valley Transportation Authority in the amount of $6,988,800 which is being held for future development projects. In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33445 and 33490 to allow the conveyance of the above property to the City. However, with the dissolution of the Redevelopment Agency as discussed in Note 16, transfers to the City subsequent to December 31, 2010 that were not committed to a third party for expenditure or encumbrance were to be returned to the Redevelopment Agency. Although the City contends that the transfer in March 2011 was valid, as discussed in Note 16, in November 2012 the City Council approved the conveyance of the property to the Successor Agency. The transfer from the General Fund to the Successor Agency has been recorded as an extraordinary item as of June 30, 2012, as discussed in Note 16.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT (Continued)

In fiscal year 2010 the Agency purchased five housing units for $1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for $305,095, one Centria Subdivision housing unit for $248,056, and four KB Home Subdivision housing units for $1,273,892. One of the KB Home Subdivision units with a book value of $374,253 was sold in August 2011. The units were purchased in order to retain them as affordable housing units and are being held for future resale. Five of the units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of $12,443,137, which is intended to be sold to a developer for development of senior housing with low income housing units. In March 2012, the Economic Development Corporation purchased two additional privately held properties along South Main Street in the amount of $4,200,000 pursuant to the two year extension to the Disposition and Development Agreement with the South Main Senior Lifestyles, LLC, as discussed in Note 7D below, and subsequently transferred the properties to the Housing Authority.

In February 2011, the Agency purchased additional property along South Main Street in the amount of $1,800,000 which is intended to be incorporated into the Midtown Specific Plan for housing development. The purchase of this property had been funded by a loan from the Housing Reserve Special Revenue Fund to the Redevelopment Capital Projects Fund, and with the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the property as a housing asset and the property was transferred to the Housing Authority as the successor housing agency.

In March 2011, the Agency made required findings in accordance with Health and Safety Code Sections 33445 and 33490 to allow the conveyance of all of the above property to the City. The property was held by the General Fund, however, with the dissolution of the Redevelopment Agency as discussed in Note 16, transfers to the City subsequent to December 31, 2010 that were not committed to a third party for expenditure or encumbrance were to be returned to the Redevelopment Agency. The General Fund transferred the five Parc Metro, one Parc Place, one Centria and three of the KB Home Subdivision parcels and the property along South Main Street to the Agency's Housing Reserve Fund as of January 31, 2012. The fourth KB Homes parcel with a carrying value of $374,253 was sold in August 2011 for $250,000, therefore the net sales proceeds were transferred to the Housing Reserve Fund. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012. As of June 30, 2012, title of the land had not been transferred to the Housing Authority, but titles were transferred in July 2012. As of June 30, 2012, land totaling $21,399,645, is being held by the Housing Authority.

NOTE 7 - DEVELOPMENT AGREEMENTS

The City and Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

A. The Crossing at Montague

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% (94 units) of the units to very low income households. On behalf of the developer, the City issued $45,000,000 in tax exempt bonds and $15,000,000 in taxable bonds in June 2000. As of June 30, 2012, the outstanding principal of the debt was $52,000,000. The debt service payments on these bonds are solely the responsibility of the developer.

B. Installment Purchase Agreement

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for $57,750,000 in cash and $135,000,000 payable over eighteen years at no interest, under the Installment Purchase Agreement discussed in Note 16E(3).

The Agency also agreed to re-sell this land to developers for a total of $57,750,000, of which $40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of $2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are part of this land, but not to exceed $5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to serve as the Successor Agency to the Redevelopment Agency and as a result the Successor Agency assumed the obligations of the Agency as of February 1, 2012, including this Installment Purchase Agreement.

C. County of Santa Clara

In August 2006, the Agency entered into a Disposition and Development Agreement with the County of Santa Clara to construct a health center and a public parking garage. Under the terms of the Agreement, the Agency sold a parcel of land to the County for the construction of the health center for $1,862,360. In addition, the Agency entered into a Ground Lease Agreement to lease a parcel of land to the County for 75 years for constructing and operating a public parking garage adjacent to the health center site. The Agency constructed certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements.

With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to serve as the Successor Agency to the Redevelopment Agency and as a result the Successor Agency assumed the obligations of the Agency as of February 1, 2012, including this Ground Lease Agreement.

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

D. *South Main Senior Lifestyles, LLC.*

In August 2009, the Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of "Continuum of Care Senior Housing" (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. The sales price for the Phase 1 Parcel will be $5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or $7,377,871. In addition, the Agency's Housing Reserve Special Revenue Fund will provide a grant in the amount of $7.7 million to support the development and operation of the Phase 1 Parcel project. As of June 30, 2010, the Agency had acquired the properties as discussed in Note 6 above, but had not resold the parcels to the developer.

In March 2011, the Economic Development Corporation assumed the obligations of the Disposition and Development Agreement and on October 18, 2011, a two year extension to the Agreement was approved to include a more extensive high density residential development plan of sixty-three residential units available at affordable housing cost to income-qualified very low and low income households and combine two additional privately held properties and the Housing Authority owned property at 1440 South Main Street with the SMSL development site. During fiscal year 2012, the Economic Development Corporation acquired the properties and transferred them to the Housing Authority as discussed in Note 6 above, but the properties have not been resold to the developer and as of June 30, 2012, the Corporation had not expended any funds on the grant.

E. *Integral Communities McCandless, LLC.*

In August 2010, the Agency entered into an Owner Participation Agreement with Integral Communities McCandless, LLC, to develop 23 acres along McCandless Drive with 92,000 square feet of retail space, 1,328 new residential units, and approximately three acres of new public open space. A grocery store space will be created as part of the retail space and include a permanent covenant that will ensure a grocery store will remain at that location. Fifteen percent of the total residential units (199 of 1,328 units constructed) will be for moderate income households. Under the terms of the Agreement, the Agency will provide financial assistance up to $41.3 million consisting of: $29,153,673 for the cost of offsite infrastructure and associated development fees, $5,846,327 or $29,378 per unit for restricted unit assistance, and $6,300,000 for the grocery store covenant payments. The Agency will make an annual grocery store covenant payment not to exceed $630,000 annually for up to 10 years for an amount not to exceed $6.30 million. A key provision in the Agreement limits the amount of annual assistance from the Agency to the additional tax increment revenue generated from the project and received by the Agency each year. The developer will not receive any annual assistance/reimbursement payments beyond 24 years. After 24 years, all assistance/reimbursements will stop and the Agency will retain full share of the tax increment revenue from the project until the Project Area expires.

As a result of the dissolution of the Redevelopment Agency as of February 1, 2012 as disclosed in Note 16, the City agreed to serve as the Successor Agency to the Redevelopment Agency. The developer exercised its right to terminate the OPA effective as of January 26, 2012, and the City, acting as the Successor Agency, acknowledged and confirmed the termination of the OPA and release of the Property from the OPA with a confirmation letter dated February 7, 2012.

NOTE 7 - DEVELOPMENT AGREEMENTS (Continued)

F. Sun Power Corporation

In February 2011, the Agency entered into a Financing Agreement with SunPower Corporation to reimburse the Corporation for the acquisition and installation of capital equipment for the purpose of producing SunPower solar panels. The Corporation intends to contract with Flextronics Americas to receive shipments of specialized manufacturing equipment and to install and operate the equipment for an initial period of five years and hire and continually employ at least 80 new employees (employment goal). Under the terms of the Agreement, the Agency will reimburse the Corporation $700,000 after receiving documentation of achieving the employment goal and confirming the applicable equipment was installed. The Agency also committed to reimburse the Corporation an additional $200,000 per year over a four year period ending on January 1, 2014, if the Corporation continues to meet the manufacturing and employment obligations and has unreimbursed capital equipment and facilities improvement costs. The funding will be incrementally forgiven so long as the Corporation does not cease its relationship with Flextronics Americas or stop using the site for industrial/manufacturing purposes on or before January 1, 2014, and the agreement terminates January 1, 2016. As of January 31, 2012, the Agency has not expended any funds under the agreement. With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to serve as the Successor Agency to the Redevelopment Agency and as a result the Successor Agency assumed the obligations of the Agency as of February 1, 2012, including this reimbursement Agreement.

NOTE 8 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is $5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	32

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2011	Additions	Retirements	Transfers	Transfer to Successor Agency	Balance at June 30, 2012
Capital assets not being depreciated:						
Land	$65,336,752	$21,780,000	($5,110,381)		($23,394,884)	$58,611,487
Construction in progress	85,994,772	2,766,172	(545,857)	($879,328)	(78,533,256)	8,802,503
Total capital assets not being depreciated	151,331,524	24,546,172	(5,656,238)	(879,328)	(101,928,140)	67,413,990
Capital assets being depreciated:						
Buildings and improvements	96,323,815					96,323,815
Other improvements	24,383,328			879,328		25,262,656
Machinery and equipment	35,278,055	344,500	(964,946)			34,657,609
Landscape system	29,633,961					29,633,961
Storm system	74,299,423					74,299,423
Street system	221,597,178	4,012,382				225,609,560
Traffic system	18,537,680	285,534				18,823,214
Total capital assets being depreciated	500,053,440	4,642,416	(964,946)	879,328		504,610,238
Less accumulated depreciation for:						
Buildings and improvements	(39,829,931)	(3,654,670)				(43,484,601)
Other improvements	(15,365,716)	(879,742)				(16,245,458)
Machinery and equipment	(19,780,759)	(2,260,582)	877,636			(21,163,705)
Landscape system	(10,528,203)	(593,775)				(11,121,978)
Storm system	(68,125,808)	(758,294)				(68,884,102)
Street system	(161,463,089)	(5,758,644)				(167,221,733)
Traffic system	(10,134,538)	(697,447)				(10,831,985)
Total accumulated depreciation	(325,228,044)	(14,603,154)	877,636			(338,953,562)
Net capital assets being depreciated	174,825,396	(9,960,738)	(87,310)	879,328		165,656,676
Governmental activity capital assets, net	$326,156,920	$14,585,434	($5,743,548)		($101,928,140)	$233,070,666

With the dissolution of the Redevelopment Agency as discussed in Note 16, a Successor Agency assumed the capital assets of the Agency as of February 1, 2012, which has been reported as a transfer above and as an Extraordinary Item in the Statement of Activities.

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2012:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Midtown Parking Garage East	$140,688	$140,688	
Library Project	90,154	90,154	
Senior Center	6,127	6,127	
City Building Improvements	473,000	473,000	
Storm Pump Station Improvements	846	846	
Soundwall Renovation	59,521	59,521	
Department of Energy - Grant Project	32,732	32,732	
Abel St Transit Connection	23,556	3,236	$20,320
Library Design	22,132	8,964	13,168
City Building Improvements	10,681	7,370	3,311
Department of Energy - Grant Project	8,545	6,619	1,926
Street Light Pole Improvements	56,509	31,890	24,619
City Hall AV Equipment	1,500,000	491,165	1,008,835
Library Project	400,000	18,771	381,229
City Building Improvements	200,000	77,093	122,907
Alviso Adobe Renovations	5,594,272	3,364,134	2,230,138
Park Irrigation System Rehabilitation	400,000	365,881	34,119
Cardoza Park Playground	1,175,000	898,272	276,728
Park Renovation Project	200,000	19,602	180,398
Main Street Park	350,000		350,000
Department of Energy - Grant Project	63,786	37,649	26,137
PEG Access Support	540,000	540,000	
2009 Finance System Upgrade	125,000	108,276	16,724
McCarthy Blvd Landscape	200,000		200,000
Fire Station Improvements	1,500,000	180,715	1,319,285
City Building Improvements	100,000	13,113	86,887
Midtown Parking Garage	113,804	2,432	111,372
Storm Drain System	300,000	82,379	217,621
Emergency Pump Station	100,000		100,000
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	216,729	39,065	177,664
Storm Pump Station Improvements	28,590	526	28,064
Light Rail Median Lane	6,005,000	1,702,283	4,302,717
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
Total construction in progress	$20,424,672	$8,802,503	$11,622,169

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2011	Additions	Transfers	Balance at June 30, 2012
Capital assets not being depreciated:				
Land	$1,133,079			$1,133,079
Construction in progress	18,815,820	$3,534,586	($434,325)	21,916,081
Total capital assets not being depreciated	19,948,899	3,534,586	(434,325)	23,049,160
Capital assets being depreciated:				
Distribution facilities	67,261,796			67,261,796
Service lines	12,473,544		416,424	12,889,968
Sewer lines	72,581,976		17,901	72,599,877
Capacity rights	39,738,083	1,609,364		41,347,447
Total capital assets being depreciated	192,055,399	1,609,364	434,325	194,099,088
Less accumulated depreciation for:				
Distribution facilities	(41,582,842)	(1,170,765)		(42,753,607)
Service lines	(4,710,749)	(225,657)		(4,936,406)
Sewer lines	(38,323,764)	(1,447,925)		(39,771,689)
Capacity rights	(11,589,757)	(1,241,195)		(12,830,952)
Total accumulated depreciation	(96,207,112)	(4,085,542)		(100,292,654)
Net capital assets being depreciated	95,848,287	(2,476,178)	434,325	93,806,434
Business-type activity capital assets, net	$115,797,186	$1,058,408		$116,855,594

Business-type activities construction in progress comprised the following at June 30, 2012:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Sewer I/I Structure	$4,800,857	$4,769,942	$30,915
Main SPS Site Improvements	2,302,000	2,034,750	267,250
Sewer System Replacement	1,500,000	253	1,499,747
Pressure Reducing Valve Replacement	320,000	37,733	282,267
Well Upgrade Program	4,645,000	1,708,217	2,936,783
South Milpitas Water Line Replacement	3,440,000	3,436,603	3,397
Water System Seismic Improvements	4,187,951	599,350	3,588,601
Gibraltar Reservoir & Pump Station	9,025,000	8,726,147	298,853
Ayer Reservoir & Pump Station Improvements	900,000	558,293	341,707
Recycled Water Site Improvements	600,000	23,982	576,018
Water System Replacement 08-09	700,000	20,190	679,810
Hydrant Replacement	170,000	621	169,379
Total construction in progress	$32,590,808	$21,916,081	$10,674,727

NOTE 8 - CAPITAL ASSETS (Continued)

C. *Terrace Gardens, Inc.'s Capital Assets*

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended June 30, 2012:

	Balance December 31, 2010	Additions	Balance December 31, 2011
Capital assets not being depreciated:			
Land	$1,565,277		$1,565,277
Capital assets being depreciated:			
Buildings	12,794,570	$383,894	13,178,464
Furniture	202,799		202,799
Office equipment	60,710		60,710
Improvements	200,423		200,423
Total capital assets being depreciated	13,258,502	383,894	13,642,396
Less accumulated depreciation	(5,573,021)	(328,613)	(5,901,634)
Net capital assets being depreciated	7,685,481	55,281	7,740,762
Total capital assets, net	$9,250,758	$55,281	$9,306,039

D. *Depreciation Allocation*

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
General Government	$4,485,275
Public Works	7,726,093
Parks and Recreation	635,661
Police	684,215
Fire	296,442
Internal Service Fund	775,468
Total Governmental Activities	$14,603,154
Business-Type Activities	
Water Utility	$1,376,205
Recycled Water Utility	20,217
Sewer Utility	2,689,120
Total Business-Type Activities	$4,085,542
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	$328,613

NOTE 8 - CAPITAL ASSETS (Continued)

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 8.5% of the total plant capacity. The City has capitalized its share in the amount of $22,179,725. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2012 the City's operation and maintenance share was approximately 8.5% of the total WPCP operations.

Under a plan approved by the Regional Water Resources Control Board, the City is responsible for approximately 8.1% of the costs to be incurred by the WPCP to mitigate damage to an endangered species habitat. Approved in 1995, the South Bay Water Recycling Program (SBWRP) consisted of constructing a water recycling distribution system that would reduce the volume of wastewater discharged into the San Francisco Bay by the treatment plant. This Program was estimated to cost a total of $140 million for Phase I and $100 million for Phase II, of which the City's share will approximate 8.1%. At June 30, 2007, Phase I and Phase II construction for Milpitas' infrastructure was completed and the City capitalized its' share of the Program in the amount of $14,618,561.

During fiscal year 2010, the City also purchased 0.75 million gallons per day of wastewater treatment capacity from the Cupertino Sanitary District in the amount of $4,549,161. The capacity is for build-out of the Transit Area Specific Plan. Funding for this purchase was included in the Transit Area Development Impact Fee Program.

NOTE 9 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

A. Current Year Transactions and Balances

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Transfer to Successor Agency	Balance June 30, 2012	Current Portion
2003 Redevelopment Agency Tax Allocation Bonds							
2%-5.25%, due September 1, 2032	$200,000,000	$168,940,000		$5,410,000	$163,530,000		
Installment Purchase Agreement with the County of Santa Clara							
due June 30, 2023	135,000,000	33,977,967			33,977,967		
Purchase Agreement with Mission West Properties							
0%, due February 15, 2016	21,780,000		$21,780,000	7,743,117		$14,036,883	$3,000,000
Total Governmental Activity Debt	$356,780,000	$202,917,967	$21,780,000	$13,153,117	$197,507,967	$14,036,883	$3,000,000
Business-type Activity Debt:							
Sewer Certificates of Participation, 2006 Series A							
3.4% - 4.20%, due November 1, 2026	$9,535,000	$8,090,000		$380,000		$7,710,000	$395,000
Total Business-type Activity Debt	$9,535,000	$8,090,000		$380,000		$7,710,000	$395,000

With the dissolution of the Redevelopment Agency as discussed in Note 16, a Successor Agency assumed the long-term debt of the Agency as of February 1, 2012 which has been reported as a transfer above and as an Extraordinary Item in the Statement of Activities. For a detailed discussion of the 2003 Tax Allocation Bonds and the Installment Purchase Agreement, see Note 16E below.

B. Mission West Purchase Agreement

In February 2011, the Agency entered into an Agreement with Mission West Properties to purchase 10.89 acres of land in three parcels for $21,780,000 in the Milpitas Redevelopment Project Area No. 1 to be used as open space. The Agency assigned the Agreement to the Economic Development Corporation in March 2011. A down payment of $3 million was due on or before December 31, 2011. The remaining balance does not bear interest and is due in four annual installments of $3 million and one final installment. The purchase is to be funded by park in lieu fees collected by the City on certain land parcels as specified in the Agreement. The City agrees to transfer the park in lieu fees to the Corporation as they are collected and the Corporation agrees to pay the same amount to the seller in addition to the annual installments to reduce the outstanding balance of the purchase price. The fifth installment payment is contingent upon the City's receipt of the park in-lieu fees. On the fifth anniversary of the effective date of the Agreement, if the City has not received any park in lieu fees from one of the parcels, the Corporation is to pay $3 million. However, if on the fifth anniversary the City has not received any park in lieu fees from the two remaining parcels, the Corporation need not pay the remaining balance of $3.78 million until the City collects and transfers the park in lieu fees to the Corporation.

NOTE 9 - LONG TERM DEBT (Continued)

C. *Sewer Certificates of Participation, 2006 Series A*

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of $9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2012, net revenues amounted to $7,351,187, which represented coverage of 10.71 over the $686,528 of debt service. In lieu of a reserve fund, the COPs are secured by a $695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

D. *Debt Service Requirements*

Annual debt service requirements are shown below:

	Governmental Activities	Business-Type Activities	
Year Ending June 30	Total Principal	Total Principal	Total Interest
2013	$3,000,000	$395,000	$292,965
2014	3,000,000	405,000	278,965
2015	3,000,000	420,000	264,528
2016	5,036,883	435,000	249,348
2017		450,000	233,193
2018 - 2022		2,530,000	889,984
2023 - 2027		3,075,000	330,770
	$14,036,883	$7,710,000	$2,539,753

E. *Defeased Bonds*

As of June 30, 2012, outstanding balances for defeased debt were $23,975,000 for the Redevelopment Agency 1997 Tax Allocation Bonds and $2,410,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET ASSETS AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Assets is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Invested in Capital Assets and Capacity Rights, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets. Invested in capital assets, net of related debt for the Governmental Activities is calculated as follows:

Total capital assets	$233,070,666
Total outstanding debt	(14,036,883)
Invested in Capital Assets, Net of Related Debt	$219,033,783

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for low and moderate income housing purposes.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee, the Finance Director. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

Detailed classifications of the City's Fund Balances, as of June 30, 2012, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Funds: Economic Development Corporation	Major Special Revenue Funds: Housing Authority	Major Capital Projects: Street Improvement Fund	Major Capital Projects: Transit Area Impact Fee Fund	Other Governmental Funds	Total
Nonspendable:							
Advances to Other Funds		$9,778,775					$9,778,775
Prepaids, materials, supplies and deposits	$576,896	2,000				$7,155	586,051
Subtotal Nonspendable	576,896	9,780,775				7,155	10,364,826
Restricted for:							
Redevelopment Projects and Programs		21,848,207					21,848,207
Street and Road Improvements and Maintenance				$10,742,916		2,525,850	13,268,766
Housing and community development			$22,190,783			3,396,293	25,587,076
Law enforcement services						210,897	210,897
Solid waste reduction and services						1,620,961	1,620,961
Assessment district services						777,606	777,606
Hetch-Hetchy ground lease						1,698,405	1,698,405
Park improvement projects						14,099,773	14,099,773
Storm drain projects						1,000,829	1,000,829
Subtotal Restricted		21,848,207	22,190,783	10,742,916		25,330,614	80,112,520
Committed to:							
PERS stabilization	5,432,703						5,432,703
Assigned to:							
Library project	5,655,699						5,655,699
Uninsured claims payable	2,816,694						2,816,694
Sales and use taxes	4,613						4,613
Public art projects						315,458	315,458
Other contracts	495,165						495,165
General government capital projects	4,931,885					2,576,164	7,508,049
Subtotal Assigned	13,904,056					2,891,622	16,795,678
Unassigned:							
General Fund	15,800,089						15,800,089
Other governmental fund deficit residuals					($12,234,252)		(12,234,252)
Subtotal Unassigned	15,800,089				(12,234,252)		3,565,837
Total fund balances (deficit)	$35,713,744	$31,628,982	$22,190,783	$10,742,916	($12,234,252)	$28,229,391	$116,271,564

C. *Minimum Fund Balance Policies*

The City's Budget Guidelines and Fiscal Policies require the City to strive to maintain the following fund balances:

1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.

2) Maintain a $5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished after the 15% requirement of the operating expenditures has been met.

NOTE 10 – NET ASSETS AND FUND BALANCES (Continued)

3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside $500,000 annually from the General Fund reserve for this purpose.

4) Other reserves designated in the General Fund for investment portfolio market gain, and sick leave payable will be calculated and adjusted annually at appropriate levels.

5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.

6) Maintain $2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least $2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.

7) Maintain at least $300,000 in the Recycled Water Utility Enterprise Fund for the purpose of infrastructure replacement and enhancement.

8) A minimum 30% of the estimated annual Gas Tax revenues will be set aside in the Street Fund to provide for street repair emergencies and other unanticipated traffic safety projects.

9) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

10) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of $250,000 in the Equipment Management Internal Service Fund.

11) Maintain unassigned fund balance of at least 15% of the annual operating revenues in the Redevelopment Project Capital Projects Fund for unforeseen capital needs and economic development opportunities such as land assemblage and developer assistance.

D. Fund Balance Deficit

The Transit Area Impact Fee Capital Projects Fund had deficit fund balance of $12,234,252. The deficit will be eliminated by future revenues.

NOTE 11 - PERS PENSION PLAN

A. *CALPERS Safety and Miscellaneous Employees Plans*

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2012, are summarized as follows:

	Safety		Miscellaneous	
Hire Date	Prior to April 8, 2012	After April 8, 2012	Prior to October 9, 2011	After October 9, 2011
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement Age	50	55	55	60
Monthly benefits, as a % of annual salary	3%	3%	2.7%	2%
Required employee contribution rates	9%	9%	7%	7%
Required employer contribution rates	29.573%	29.573%	18.626%	18.626%

	Safety	Miscellaneous
Actuarially required contributions	$4,601,765	$2,118,400

CALPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Safety Plan			
June 30, 2010	$4,139,308	100%	$0
June 30, 2011	4,390,648	100%	0
June 30, 2012	4,601,765	100%	0
Miscellaneous Plan			
June 30, 2010	$3,025,165	100%	$0
June 30, 2011	2,902,359	100%	0
June 30, 2012	2,118,400	100%	0

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2010, an investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately 6 percent of the net balance is amortized annually over a rolling thirty year period.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Valuation Date	Actuarial Value of Assets	Actuarial Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	$156,862,634	$186,162,470	$29,299,836	84.3%	$18,863,367	155.327%
2009	164,507,549	203,923,730	39,416,181	80.7%	18,838,475	209.232%
2010	172,166,024	215,540,204	43,374,180	79.9%	19,084,180	227.278%

Miscellaneous Plan:

Valuation Date	Actuarial Value of Assets	Actuarial Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2008	$110,710,907	$127,085,071	$16,374,164	87.1%	$22,479,521	72.840%
2009	117,726,837	143,591,380	25,864,543	82.0%	21,969,787	117.728%
2010	124,779,616	151,572,411	26,792,795	82.3%	20,504,290	130.669%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS has reported that the value of the net assets in the Plans held for pension benefits changed during the year ended June 30, 2010 (the most recent available) as follows:

	Safety	Miscellaneous
Beginning Balance 6/30/09	$164,507,549	$117,726,837
Contributions received	6,097,852	5,072,807
Benefits and Refunds Paid	(8,451,772)	(5,337,915)
Miscellaneous Adjustments	(130,746)	(177,897)
Expected Investment Earnings Credited	12,649,636	9,094,855
Expected Actuarial Value of Assets 6/30/10	$174,672,519	$126,378,687
Market Value of Assets 6/30/10	$134,854,767	$97,917,083
Actuarial Value of Assets 6/30/10	$172,166,024	$124,779,616

Additional disclosures will be included when made available by PERS.

B. Public Agency Retirement System

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of $17,753 and the employee's required contributions of $71,005 were made during the fiscal year ending June 30, 2012.

NOTE 12 - EMPLOYEE BENEFITS

A. Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

B. Retiree Medical Benefits

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2012 there were 217 participants receiving these health care benefits.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

The City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15% above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized below.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired prior to July 1, 1995	At least 5	If retirement occurred between July 1, 1990 and September 1, 2002: - Any employee only medical premium rate If retirement occurs after September 1, 2002: - Benefit cap
	Hired on or after July 1, 1995 and retired on or after September 1, 2002	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Fire Safety (IAFF)	Retired prior to January 1 , 1990	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($67.20 per month in 2012)
	Retired January 1, 1990 - December 31, 1994	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired on or before February 20, 2007	1 but less than 10	50% of the employee only premium
		At least 10	100% of the employee only premium
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10	Up to 50% of the lesser of the retiree cap and the premium rate
		At least 10	Up to 100% of the lesser of the retiree cap and the premium rate
	Hired on or after January 1, 1995 and retire on or before February 20, 2007	1 but less than 10	Up to 25% of the employee only premium
		10 but less than 15	Up to 50% of the employee only premium
		15 but less than 20	Up to 75% of the employee only premium
		At least 20	Up to 100% of the employee only premium
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10	25% of the lesser of the retiree cap and premium rate
		10 but less than 15	50% of the lesser of the retiree cap and premium rate
		15 but less than 20	75% of the lesser of the retiree cap and premium rate
		At least 20	100% of the lesser of the retiree cap and premium rate

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Retired Prior to January 1 , 1989	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($67.20 per month in 2012)
	Hired prior to January 1, 1996	At least 5	If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap
	Hired on or after January 1, 1996	1 but less than 9 full years of service	Up to 25% of the retiree cap
		9 but less than 14 full years of service	Up to 50% of the retiree cap
		14 but less than 19 full years of service	Up to 75% of the retiree cap
		At least 19 full years of service	Up to 100% of the retiree cap
Employee Association (MEA)	Hired prior to June 30, 1996	At least 5	If retirement occurs on or before July 17, 1989 - None If retirement occurs between July 17,1989 and March 18, 2003 - Any employee only medical premium rate If retirement occurs after March 18, 2003 -Benefit cap
	Hired on or after June 30, 1996	1 but less than 10	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City
		10 but less than 15	Up to 50% of the lowest cost employee only premium
		15 but less than 20	Up to 75% of the lowest cost employee only premium
		At least 20	Up to 100% of the lowest cost employee only premium
Supervisors (MSA)	Hired prior to June 30, 1995	At least 5	If retirement occurs before November 27, 2007 -Any employee only medical premium rate If retirement occurs on or after November 27, 2007 -Benefit cap
	Hired on or after June 30, 1995 and retire after November 27, 2007	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap

Funding Policy and Actuarial Assumptions

The City's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City's annual budget approved by Council. The annual required contribution (ARC) for the year ended June 30, 2012 was determined as part of a July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.61% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates of 5.50 – 7.60% for medical and 3.0% for dental. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets is based upon the balance in the CERBT Trust. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The actuarial study indicates that as of July 1, 2011, the actuarial accrued liability was estimated to be $48,698,709.

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2012, the City contributed the ARC of $3,343,969 to the Plan. As a result, the City has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	$3,343,969
Adjustment to annual required contribution	0
Annual OPEB cost	3,343,969
Contributions made	(3,343,969)
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2011	0
Net OPEB obligation (asset) June 30, 2012	$0

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2011, amounted to $48,698,709. The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income net of current year premiums resulted in assets with CERBT of $20,776,840 as of June 30, 2012, which partially reduce the unfunded actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2010, 2011 and 2012 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2010	$3,356,836	$3,356,836	100%	$0
June 30, 2011	3,494,309	3,494,309	100%	0
June 30, 2012	3,343,969	3,343,969	100%	0

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
7/1/2007	$9,496,160	$36,371,140	$26,874,980	26.11%	$41,522,000	64.72%
7/1/2009	9,931,187	41,161,985	31,230,798	24.13%	42,390,000	73.67%
7/1/2011	19,032,986	48,698,709	29,665,723	39.08%	41,200,000	72.00%

C. *Accrued Vacation and Sick Leave Liabilities*

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2012, sick leave benefits payable decreased by $107,695 and vacation benefits payable decreased by $525,006. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Assets.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2011	$4,999,545	$235,448	$4,267,121	$160,632
Additions	3,346,481	287,600	1,477,710	137,514
Payments and adjustments	(3,863,243)	(295,844)	(1,598,337)	(124,582)
Balance as of June 30, 2012	$4,482,783	$227,204	$4,146,494	$173,564
General Government	$511,095		$248,904	
Building	130,444		96,661	
Public Works	124,250		39,060	
Engineering and Planning	253,665		240,550	
Recreation	87,214		49,890	
Police	2,355,539		1,351,245	
Fire	974,103		2,101,298	
Water Utility		$113,602		$86,782
Sewer Utility		113,602		86,782
Internal Service	46,473		18,886	
Total	$4,482,783	$227,204	$4,146,494	$173,564
Long-Term Portion:				
Governmental activities	$3,884,135		$3,825,996	
Business-type activities	46,473	$119,806	18,886	$126,702
Total long term portions	$3,930,608	$119,806	$3,844,882	$126,702
Current Portion:				
Governmental activities	$552,175		$301,612	
Business-type activities		$107,398		$46,862
Total current portions	$552,175	$107,398	$301,612	$46,862

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

NOTE 13 - RISK MANAGEMENT

A. Risk Pool

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides $5,000,000 of self-funded general liability and auto coverage and $25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's $100,000 deductible. ABAG Plan also provides $1,000,000 of employee theft coverage in excess of the City's $5,000 deductible, and $2,000,000 of cyber crime coverage (with various sub-limits depending on the type of cyber crime) in excess of the City's $50,000 deductible. ABAG Plan provides coverage for property damage up to $1 billion. The City retains a self-insured amount of $5,000 for each property and $5,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2012 the City contributed $485,384 for current year coverage.

ABAG Plan is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG Plan funding policies and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's annual contributions to ABAG Plan are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

B. Workers Compensation

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of $20,000,000. The City has a deductible or uninsured liability of up to $750,000 per claim for miscellaneous employees and $1,000,000 for public safety employees.

C. Dental

The City is self-insured for dental care for miscellaneous employees up to a maximum of $14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2012 the City paid $739,111 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

NOTE 13 - RISK MANAGEMENT (Continued)

D. *Liability for Uninsured Claims*

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2012			
	Worker's Compensation	General Liability	Total	2011
Beginning balance	$2,794,035	$658,386	$3,452,421	$3,314,258
Liability for current fiscal year claims	1,155,930	662,490	1,818,420	1,469,147
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	(293,743)	(253,325)	(547,068)	(495,729)
Claims paid	(799,541)	(206,348)	(1,005,889)	(835,255)
Ending balance	$2,856,681	$861,203	$3,717,884	$3,452,421
Due in one year	$824,615	$139,377	$963,992	$1,015,516

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

A. *Litigation*

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

B. *Federal and State Grant Programs*

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. *Redevelopment Agency Pass-Through Payments*

The Redevelopment Agency is limited in the amount of cumulative tax increment that it can collect. During fiscal year 1997 the Agency amended the tax increment limitation for Project Area Number 1 from $240 million to $502 million. The limitation was subsequently increased to $2.4 billion in 2003 and to $6.7 billion in 2010. However, State law requires that the Agency commence statutory pass-through payments to other taxing entities in the Project Area when the original limit is reached. During the period July 1, 2011 to January 31, 2012, the Agency made pass-through payments in the amount of $886,221. With the dissolution of the Redevelopment Agency as discussed in Note 16, pass-through obligations are paid by the County beginning February 1, 2012.

D. *Encumbrances*

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2012 were as follows:

Major Governmental Funds:	
General Fund	$499,778
Economic Development Corporation	1,133,035
Housing Authority Fund	1,137
Street Improvement Fund	3,634,545
Transit Area Impact Fee Fund	189,521
Non-Major Governmental Funds	981,351
Total Encumbrances	$6,439,367

NOTE 15 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2012 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2012
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	$275,000 - 360,000	2013-2017	$1,575,000
LID #18	1999	5.85%	200,000 - 285,000	2013-2019	1,695,000
LID #18 Refunding	1998	5.65%	650,000 - 730,000	2013-2015	2,065,000
LID #20	1999	5.65 - 5.70%	970,000 - 1,355,000	2013-2019	8,075,000
Total					$13,410,000

The Local Improvement District #9R and 12R issue was called on September 2011.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. REDEVELOPMENT DISSOLUTION

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

ABx1 26 and AB1484 created three regulatory authorities, the Successor Agency Oversight Board, State Controller and Department of Finance (DOF), to review former Agency's asset transfer, obligation payments and wind down activities. ABx1 26 specifically directs the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. The State Controller's Office completed its asset transfer review of the Milpitas Redevelopment Agency for the period from January 1, 2011 through January 31, 2012 in August 2012. The review resulted in a demand that the City return assets comprised of cash and investments, property held for resale and capital assets totaling $147,108,600 be transferred to the Milpitas Redevelopment Successor Agency. However, the results of the State Controller's review also included an incomplete list of housing assets that should have been transferred to the Housing Successor Agency, instead of the Milpitas Redevelopment Successor Agency.

Subsequent to the State Controller's review, the DOF also reviewed the housing assets inventory list and approved a majority of the non-cash assets as Housing Assets. The assets that were approved included all the housing loans that were committed to third parties, housing properties held for resale, and land planned for low-moderate income housing purposes. In November 2012, the DOF completed the first phase of the Due Diligence Review (DDR) of the Low and Moderate Housing Fund's cash balance available for allocation to the affected taxing entities. The City complied with the DOF's determination by transmitting the payment of $6,582,557 to the County Auditor-Controller in November 2012.

The City returned property held for resale of $374,253 to the Agency's Housing Reserve Special Revenue Fund and $1,800,000 to the Redevelopment Capital Projects Fund, and $6,988,800 to the Successor Agency, but due to the conflicting orders of the State Controller and DOF and also to protect the Milpitas entities interest, the City opted to wait for the completion of the second phase of the DDR of the non-housing cash balance to determine the correct amount of the remaining assets that should be transferred to the Milpitas Successor Agency. Therefore, additional adjustments resulting from the State Controller's review are not reflected in the Redevelopment Agency's balances as of January 31, 2012.

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency.

Under the provisions of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City's Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Housing Authority Special Revenue Fund.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 26, 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

The activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

A summary of the Redevelopment Agency's assets distributed to and liabilities assumed by the Successor Agency and Housing Successor, reported as an Extraordinary Item, is presented below:

	Assets and Liabilities (Prior to transfer)	Adjustments	Transfer to Successor Agency	Transfer to Housing Successor	Ending Balance January 31, 2012
ASSETS					
Cash and investments	$19,719,420		$19,716,920	$2,500	
Notes receivable	29,775,732			29,775,732	
Advance to other fund	8,925,178	$8,925,178 (A), (B)			
Property held for resale	17,199,645			17,199,645	
Capital assets:					
Land and land improvements	23,394,884		23,394,884		
Construction in progress	78,533,256		78,533,256		
Total Assets	177,548,115	8,925,178	121,645,060	46,977,877	
LIABILITIES					
Accounts payable and accrued liabilities	10,523		8,023	2,500	
Deferred revenue	30,100,910	325,178 (C)		29,775,732	
Advance from the City	30,595,935	21,171,822 (B), (D)	9,424,113		
Long-term debt:					
Due in one year	8,302,357		8,302,357		
Due in more than one year	189,205,610		189,205,610		
Total Liabilities	258,215,335	21,497,000	206,940,103	29,778,232	
NET ASSETS (DEFICIT)	($80,667,220)	($12,571,822)	($85,295,043)	$17,199,645	

(A) Although the Housing Successor assumed an advance to the Successor Agency in the amount of $7,094,356, the Housing Successor subsequently offset the loan with an allowance for doubtful accounts as discussed in Note 5L.
(B) The prior advance between the Redevelopment Agency Projects Fund and the Housing Reserve Fund with a balance of $1,830,822 at January 31, 2012 was forgiven by the transfer of a property held for resale of $1,800,000 as discussed in Note 4B.
(C) Deferred revenue associated with the interest receivable on the original balances of the advances discussed in (A) and (B) was reversed.
(D) Historical interest paid and/or accrued on certain advances from the City was recalculated and reduced the outstanding liability as discussed in Note 5L.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

As discussed in Note 6 above, during the year ended June 30, 2011, the former Redevelopment Agency had transferred property held for resale to the City's General Fund. The provisions of Health and Safety Code Section 34167.5 and the State order required that the property be returned to the Successor Agency. City Council approved the conveyance of the property to the Successor Agency in November 2012 with a carrying value of $6,988,800. The return of the property has been reported in the Successor Agency as of June 30, 2012.

Subsequent to January 31, 2012, the City determined that the General Fund held customer deposits and rental payments collected totaling $74,693 that were related to the housing assets and transferred the cash to the Housing Successor, which has been reported as an extraordinary item in the General Fund and the Housing Authority Special Revenue Fund.

As discussed in Note 5L, the General Fund established an allowance for doubtful accounts related to the General Fund's advance to the Successor Agency, which has been reported as an extraordinary item in the General Fund.

Below is a reconciliation of the net liabilities assumed by the Successor Agency with the Extraordinary Item reported on the Statement of Activities:

Net Liabilities Assumed by the Successor Agency as of February 1, 2012	$85,295,043
Land transferred to the Successor Agency after February 1, 2012	(6,988,800)
General Fund established an allowance for doubtful accounts	(9,424,113)
Extraordinary Item Reported on the Statement of Activities	$68,882,130

Cash and investments of the Successor Agency as of June 30, 2012 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2012.

B. PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000, the Agency purchased land from the Santa Clara Valley Transportation Authority in the amount of $6,988,800 which is being held for future development projects.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

C. *DEVELOPMENT AGREEMENTS*

The Successor Agency assumed the obligations of the Redevelopment Agency's Disposition and Development Agreements as of February 1, 2012 as follows:

1. *Installment Purchase Agreement*

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for $57,750,000 in cash and $135,000,000 payable over eighteen years at no interest, under the Installment Purchase Agreement discussed in Note 9.

The Agency also agreed to re-sell this land to developers for a total of $57,750,000, of which $40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of $2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are in the Midtown Area, but not to exceed $5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

2. *County of Santa Clara*

In August 2006, the Agency entered into a Disposition and Development Agreement with the County of Santa Clara to construct a health center and a public parking garage. Under the terms of the Agreement, the Agency sold a parcel of land to the County for the construction of the health center for $1,862,360. In addition, the Agency entered into a Ground Lease Agreement to lease a parcel of land to the County for 75 years for constructing and operating a public parking garage adjacent to the health center site. The Agency constructed certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

3. Sun Power Corporation

In February 2011, the Agency entered into a Financing Agreement with SunPower Corporation to reimburse the Corporation for the acquisition and installation of capital equipment for the purpose of producing SunPower solar panels. The Corporation intends to contract with Flextronics Americas to receive shipments of specialized manufacturing equipment and to install and operate the equipment for an initial period of five years and hire and continually employ at least 80 new employees (employment goal). Under the terms of the Agreement, the Agency will reimburse the Corporation $700,000 after receiving documentation of achieving the employment goal and confirming the applicable equipment was installed. The Agency also committed to reimburse the Corporation an additional $200,000 per year over a four year period ending on January 1, 2014, if the Corporation continues to meet the manufacturing and employment obligations and has unreimbursed capital equipment and facilities improvement costs. The funding will be incrementally forgiven so long as the Corporation does not cease its relationship with Flextronics Americas or stop using the site for industrial/manufacturing purposes on or before January 1, 2014, but the remaining balance is payable if the Corporation does cease the activities as noted. The agreement terminates January 1, 2016. For the period February 1, 2012 to June 30, 2012, the Successor Agency expended $700,000 under the agreement, which has been recorded as a conditional grant, therefore the balance of the loan is offset with an equal allowance for forgiveness of loan.

D. CAPITAL ASSETS

The Successor Agency assumed the capital assets of the Redevelopment Agency as of February 2012. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Successor Agency's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Capital assets at June 30, 2012 were comprised of land of $23,394,884 and construction in progress of $78,533,256.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

E. LONG-TERM OBLIGATIONS

The Successor Agency assumed the long-term obligations of the Redevelopment Agency as of February 2012.

1. Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Transfer from Redevelopment Agency February 1, 2012	Additions	Retirements	Balance June 30, 2012	Current Portion
2003 Tax Allocation Bonds 2%-5.25%, due September 1, 2032	$163,530,000			$163,530,000	$5,595,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	33,977,967		$2,842,725	31,135,242	2,707,357
Successor Agency Loan Purchase and Sale Agreement with the City of Milpitas	9,424,113	$20,361		9,444,474	
Total	$206,932,080	$20,361	$2,842,725	$204,109,716	$8,302,357

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

2. *2003 Redevelopment Agency Tax Allocation Bonds*

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of $200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a $13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the $250,982,202 remaining debt service on the bonds which is scheduled to occur in fiscal year 2033. Projected non-housing revenues are expected to provide coverage over debt service of 1.58 over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) are expected to provide coverage over debt service of 13.79 over the life of the bonds. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed and housing set-aside amounts are no longer required, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. Using both property taxes received by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution, total collections were $23,377,325 which represented coverage of 172% of the $13,592,883 of debt service.

3. *Installment Purchase Agreement with the County of Santa Clara*

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of $135,000,000, as mentioned in Note 16B(1) above. As discussed in Note 16B(1), under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of $31,135,242 at June 30, 2012, representing the present value of future payments due under this Agreement.

4. *Loans From the City*

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was $20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The balance of the advance, including principal and accrued interest, was $21,670,757 as of January 31, 2012.

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

The loan had previously been reported as an interfund advance between the City and Redevelopment Agency, but with the transfer of the Redevelopment Agency's liabilities to the Successor Agency, the advance is now reported as long-term debt of the Successor Agency. The loan was originally required to be repaid by September 7, 2044, however repayment is now contingent upon the Successor Agency receiving a Finding of Completion, as defined in Health and Safety Code Section 34179.6. After the Successor Agency receives a Finding of Completion, and under the provisions of Health and Safety Code Section 34191.4(b)(2)(A), the loan can be repaid by the Successor Agency. However, the Successor Agency must apply for approval of the loan by the Oversight Board including a finding that the loan was for legitimate redevelopment purposes. If the Oversight Board finds that the loan is an enforceable obligation, the loan is to be repaid in accordance with a defined schedule over a reasonable term of years. Repayment can not begin prior to fiscal year 2014 and the maximum annual repayment amount is limited based on calculations in the Code Section. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore, the loan balance was adjusted to reflect the revised interest rate the balance of the loan as of January 31, 2012 was $9,424,113.

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced $6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was $7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance within the Redevelopment Agency. However, with the transfer of the associated liability to the Successor Agency, the loan is now payable to the Housing Successor to the Agency's housing activities which is the Milpitas Housing Authority, and repayment of the loan is also based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion as discussed above. The interest rate on the loan is also limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance. The balance of the loan as of June 30, 2012 is $6,854,417, but the Successor Agency will not record a liability for this loan until it is approved as an enforceable obligation by the State Department of Finance.

5. Debt Service Requirements

Debt service requirements are shown below for all long-term debt except the Successor Agency Loan, because the ultimate repayment terms cannot be determined at this time as discussed in *4.* above.

Year Ending June 30	Principal	Interest
2013	$8,302,357	$9,266,176
2014	9,048,045	9,490,188
2015	9,189,566	9,345,042
2016	9,348,396	9,177,587
2017	9,529,187	8,987,546
2018-2022	53,219,567	43,187,632
2023-2027	52,708,124	20,502,845
2028-2032	38,755,000	5,246,960
2033	4,565,000	112,984
	$194,665,242	$115,316,960

F. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

2. State Asset Transfer Review

The activities of the former Redevelopment Agency and the Successor Agency are subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and as discussed in Note 16A, some of the assets were returned and others remain in the possession of the Economic Development Corporation. It is the City's position that the funds were legally placed with the Economic Development Corporation at the time of the transfer and are not subject to clawback. There has not been a final judicial or administrative determination regarding the legality of the retroactive provisions of ABx1 26 and AB1484. The amount, if any, of assets that may be required to be returned to the Successor Agency cannot be determined at this time.

SUPPLEMENTARY INFORMATION

The supplementary information provides budget comparisons for major governmental funds which are not the General Fund or major special revenue funds. Financial reporting standards require this information for any major governmental fund that has adopted budget.

CITY OF MILPITAS
REDEVELOPMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE PERIOD JULY 1, 2011 TO JANUARY 31, 2012

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Property taxes	$35,782,204	$16,671,278	($19,110,926)
Use of money and property	459,000	20,500	(438,500)
Intergovernmental		31,129	31,129
Total Revenues	36,241,204	16,722,907	(19,518,297)
Expenditures			
Current:			
General Government:			
City Manager	243,864	87,240	156,624
City Attorney	220,179	139,448	80,731
Non-departmental	749,226	393,490	355,736
Public Works	1,405,225	305,196	1,100,029
Planning and Neighborhood Services	208,068	110,724	97,344
Debt service:			
Principal	8,252,725	5,410,000	2,842,725
Interest and fiscal charges	11,815,794	6,184,298	5,631,496
Total Expenditures	22,895,081	12,630,396	10,264,685
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,346,123	4,092,511	(9,253,612)
OTHER FINANCING SOURCES (USES)			
Transfers in	896,401	15,863,282	14,966,881
Transfers (out)	(16,026,514)	(2,671,904)	13,354,610
Total Other Financing Sources (Uses)	(15,130,113)	13,191,378	28,321,491
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEMS	(1,783,990)	17,283,889	19,067,879
EXTRAORDINARY ITEMS			
Assets transferred to/liabilities assumed by Successor Agency	15,669,594	15,669,594	
Net change in fund balance	$13,885,604	32,953,483	$19,067,879
Adjustment to budgetary basis:			
Capital outlay		(803,068)	
Fund balance, July 1		(32,150,415)	
Fund balance, June 30			

CITY OF MILPITAS
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
Revenues			
Use of money and property	$156,000	$46,280	($109,720)
Intergovernmental	1,420,916	389,185	(1,031,731)
Developer contributions	162,200	268,354	106,154
Total Revenues	1,739,116	703,819	(1,035,297)
Expenditures			
Current:			
General Government:			
Non-departmental	162,125	111,844	50,281
Public Works	830,654	830,654	
Total Expenditures	992,779	942,498	50,281
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	746,337	(238,679)	(985,016)
OTHER FINANCING SOURCES (USES)			
Transfers in	3,402,925	3,343,312	(59,613)
Transfers (out)	(64,786)	(9,237)	55,549
Total Other Financing Sources (Uses)	3,338,139	3,334,075	(4,064)
Net change in fund balance	$4,084,476	3,095,396	($989,080)
Adjustment to budgetary basis:			
Capital outlay		(4,297,916)	
Encumbrance adjustments		11,290	
Fund balance, July 1		11,934,146	
Fund balance, June 30		$10,742,916	

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

Established to account for the City's share of state gasoline taxes which are restricted for use on construction and maintenance of the street system in Milpitas.

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

Established to account for the proceeds from Federal and State asset seizures. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, Justice Assistance grant and expenditures. These funds must be used only for specified law enforcement purposes.

SOLID WASTE REDUCTION AND SERVICES FUND

Established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of $1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of waste reduction programs to meet the State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities.

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

COMMUNITY FACILITIES DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for providing City services for the district.

HETCH-HETCHY GROUND LEASE FUND

Established to account for the lease payment to the City and County of San Francisco for the permitted use of the Hetch-Hetchy land.

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

Established to account for the acquisition and installation of public art. Financing provided by a percentage of eligible project expenditures within the City's Annual Capital Improvement Program.

PARK IMPROVEMENT FUND

Established to account for the construction and maintenance of City parks. A special park improvement fee is imposed on developments to provide financing.

GENERAL GOVERNMENT FUND

Established to account for the construction and maintenance of general government projects. Financing provided by the General Fund.

STORM DRAIN DEVELOPMENT FUND

Established to account for the construction and maintenance of storm drain projects. A special storm drain fee is imposed on developments to provide financing.

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
ASSETS					
Cash and investments available for operations	$2,317,315	$104,999	$327,736	$1,556,265	$373,280
Receivables:					
Accounts			729	95,207	
Due from other governments	201,208	73,020		18,870	
Interest	7,327	274	783	3,702	891
Loans receivable		3,290,896			
Prepaids, materials, supplies and deposits		861		1,143	382
Total Assets	$2,525,850	$3,470,050	$329,248	$1,675,187	$374,553
LIABILITIES					
Accounts payable		$69,525	$2,011	$28,684	$1,763
Accrued payroll		3,371		5,556	692
Deferred revenue			116,340		
Refundable deposits				18,843	
Total Liabilities		72,896	118,351	53,083	2,455
FUND BALANCE					
Fund Balances:					
Nonspendable		861		1,143	382
Restricted	$2,525,850	3,396,293	210,897	1,620,961	371,716
Assigned					
Total Fund Balances	2,525,850	3,397,154	210,897	1,622,104	372,098
Total Liabilities and Fund Balances	$2,525,850	$3,470,050	$329,248	$1,675,187	$374,553

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$425,788	$1,696,329	$319,508	$14,365,097	$2,613,260	$1,008,287	$25,107,864
						95,936
720						293,818
1,018	2,076	790	34,173	6,239	2,408	59,681
						3,290,896
18	4,751					7,155
$427,544	$1,703,156	$320,298	$14,399,270	$2,619,499	$1,010,695	$28,855,350
$21,636		$4,840	$292,281	$41,402	$9,866	$472,008
			7,216	1,933		18,768
						116,340
						18,843
21,636		4,840	299,497	43,335	9,866	625,959
18	$4,751					7,155
405,890	1,698,405		14,099,773		1,000,829	25,330,614
		315,458		2,576,164		2,891,622
405,908	1,703,156	315,458	14,099,773	2,576,164	1,000,829	28,229,391
$427,544	$1,703,156	$320,298	$14,399,270	$2,619,499	$1,010,695	$28,855,350

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Sales taxes					
Other taxes				$458,410	$313,251
Use of money and property	$31,420	$2,648	$3,141	14,877	3,588
Intergovernmental	2,212,817	476,051	73,093	167,540	
Charges for services				306,334	
Developer contributions					
Other				5,939	
Total Revenues	2,244,237	478,699	76,234	953,100	316,839
EXPENDITURES:					
Current:					
General Government		28,990			
Public Works				444,795	202,740
Engineering and Planning		421,476			
Parks and Recreation					
Police			72,343		
Capital outlay			32,100		
Total Expenditures		450,466	104,443	444,795	202,740
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,244,237	28,233	(28,209)	508,305	114,099
OTHER FINANCING SOURCES (USES)					
Transfers in				1,569	
Transfers (out)	(1,600,000)			(300,047)	(200,000)
Total Other Financing Sources (Uses)	(1,600,000)			(298,478)	(200,000)
NET CHANGE IN FUND BALANCES	644,237	28,233	(28,209)	209,827	(85,901)
FUND BALANCES AT BEGINNING OF YEAR	1,881,613	3,368,921	239,106	1,412,277	457,999
FUND BALANCES AT END OF YEAR	$2,525,850	$3,397,154	$210,897	$1,622,104	$372,098

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$382,059						$1,153,720
3,480	$37,514	$2,665	$54,507	$23,126	$9,590	186,556
			32,024	12,262		2,973,787
		222				306,556
			5,420,434		117,391	5,537,825
						5,939
385,539	37,514	2,887	5,506,965	35,388	126,981	10,164,383
4,979	27,904	33,120				94,993
92,203			189,409	13,043	1,114	943,304
						421,476
80,987						80,987
						72,343
			903,070	221,800	39,590	1,196,560
178,169	27,904	33,120	1,092,479	234,843	40,704	2,809,663
207,370	9,610	(30,233)	4,414,486	(199,455)	86,277	7,354,720
			200,000	1,993,804	28,590	2,223,963
	(2,711)	(1,000,000)				(3,102,758)
	(2,711)	(1,000,000)	200,000	1,993,804	28,590	(878,795)
207,370	6,899	(1,030,233)	4,614,486	1,794,349	114,867	6,475,925
198,538	1,696,257	1,345,691	9,485,287	781,815	885,962	21,753,466
$405,908	$1,703,156	$315,458	$14,099,773	$2,576,164	$1,000,829	$28,229,391

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2012

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	$3,000	$31,420	$28,420		$2,648	$2,648
Intergovernmental	1,162,000	2,212,817	1,050,817	$658,938	476,051	(182,887)
Charges for services						
Other						
Total Revenues	1,165,000	2,244,237	1,079,237	658,938	478,699	(180,239)
EXPENDITURES						
Current:						
General Government:						
Finance				14,800	14,800	
Non-departmental				22,065	20,935	1,130
Public Works						
Planning and Neighborhood Services				606,444	474,494	131,950
Parks and recreation						
Police						
Total Expenditures				643,309	510,229	133,080
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,165,000	2,244,237	1,079,237	15,629	(31,530)	(47,159)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	(1,600,000)	(1,600,000)				
Total Other Financing Sources (Uses)	(1,600,000)	(1,600,000)				
NET CHANGE IN FUND BALANCES	($435,000)	644,237	$1,079,237	$15,629	(31,530)	($47,159)
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					53,018	
Capital outlay						
Encumbrance adjustments					6,745	
Fund balances at beginning of year		1,881,613			3,368,921	
Fund balances at end of year		$2,525,850			$3,397,154	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			$399,000	$458,410	$59,410	$312,400	$313,251	$851
$4,000	$3,141	($859)	16,000	14,877	(1,123)	4,000	3,588	(412)
124,256	73,093	(51,163)	87,781	167,540	79,759			
			310,000	306,334	(3,666)			
				5,939	5,939			
128,256	76,234	(52,022)	812,781	953,100	140,319	316,400	316,839	439
			602,853	457,495	145,358	328,818	202,740	126,078
206,628	72,343	134,285						
206,628	72,343	134,285	602,853	457,495	145,358	328,818	202,740	126,078
(78,372)	3,891	82,263	209,928	495,605	285,677	(12,418)	114,099	126,517
				1,569	1,569			
			(300,047)	(300,047)		(200,000)	(200,000)	
			(300,047)	(298,478)	1,569	(200,000)	(200,000)	
($78,372)	3,891	$82,263	($90,119)	197,127	$287,246	($212,418)	(85,901)	$126,517
	(32,100)			12,700				
	239,106			1,412,277			457,999	
	$210,897			$1,622,104			$372,098	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2012

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	$300,000	$382,059	$82,059			
Use of money and property	1,000	3,480	2,480	$40,000	$37,514	($2,486)
Intergovernmental						
Charges for services						
Other						
Total Revenues	301,000	385,539	84,539	40,000	37,514	(2,486)
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	5,615	4,979	636	29,000	27,904	1,096
Public Works	112,425	92,203	20,222			
Planning and Neighborhood Services						
Parks and recreation	97,000	81,737	15,263			
Police						
Total Expenditures	215,040	178,919	36,121	29,000	27,904	1,096
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	85,960	206,620	120,660	11,000	9,610	(1,390)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)				(2,711)	(2,711)	
Total Other Financing Sources (Uses)				(2,711)	(2,711)	
NET CHANGE IN FUND BALANCES	$85,960	206,620	$120,660	$8,289	6,899	($1,390)
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments		750				
Fund balances at beginning of year		198,538			1,696,257	
Fund balances at end of year		$405,908			$1,703,156	

PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			$1,011,400	$1,153,720	$142,320
$16,000	$2,665	($13,335)	84,000	99,333	15,333
			2,032,975	2,929,501	896,526
	222	222	310,000	306,556	(3,444)
				5,939	5,939
16,000	2,887	(13,113)	3,438,375	4,495,049	1,056,674
			14,800	14,800	
232,500	42,960	189,540	289,180	96,778	192,402
			1,044,096	752,438	291,658
			606,444	474,494	131,950
			97,000	81,737	15,263
			206,628	72,343	134,285
232,500	42,960	189,540	2,258,148	1,492,590	765,558
(216,500)	(40,073)	176,427	1,180,227	3,002,459	1,822,232
25,000		(25,000)	25,000	1,569	(23,431)
(1,000,000)	(1,000,000)		(3,102,758)	(3,102,758)	
(975,000)	(1,000,000)	(25,000)	(3,077,758)	(3,101,189)	(23,431)
($1,191,500)	(1,040,073)	$151,427	($1,897,531)	(98,730)	$1,798,801
				53,018	
				(32,100)	
	9,840			30,035	
	1,345,691			10,600,402	
	$315,458			$10,552,625	

AGENCY FUNDS

Financial reporting standards require that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

Established to account for the fund raising activities of the Commission.

LOCAL IMPROVEMENT DISTRICT (LID) FUNDS

Established to account for debt service reserves of Local Improvement Districts (LIDs) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Employee Benefit				
Assets				
Cash and investments available for operations	$2,082,552	$517,076	$503,702	$2,095,926
Receivables:				
Interest	7,830	5,004	7,830	5,004
Total Assets	$2,090,382	$522,080	$511,532	$2,100,930
Liabilities				
Refundable deposits	$2,090,382	$522,080	$511,532	$2,100,930
Total Liabilities	$2,090,382	$522,080	$511,532	$2,100,930
Senior Advisory Commission				
Assets				
Cash and investments available for operations	$9,204	$2,643	$3,385	$8,462
Receivables:				
Interest	34	20	34	20
Total Assets	$9,238	$2,663	$3,419	$8,482
Liabilities				
Refundable deposits	$9,238	$2,663	$3,419	$8,482
Total Liabilities	$9,238	$2,663	$3,419	$8,482
LID #18 - Reassessment and Refunding				
Assets				
Cash and investments available for operations	$1,452,269	$1,484,615	$1,461,205	$1,475,679
Cash and investments held by trustees	1,215,608	66,010	47,865	1,233,753
Receivable:				
Interest	2,664	3,525	2,664	3,525
Total Assets	$2,670,541	$1,554,150	$1,511,734	$2,712,957
Liabilities				
Due to Local Improvement Districts	$2,670,541	$1,554,150	$1,511,734	$2,712,957
Total Liabilities	$2,670,541	$1,554,150	$1,511,734	$2,712,957

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
LID #20				
Assets				
Cash and investments available for operations	$1,295,415	$1,537,411	$1,459,616	$1,373,210
Cash and investments held by trustees	1,198,079	49,640	31,743	1,215,976
Receivables:				
Interest	2,216	3,280	2,216	3,280
Total Assets	$2,495,710	$1,590,331	$1,493,575	$2,592,466
Liabilities				
Due to Local Improvement Districts	$2,495,710	$1,590,331	$1,493,575	$2,592,466
Total Liabilities	$2,495,710	$1,590,331	$1,493,575	$2,592,466
LID #9R and #12R				
Assets				
Cash and investments available for operations	$408,612	$10,120	$287,408	$131,324
Cash and investments held by trustees	416,433	827,912	1,244,345	
Receivables:				
Interest	909	314	909	314
Total Assets	$825,954	$838,346	$1,532,662	$131,638
Liabilities				
Due to Local Improvement Districts	$825,954	$838,346	$1,532,662	$131,638
Total Liabilities	$825,954	$838,346	$1,532,662	$131,638
TOTAL AGENCY FUNDS				
Assets				
Cash and investments available for operations	$5,248,052	$3,551,865	$3,715,316	$5,084,601
Cash and investments held by trustees	2,830,120	943,562	1,323,953	2,449,729
Receivables:				
Interest	13,653	12,143	13,653	12,143
Total Assets	$8,091,825	$4,507,570	$5,052,922	$7,546,473
Liabilities				
Refundable deposits	$2,099,620	$524,743	$514,951	$2,109,412
Due to Local Improvement Districts	5,992,205	3,982,827	4,537,971	5,437,061
Total Liabilities	$8,091,825	$4,507,570	$5,052,922	$7,546,473

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends
These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

Net Assets – Schedule 1
Changes in Net Assets – Schedule 2
Fund Balances, Governmental Funds – Schedule 3
Changes in Fund Balance, Governmental Funds – Schedule 4

Revenue Capacity
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

Assessed Value and Actual Value of Taxable Property – Schedule 5
Direct and Overlapping Property Taxes Rates – Schedule 6
Principal Property Taxpayers – Schedule 7
Property Tax Levies and Collections – Schedule 8

Debt Capacity
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

Ratios of Outstanding Debt by Type – Schedule 9
Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 10
Computation of Direct and Overlapping Debt – Schedule 11
Legal Debt Margin Information – Schedule 12

Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

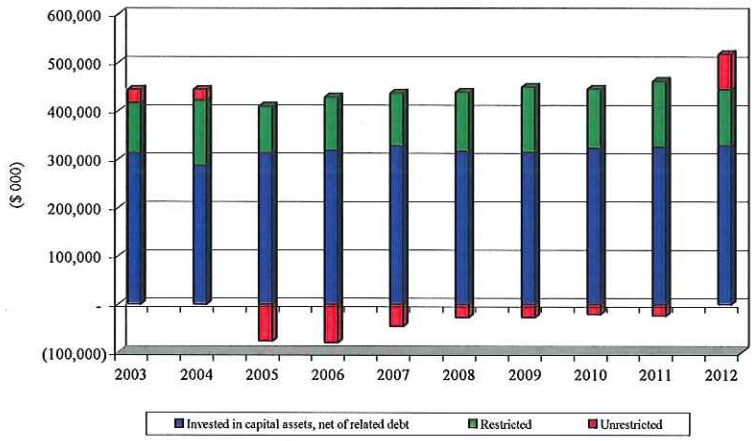
Installment Payment Coverage, Sewer Certificates of Participation – Schedule 13
Bimonthly Sewer Rates by Customer Class – Schedule 14
Demographic and Economic Statistics – Schedule 15
Principal Employers – Schedule 16
Taxable Sales by Category – Schedule 17
Direct and Overlapping Sales Tax Rates – Schedule18
Principal Sales Tax Payers – Schedule 19

Operating Information
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
Operating Indicators by Function/Program – Schedule 21
Capital Asset Statistics by Function/Program – Schedule 22

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

CITY OF MILPITAS
NET ASSETS
LAST TEN FISCAL YEARS
(Accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$221,431	$192,380	$225,140	$224,223	$232,841	$224,603	$221,744	$218,878	$218,116	$219,034
Restricted	100,007	130,126	89,652	97,069	92,504	104,161	110,463	98,426	115,474	90,878
Unrestricted	(963)	(798)	(97,657)	(92,209)	(62,097)	(50,764)	(41,574)	(38,500)	(44,592)	53,417
Total governmental activities net assets	$320,475	$321,708	$217,135	$229,083	$263,248	$278,000	$290,633	$278,804	$288,998	$363,329
Business-type activities										
Invested in capital assets, net of related debt	$91,151	$94,693	$88,191	$94,467 (a)	$95,300	$92,028	$92,576	$104,370	$107,707	$109,146
Restricted	4,020	4,974	6,774	12,852	16,179	18,252	24,911	24,059	20,743	25,239
Unrestricted	28,824	23,102	21,125	12,980	16,652	23,603	14,172	17,851	20,577	19,838
Total business-type activities net assets	$123,995	$122,769	$116,090	$120,299	$128,131	$133,883	$131,659	$146,280	$149,027	$154,223
Primary government										
Invested in capital assets, net of related debt	$312,582	$287,073	$313,331	$318,690	$328,141	$316,631	$314,320	$323,248	$325,823	$328,180
Restricted	104,027	135,100	96,426	109,921	108,683	122,413	135,374	122,485	136,217	116,117
Unrestricted	27,861	22,304	(76,532)	(79,229)	(45,445)	(27,161)	(27,402)	(20,649)	(24,015)	73,255
Total primary government net assets	$444,470	$444,477	$333,225	$349,382	$391,379	$411,883	$422,292	$425,084	$438,025	$517,552

(a) The City restated the balance of capacity rights to remove improvements that did not add to the City's rights.

CITY OF MILPITAS
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities										
General Government	$13,178	$13,243	$17,412	$18,651	$16,297	$18,130	$18,184	$33,535 (c)	$21,474 (c)	$17,418 (d)
Building and Safety	2,512	2,017	2,048	2,195	2,334	2,626	2,401	1,972	1,984	2,029
Public Works	18,131	17,537	17,794	17,156	20,647	20,745	19,605	22,843	16,777	21,787
Planning and Neighborhood Services	7,156	7,114	7,116	7,453	2,396	3,239	3,249	2,874	2,155	2,144
Parks and Recreation	4,219	4,246	4,170	4,266	7,301	6,527	6,518	6,096	6,529	5,823
Police	19,593	19,575	18,773	20,473	21,452	22,440	22,514	22,771	22,661	22,620
Fire	14,293	13,865	14,448	14,381	14,329	15,411	15,260	14,748	15,085	14,904
Payment under developer agreements	98			9,384						
Interest on Long Term Debt	3,724	9,829	9,338		9,419	11,534	9,402	9,570	9,536	2,050
Total governmental activities expenses	82,904	87,426	91,099	93,959	94,175	100,652	97,133	114,409	96,201	88,775
Business-type activities										
Water Utility	8,583	9,877	9,668	9,837	10,673	11,567	12,545	11,788	12,766	15,229
Recycled Water Utility	208	255	247	328	337	481	576	476	470	599
Sewer Utility	6,784	6,165	6,040	7,047	8,210	8,626	12,312	8,730	9,240	8,399
Total business-type activities expenses	15,575	16,297	15,955	17,212	19,220	20,674	25,433	20,994	22,476	24,227
Total primary government expenses	$98,479	$103,723	$107,054	$111,171	$113,395	$121,326	$122,566	$135,403	$118,677	$113,002
Program Revenues										
Governmental activities:										
Charges for services:										
General Government	$437	$860	$906	$580	$662	$996	$956	$1,165	$1,071	$1,349
Building and Safety	1,305	1,488	2,899	5,800	5,029	4,194	2,897	2,031	2,823	3,436
Public Works	320	307	311	344	2,817	2,410	1,996	2,571	1,826	2,440
Planning and Neighborhood Services	901	1,185	1,678	2,412	436	459	358	182	139	237
Parks and Recreation	1,382	1,391	1,482	1,496	1,599	1,663	1,655	1,642	1,662	1,833
Police	1,190	1,273	1,693	1,132	1,406	1,351	1,425	1,091	1,263	1,134
Fire	490	766	305	1,070	1,109	1,144	1,108	1,137	1,210	1,292
Operating grants and contributions	3,697	4,197	3,780	4,089	4,600	4,617	4,920	3,892	4,869	6,146
Capital grants and contributions	8,124	13,770	12,012	12,971	16,056	15,242	9,801	8,840	5,704	8,294
Total government activities program revenues	17,846	25,237	25,066	29,894	33,714	32,076	25,116	22,551	20,567	26,161
Business-type activities										
Charges for services:										
Water Utility	10,779	12,265	12,430	13,224	14,523	14,937	13,873	14,051	15,201	16,773
Recycled Water Utility	747	878	1,017	1,086	1,203	1,323	1,288	1,260	1,300	1,447
Sewer Utility	6,547	7,472	8,253	8,966	9,833	10,041	9,849	10,393	11,406	12,445
Operating grants and contributions								79	70	43
Capital grants and contributions	8,937	1,602	604	3,854	2,418	956	471	6,406	163	1,629
Total business-type activities program revenue	27,010	22,217	22,304	27,130	27,977	27,257	25,481	32,189	28,140	32,337
Total primary government program revenues	$44,856	$47,454	$47,370	$57,024	$61,691	$59,333	$50,597	$54,740	$48,707	$58,498
Net (Expense)/Revenue										
Governmental activities	($65,058)	($62,189)	($66,033)	($64,065)	($60,461)	($68,576)	($72,017)	($91,858)	($75,634)	($62,614)
Business-type activities	11,435	5,920	6,349	9,918	8,757	6,583	48	11,195	5,664	8,110
Total primary government net expense	($53,623)	($56,269)	($59,684)	($54,147)	($51,704)	($61,993)	($71,969)	($80,663)	($69,970)	($54,504)

CITY OF MILPITAS
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes:										
Property taxes	$39,823	$36,788	$38,913	$44,026	$44,565	$49,061	$53,917	$58,012 (c)	$55,655 (c)	$34,029
Less: Educational Revenue Augmentation Fund Fund payment	(1,010)	(1,950)	(2,993)	(2,422)						
Sales and use taxes	12,573	12,065	13,816	15,613	16,765	15,551	15,670	14,725	16,429	18,758
Hotel/Motel taxes	4,953	4,717	4,986	5,669	6,427	7,195	5,550	5,297	6,124	7,068
Other taxes	152	138	132	133	125	602	416	407	380	491
Franchise fees	2,674	2,650	2,772	2,643	2,912	2,968	3,151	2,993	3,083	3,218
Motor vehicle in lieu	3,680	2,969	421	1,548	357	296	237	209	323	35
Investment earnings	2,611	(2,427) (a)	1,069	1,302	2,225	4,100	1,553	700	399	1,093
Gain on sale of capital assets				12	18,257	34	35	171		
Miscellaneous	54	258	332	856	355	109	92	85	62	67
Redevelopment expense			(102,281) (b)							
Transfers	4,920	8,213	4,294	6,633	2,638	3,411	4,029	(2,570)	3,374	3,304
Extraordinary item										68,882 (d)
Total government activities	70,430	63,421	(38,539)	76,013	94,626	83,327	84,650	80,029	85,829	136,945
Business-type activities										
Investment earnings	1,417	1,068 (a)	627	924	1,714	2,580	1,756	857	455	390
Loss on adjustment of capital assets valuation	(2,073)									
Transfers	(4,920)	(8,213)	(4,294)	(6,633)	(2,638)	(3,411)	(4,029)	2,570	(3,374)	(3,304)
Total business-type activities	(5,576)	(7,145)	(3,667)	(5,709)	(924)	(831)	(2,273)	3,427	(2,919)	(2,914)
Total primary government	$64,854	$56,276	($42,206)	$70,304	$93,702	$82,496	$82,377	$83,456	$82,910	$134,031
Change in net assets										
Governmental activities	$5,372	$1,232	($104,572)	$11,948	$34,165	$14,751	$12,633	($11,829)	$10,195	$74,331
Business-type activities	5,859	(1,225)	2,682	4,209	7,833	5,752	(2,225)	14,622	2,745	5,196
Total primary government	$11,231	$7	($101,890)	$16,157	$41,998	$20,503	$10,408	$2,793	$12,940	$79,527

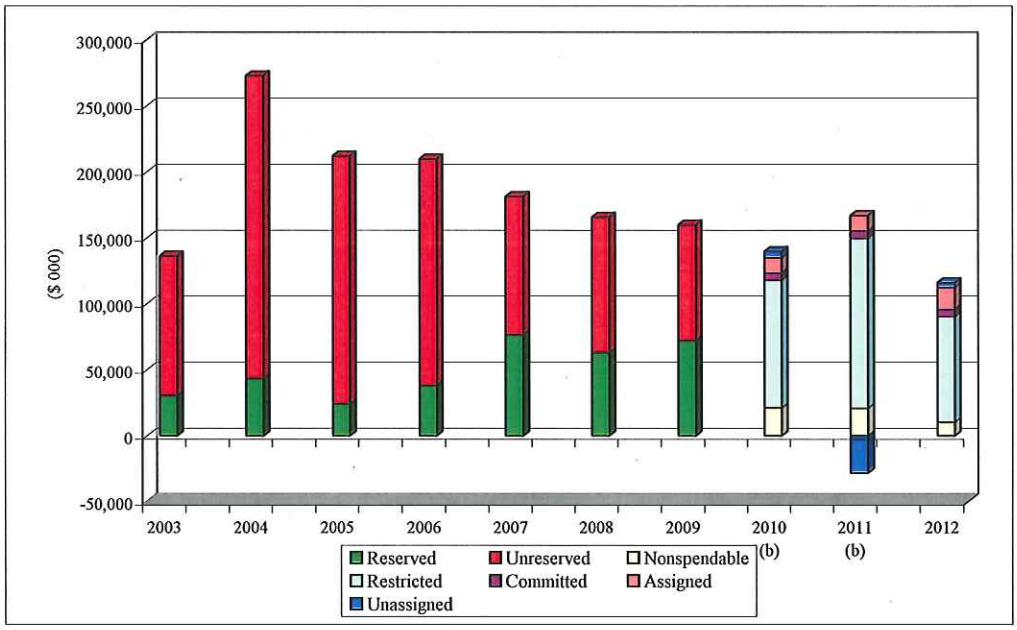
(a) In 2004, the fair value of the City's investments decreased $3,764 K in government activities and $55K in business--type activities.

(b) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

(c) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.

(d) The Redevelopment Agency was dissolved as of January 31, 2012.

CITY OF MILPITAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010 (b)	2011 (b)	2012
General Fund										
Reserved	$1,434	$2,366	$1,344	$1,315	$21,753	$21,749	$21,542			
Unreserved	37,529	30,636	26,699	27,966	26,716	29,359	29,293			
Nonspendable								$20,977	$20,970	$577
Restricted									24,555	
Committed								5,433	5,433	5,433
Assigned								9,465	9,698	13,904
Unassigned								14,920	15,448	15,800
Total General Fund	$38,963	$33,002	$28,043	$29,281	$48,469	$51,108	$50,835	$50,795	$76,104	$35,714
All Other Governmental Funds										
Reserved	$29,351	$41,131	$23,049	$36,812	$54,763	$41,416	$50,608			
Unreserved, reported in:										
Special revenue funds	8,113	19,493	23,745	3,524	4,025	4,213	4,603			
Capital project funds	59,127	179,291	137,415	140,259	74,178	69,028	53,845			
Debt service funds	966									
Nonspendable								$115	$23	$9,788
Restricted								96,873	104,290	80,112
Assigned								2,196	2,127	2,892
Unassigned								(10,219)	(43,624)	(12,234)
Total all other governmental funds	$97,557	$239,915	$184,209	$180,595	$132,966	$114,657	$109,056	$88,965	$62,816	$80,558

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011, and years prior to 2010 have not been restated to conform with the new presentation.

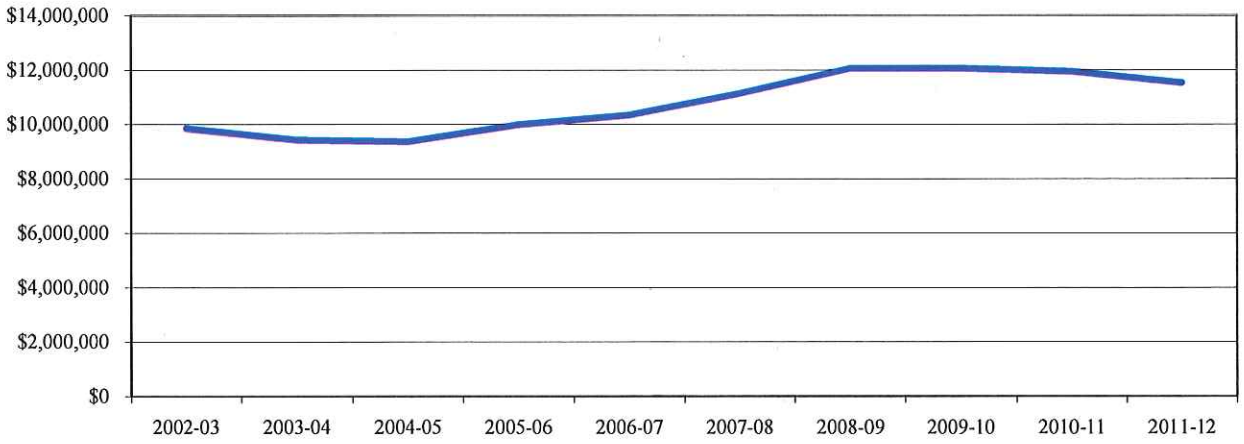
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
Revenues					
Property taxes	$39,520	$36,186	$38,337	$43,155	$44,289
Less: Educational Revenue Augmentation Fund payment	(1,010)	(1,950)	(2,993)	(2,422)	
Sales taxes	13,222	12,655	14,409	16,228	17,383
Other taxes	8,509	8,555	9,066	10,003	10,508
Licenses and fines	2,431	3,020	4,328	7,357	6,958
Use of money and property	7,086	2,515 (a)	6,149	6,260	8,292
Intergovernmental	9,442	11,124	4,914	6,045	5,589
Charges for services	2,721	3,277	3,842	4,165	4,715
Developer contributions	823	3,452	1,439	5,010	1,217
Other	361	798	4,097	1,186	8,978
Total Revenues	83,105	79,632	83,588	96,987	107,929
Expenditures					
Current:					
General government	11,245	10,365	13,026	15,608	34,136
Building and safety	2,389	1,978	2,075	2,226	2,232
Public works	7,085	7,130	7,736	7,789	10,646 (c)
Engineering and planning	6,262	5,983	6,444	6,581	(c)
Planning and neighborhood services					2,329 (c)
Recreation	3,806	3,860	4,199	4,284	(c)
Parks and recreation					6,486 (c)
Police	17,197	18,384	19,723	20,167	20,081
Fire	11,957	12,864	15,363	14,312	13,717
Supplemental educational revenue augmentation fund payment					
Capital outlay	17,431	11,169	15,998	16,861	46,076
Payments under developer agreements	98	127			
Debt service:					
Principal	6,470	8,860	6,605	8,559	8,508
Interest and fees	4,194	9,686	9,379	9,424	15,250
Total Expenditures	88,134	90,406	100,548	105,811	159,461
Excess (deficiency) of revenues over (under) expenditures	(5,029)	(10,774)	(16,960)	(8,824)	(51,532)
Other Financing Sources (Uses)					
Proceeds from debt issuance		200,000			20,455
Bond issuance premium		5,372			
Payments to refunded debt escrow agent		(67,164)			
Proceeds from sale of properties					
Transfers in	42,620	124,899	23,095	28,523	22,561
Transfers (out)	(37,700)	(115,936)	(18,801)	(22,075)	(19,924)
Total other financing sources (uses)	4,920	147,171	4,294	6,448	23,092
Extraordinary Items					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
Special Item					
Redevelopment expense			(48,000) (b)		
Net Change in fund balances	($109)	$136,397	($60,666)	($2,376)	($28,440)
Debt service as a percentage of noncapital expenditures	15.1%	23.4%	18.9%	20.2%	26.5%

(a) In 2004, the fair value of the investments decreased $3,764 K in governmental activities.
(b) In 2005, the Redevelopment Agency made a cash payment of $48,000 K to the County of Santa Clara for two parcels of land.
(c) The City departments were reorganized in fiscal 2007.
(d) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
Years prior to 2010 have not been restated to reflect this change in presentation.
(e) The Redevelopment Agency was dissolved as of January 31, 2012.

Fiscal Year Ended June 30				
2008	2009	2010	2011	2012
$49,060	$53,917	$58,012 (d)	$55,655 (d)	$34,029 (e)
16,173	16,251	15,268	16,994	19,403
11,636	9,937	9,495	10,917	12,230
5,991	4,619	3,481	4,309	4,956
11,096	8,984	7,168	3,948	5,303
4,092	6,004	6,362	5,082	4,834
4,612	4,146	3,704	4,020	4,725
2,884	2,558	4,739	3,360	7,549
584	816	933	1,039	578
106,128	107,232	109,162	105,324	93,607
15,079	17,834	20,602 (d)	19,003 (d)	12,753 (e)
2,566	2,420	1,992	1,975	2,060
11,016	10,066	13,619	7,960	8,772
2,528	2,576	2,180	2,267	2,196
6,513	6,416	6,052	5,688	5,261
21,701	21,602	22,071	21,682	21,733
14,664	15,279	14,249	14,994	14,562
		11,774	2,424	
33,133	21,585	16,938	12,940	28,876
8,490	8,481	8,169	8,225	13,153
11,528	11,516	11,982	12,386	6,823
127,218	117,775	129,628	109,544	116,189
(21,090)	(10,543)	(20,466)	(4,220)	(22,582)
				21,780
1,868	14	4	5	8
20,420	23,278	23,590	119,213	34,994
(16,869)	(18,624)	(23,259)	(115,839)	(31,690)
5,419	4,668	335	3,379	25,092
				17,274 (e)
				(42,431) (e)
($15,671)	($5,875)	($20,131)	($841)	($22,647)
21.3%	20.8%	18.5%	21.5%	22.9%

CITY OF MILPITAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollars in Thousands)



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
2002-03	$3,746,467	$835,889	$2,502,123	$1,016,922	$1,833,384	($111,940)	$9,822,845	1%
2003-04	4,377,568	964,438	2,340,453	227,739	1,595,224	(107,860)	9,397,562	1%
2004-05	4,572,065	798,350	2,095,928	603,547	1,379,444	(110,377)	9,338,957	1%
2005-06	4,952,629	814,287	2,032,245	641,662	1,651,527	(131,810)	9,960,540	1%
2006-07	5,513,377	1,141,925	2,179,658	328,782	1,284,778	(129,187)	10,319,333	1%
2007-08	5,974,338	1,208,674	2,423,285	320,499	1,329,060	(146,495)	11,109,361	1%
2008-09	6,345,176	1,350,579	2,806,181	307,980	1,437,414	(220,624)	12,026,706	1%
2009-10	6,199,167	1,368,086	2,904,523	352,408	1,446,827	(245,778)	12,025,233	1%
2010-11	6,169,631	1,347,861	2,772,974	346,493	1,557,639	(282,502)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	147,931	1,415,065	(102,631)	11,498,357	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Note:

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF MILPITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per $100 of assessed value)

	City Direct Rates		Overlapping Rates (a)		
Fiscal Year	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2002-03	$1.00	$1.00	$0.0412	$0.0567	$0.0072
2003-04	1.00	1.00	0.0412	0.0582	0.0087
2004-05	1.00	1.00	0.0412	0.0624	0.0092
2005-06	1.00	1.00	0.0412	0.0509	0.0078
2006-07	1.00	1.00	0.0412	0.0518	0.0072
2007-08	1.00	1.00	0.0412	0.0874	0.0071
2008-09	1.00	1.00	0.0412	0.0874	0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064

Source: County of Santa Clara, Tax Rates & Information

Notes:

(a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
(b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2011-12 and 2002-03
(Dollars in thousands)

	2011-2012			2002-2003		
Taxpayer	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Technology Inc.	$ 426,047,061	1	3.71%			
Milpitas Mills LP	320,821,128	2	2.79%			
KLA Tencor Corporation	200,388,156	3	1.74%	$ 176,999,129	4	1.80%
California Diversified	123,523,176	5	1.07%			
BRE Milpitas LLC	116,437,669	4	1.01%			
Linear Technology Corporation	108,712,826	6	0.95%			
Headway Technologies Inc.	107,587,426	7	0.94%			
Solyndra Inc.	94,210,095	8	0.82%			
Sandbox Expansion LLC	88,639,838	9	0.77%			
EQR Fresca 2009 LP	79,107,219	10	0.69%			
Societe Generale Fincl Corporation				325,062,833	1	3.31%
Richard T. Peery Trustee				208,001,154	2	2.12%
Irvine Company				207,704,667	3	2.11%
Great Mall of The Bay Area				162,844,910	5	1.66%
First Security Bank				161,211,180	6	1.64%
Solectron Corporation				142,900,449	7	1.45%
Trinet Milpitas Associates				135,189,802	8	1.38%
Fleming Business Park LLC				134,592,365	9	1.37%
Seagate Technology				131,923,519	10	1.34%
Subtotal	$ 1,665,474,594		14.48%	$ 1,786,430,008		18.19%

Fiscal Year 2011-2012 Total Net Assessed Valuation	$11,498,357,000
Fiscal Year 2002-2003 Total Net Assessed Valuation	$9,822,845,000

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2011/12 Combined Tax Rolls

CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

Fiscal Year		Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
2002-03		$39,520	$39,520	100.00%	0	$39,520	100.00%
2003-04		36,186	36,186	100.00%	0	36,186	100.00%
2004-05		38,337	38,337	100.00%	0	38,337	100.00%
2005-06		43,155	43,155	100.00%	0	43,155	100.00%
2006-07		44,289	44,289	100.00%	0	44,289	100.00%
2007-08		49,060	49,060	100.00%	0	49,060	100.00%
2008-09		53,917	53,917	100.00%	0	53,917	100.00%
2009-10	(b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11	(b)	55,655	55,655	100.00%	0	55,655	100.00%
2011-12	(c)	34,029	34,029	100.00%	0	34,029	100.00%

(a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

(b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
Years prior to 2010 have not been restated to reflect this change in presentation.

(c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

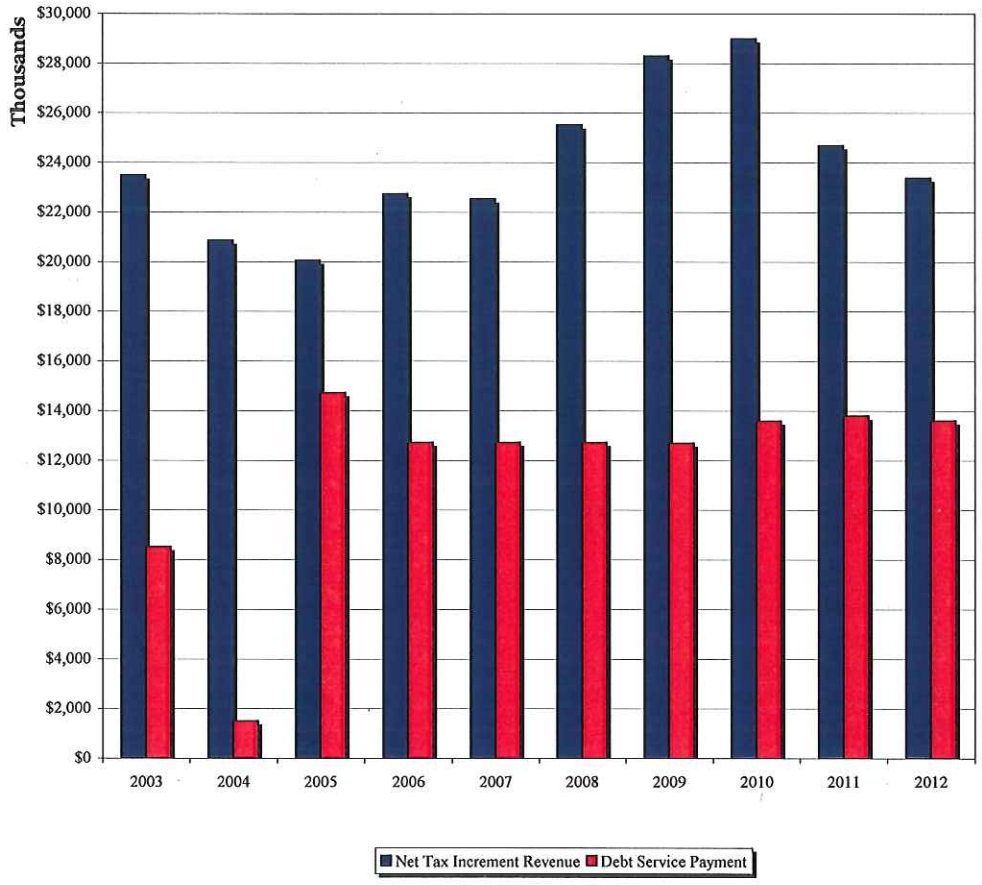
Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollars in thousands, except per capita)

Fiscal Year	Governmental Activities: Sales Tax Revenue Bonds	Governmental Activities: Certificates of Participation	Governmental Activities: Tax Allocation Bonds	Governmental Activities: Installment Purchase Agreement	Business-type Activities: Certificates of Participation	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2002-03	$7,855	$6,680	$63,295	$0	$0	$77,830	2.60%	$1,196
2003-04	0	5,675	200,000	0	0	205,675	6.92%	3,182
2004-05	0	4,630	194,440	54,281	0	253,351	7.95%	3,898
2005-06	0	3,540	190,780	50,471	0	244,791	7.50%	3,750
2006-07	0	2,410	187,030	46,843	9,535	245,818	6.71%	3,693
2007-08	0	1,230	183,175	43,388	9,160	236,953	5.79%	3,413
2008-09	0	0	179,215	40,097	8,815	228,127	5.46%	3,221
2009-10	0	0	174,180	36,963	8,460	219,603	5.29%	3,069
2010-11	0	0	168,940	33,978	8,090	211,008	5.17%	2,949
2011-12	0	0	0 (b)	0 (b)	7,710	7,710	(c)	114

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(a) See Schedule 15 for personal income and population data.
(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.
(c) Data for fiscal year 2011-12 not available until May of 2013.

CITY OF MILPITAS
BONDED DEBT PLEDGED REVENUE COVERAGE
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS



Fiscal Year	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements Principal	Interest	Total	Coverage
2003	$29,511,358	$6,023,817	$23,487,541	$5,030,000	$3,482,488	$8,512,488	2.76
2004	26,171,147	5,315,246	20,855,901	0 (b)	1,494,048	1,494,048	13.96
2005	25,215,408	5,160,555	20,054,853	5,560,000	9,163,896	14,723,896	1.36
2006	28,606,441	5,867,736	22,738,705	3,660,000	9,062,546	12,722,546	1.79
2007	28,413,636	5,886,749	22,526,887	3,750,000	8,965,234	12,715,234	1.77
2008	32,259,656	6,740,250	25,519,406	3,855,000	8,860,665	12,715,665	2.01
2009	36,167,427	7,876,041	28,291,386	3,960,000	8,728,458	12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	11,668,669 (c)	24,685,068	5,240,000	8,548,559	13,788,559	1.79
2012	23,377,325 (d)	0 (d)	23,377,325	5,410,000 (e)	8,182,883 (e	13,592,883	1.72

(a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.
(b) The Agency issued the 2003 Tax Allocation Bonds and refunded the prior outstanding debt issues. Therefore, no principal payments were due in that fiscal year.
(c) Beginning in fiscal year 2011, three of the areas within the Agency's Merged Redevelopment Project Area were required to set aside 30% of tax increment. The fourth area continued to set aside 20% of tax increment.
(d) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency. The Successor Agency collects Property Taxes, with no distinction between housing and non-housing revenues, which are used for the repayment of the former Redevelopment Agency's Bonds. Included in the 2012 amount is both tax increment collected by the Agency prior to dissolution and property taxes collected by the Successor Agency after the dissolution.
(e) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2012

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2011-12 Assessed Valuation, Direct and Overlapping Debt		$8,315,069,873
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Santa Clara County	3.098%	$9,814,464
San Jose- Evergreen Community College District	9.565%	30,528,514
Milpitas Unified School District	98.485%	42,924,687
East Side Union High School District	54.300%	3,467,102
Berryessa Union School District	3.072%	1,111,696
Santa Clara Valley Water District Benefits Assessment District	3.098%	4,133,971
City of Milpitas 1915 Act Bonds	100.000%	13,410,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		105,390,434
DIRECT AND OVERLAPPING GENERAL FUND DEBT		
Santa Clara County General Fund Obligations	3.098%	23,883,938
Santa Clara County Pension Obligations	3.098%	11,866,419
Santa Clara County Board of Education Certificates of Participation	3.098%	357,509
San Jose- Evergreen Community College District OPEB (2) Bonds	9.565%	4,538,593
East Side Union High School District	54.300%	170,529
City of Milpitas	100.000%	0
Santa Clara County Vector District Certifications of Participations	3.098%	112,457
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		40,929,445
COMBINED TOTAL DEBT		$146,319,879 (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2011-12 Assessed Valuation:	
Total Overlapping Tax and Assessment Debt	1.27%
Ratios to Assessed Valuation:	
Direct Debt %	0.49%
Total Gross Debt %	1.76%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12:	$0

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2011-12

Assessed value (net) - June 30, 2012		$11,498,357
Debt limit: 3.75% of assessed value (a)		$431,188
Debt applicable to limit		
Total Bonded Debt	$0	
Less: Tax Allocation Bonds not subject to limit	0	
Amount of Debt subject to limit		0
Legal debt margin		$431,188

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2002-03	$368,356	0	$368,356	0.0%
2003-04	352,408	0	352,408	0.0%
2004-05	350,211	0	350,211	0.0%
2005-06	373,520	0	373,520	0.0%
2006-07	386,975	0	386,975	0.0%
2007-08	416,601	0	416,601	0.0%
2008-09	451,001	0	451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%
2011-12	431,188	0	431,188	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department
Santa Clara County Tax Assessor's Office

CITY OF MILPITAS
INSTALLMENT PAYMENT COVERAGE
SEWER CERTIFICATES OF PARTICIPATION
LAST FIVE FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2007-08	$11,508,195	$6,208,050	$5,300,145	$375,000	$353,893	$728,893	7.27
2008-09	10,703,586	9,838,790	864,796	345,000	406,212	751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74

NOTE: The Certificates of Participation were issued on November 28, 2006.

(1) Gross Revenues include sewer service charges, other operating revenues, and interest income.
Gross Revenues exclude connection fees and capital contributions.

(2) Operating Expenses include sewer treatment services, personnel services, services and supplies, and repairs and maintenance expenses.
Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS
BIMONTHLY SEWER RATES BY CUSTOMER CLASS
LAST TEN FISCAL YEARS

Fiscal Year	Residential			Commercial		
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges	(a)
2002-03	$42.29	$30.19	$18.69	$7.14	$0.01 - 3.37	
2003-04	46.10	33.82	21.27	7.78	0.01 - 5.12	
2004-05	50.25	36.48	22.76	8.48	0.01 - 4.89	
2005-06	54.77	39.49	24.57	9.24	0.02 - 3.50	
2006-07	59.70	43.14	26.88	10.08	0.02 - 3.93	
2007-08	59.70	43.14	26.88	10.08	0.02 - 3.93	
2008-09	59.70	43.14	26.88	10.08	0.02 - 3.93	
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52	
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61	
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99	

Source: City of Milpitas, Engineering Department

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Fiscal Year	Population	Population Density (Sq. Mile)	Total Personal Income (a), (b)	Per Capita Personal Income (a)	School Enrollment	Unemployment Rate (%) (a)	Land Area (Sq. Mile)
2002-03	65,049	4,762	$2,992,254	46	9,516	9.30%	13.66
2003-04	64,629	4,731	2,972,934	46	9,528	6.90%	13.66
2004-05	64,998	4,758	3,184,902	49	9,602	5.60%	13.66
2005-06	65,276	4,779	3,263,800	50	9,748	4.40%	13.66
2006-07	66,568	4,873	3,661,240	55	9,682	4.70%	13.66
2007-08	69,419	5,082	4,095,721	59	9,590	5.90%	13.66
2008-09	70,817	5,184	4,178,203	59	9,649	11.80%	13.66
2009-10	71,553	5,238	4,150,074	58	9,802	11.30%	13.66
2010-11	71,552	5,238	4,078,464	57	9,887	10.30%	13.66
2011-12	67,476	4,940	(c)	(c)	9,949	8.70%	13.66

(a) For Santa Clara County.
(b) Data not available for the City, therefore the balance reported is the product of the County's Per Capita Personal Income and the City's population.
(c) Data for fiscal year 2011-12 is not available until May of 2013.

Sources: California Department of Education
California Employment Development Department
State of California, Department of Finance.
U.S. Department of Commerce, Bureau of Economic Analysis

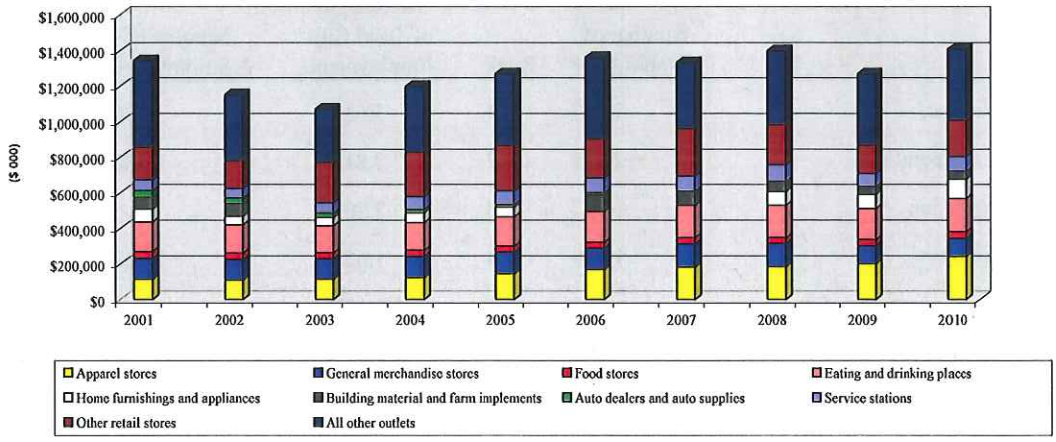
CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2010-11 and 2002-2003

	2010-11 (a)			2002-2003		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	2,947	1	3.61%	3,200	1	3.92%
KLA-Tencor Corporation	2,298	2	2.81%	1,000	8	1.22%
SanDisk Corporation	1,797	3	2.20%			
Linear Technology	1,348	4	1.65%	1,000	7	1.22%
Flextronics	915	5	1.12%			
Milpitas Unified School District	793	6	0.97%			
LSI Logic Corporation	726	7	0.89%	1,347	3	1.65%
Lifescan, Inc.	640	8	0.78%	2,500	2	3.06%
JDS Uniphase Corporation	619	9	0.76%			
Headway Technology, Inc.	362	10	0.44%			
Solectron California				1,174	4	1.44%
Phillip Medical				1,100	5	1.35%
Seagate Technology				1,100	6	1.35%
Palm, Incorporated				700	9	0.86%
Adac Labs				691	10	0.85%
Subtotal	12,445		15.24%	13,812		16.92%
Estimated City Day Population, Census 2000			81,646			81,646

(a) Data for fiscal year 2011-12 is not available until December 2012.

Source: Association of Bay Area Governments
Milpitas Chamber of Commerce

CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(Dollars in Thousands)



	CALENDAR YEARS									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Apparel stores	$113,729	$109,078	$114,599	$123,583	$145,317	$168,985	$181,878	$185,023	$200,140	$241,992
General merchandise stores	118,362	115,336	113,574	119,471	120,297	118,348	131,594	130,193	101,561	100,790
Food stores	37,302	35,830	33,765	32,950	33,592	34,979	34,362	31,105	34,453	38,004
Eating and drinking places	166,174	159,420	152,736	156,318	164,694	173,424	181,668	183,049	174,016	187,002
Home furnishings and appliances	72,493	48,513	45,497	54,460	54,906	(a)	(a)	77,669	80,746	108,491
Building material and farm implements	66,570	70,600	(a)	(a)	(a)	91,571	79,360	57,594	44,818	45,501
Auto dealers and auto supplies	38,684	32,433	25,558	19,990	15,132	12,221	(a)	(a)	(a)	(a)
Service stations	58,395	52,369	58,491	71,231	76,455	82,868	85,468	93,324	73,280	83,100
Other retail stores	184,594	156,196	227,373	251,599	255,805	220,862	266,915	225,954	158,982	204,074
All other outlets	489,438	373,179	301,404	370,253	405,111	460,265	373,394	417,099	402,516	401,569
Total	$1,345,741	$1,152,954	$1,072,997	$1,199,855	$1,271,309	$1,363,523	$1,334,639	$1,401,010	$1,270,512	$1,410,523
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information. The numbers are included with "Other retail stores".

Source: California State Board of Equalization

CITY OF MILPITAS
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rate	Santa Clara County	State of California	
2002-03	1.00	1.00	6.00	
2003-04	1.00	1.00	6.00	
2004-05	1.00	1.00	6.25	(a)
2005-06	1.00	1.00	6.25	
2006-07	1.00	1.00	6.25	
2007-08	1.00	1.00	6.25	
2008-09	1.00	1.00	7.25	(b)
2009-10	1.00	1.00	7.25	
2010-11	1.00	1.00	7.25	
2011-12	1.00	1.00	6.25	(c)

Source: California State Board of Equalization
(a) July 1, 2004 the State increased the State Rate .25%
(b) April 1, 2009 the State increased the State Rate 1%
(c) July 1, 2011 the State decreased the State Rate 1%

Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS
PRINCIPAL SALES TAX PAYERS
CALENDAR YEARS 2011 and 2001
IN ALPHABETICAL ORDER

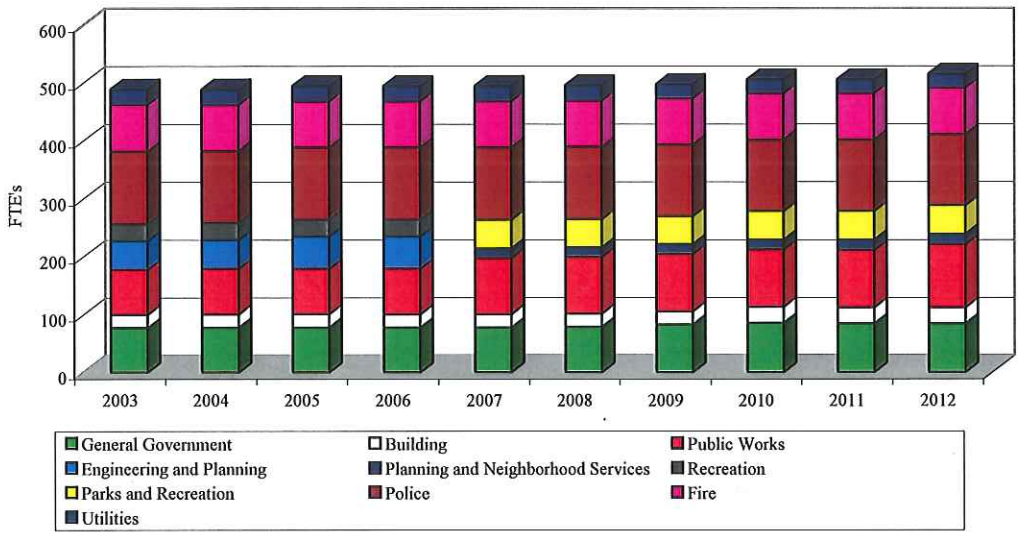
2011	2001
Best Buy Stores	Acropolis System
Burlington Coat Factory	ADAC Laboratories
Chevron Service Stations	Best Buy
Cisco Systems Inc.	Billings Chevrolet
Coach Stores	Burlington Coat Factory
Dave & Busters	Chevron Service Stations
Flextronics	Chili's Grill & Bar
Forever 21	Continental Resources
H & M	Contract Office Group
Headway Technologies	Dave & Busters
Home Depot	Headway Technologies
KLA Tencor Corporation	Home Depot
Kohl's Department Stores	Honda of Milpitas
Marshall's Department Stores	KLA Tencor Corporation
Milpitas Materials Company	Lifescan
Neiman Marcus Department Store	Marshall's Department Stores
Nextg Networks	Maxtor Corporation
Nike Factory Store	Mervyn's Department Stores
One Workplace	Milpitas Materials Company
Piercey Toyota & Scion	One Workplace L. Ferrari
Saks Fifth Avenue off 5th	Orchard Supply Hardware
Shell Service Stations	Saks Fifth Avenue
South Bay Honda	Solectron Corporation
Tesoro Stations	Teradyne
Walmart Stores	Walmart Stores

Source: MBIA MuniServices Company

CITY OF MILPITAS

AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS



	Adopted for Fiscal Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function										
General Government	76.3	77.0	77.3	77.0	77.0	78.0	82.0	84.5	83.5	83.5
Building and Safety	23.0	23.0	23.0	23.0	23.0	23.0	23.0	28.0	28.0	28.0
Public Works	78.0	79.0	78.8	79.0	97.0 (a)	98.0	99.0	99.0	99.0	109.0
Engineering and Planning	49.5	49.5	55.5	55.5	(a)					
Planning and Neighborhood Services					16.5 (a)	16.5	17.0	17.0	18.0	18.0
Recreation	29.0	29.0	29.0	29.0	(a)					
Parks and Recreation					50.0 (a)	49.0	48.5	49.5	49.5	49.5
Police:										
Sworn Police	94.0	94.0	94.0	94.0	94.0	94.0	94.5	94.5	94.5	94.0
Civilians	31.5	30.5	30.5	30.5	30.5	30.5	29.0	29.0	29.0	29.0
Fire:										
Firefighters and Safety	71.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	27.0	27.0	27.0	27.0	27.0	27.0	25.0	24.5	24.5	24.5
Total	489.3	489.0	495.0	495.0	495.0	496.0	498.0	506.0	506.0	515.5

(a) The City departments were reorganized in fiscal year 2007.

Source: City of Milpitas, final budget

CITY OF MILPITAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
Function/Program					
Building and Safety					
Building permits issued	1,777	1,650	3,156	3,788	3,500
Plan checked performed	536	590	650	1,181	1,000
Public Works					
Street miles maintained	137	137	138	139	139
Customer Service Requests	4,000	3,506	3,500	3,326	3,208
Development projects reviewed	115	n/a	n/a	293	190
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	2,065	1,656	1,620	1,802	1,470
Applications to Planning Commission	93	100	120	150	165
Parks and Recreation					
Sports Center members	4,398	5,800	6,500	7,508	7,885
Senior nutrition meals served	23,886	16,139	16,932	19,421	20,667
Athletic Field maintenance (hours)	n/a	4,098	1,947	1,947	1,947
Police					
Avg response time to emergency calls (minutes)	n/a	3:35	3:44	3:12	3:06
Number of anti-terrorist patrol checks	2,924	7,649	10,664	12,813	12,300
Crime prevention presentations	175	201	180	179	190
Number of vehicle citations issued	15,312	15,041	14,453	14,161	10,624
DARE presentations: schools/students	14/1,456	13/1,610	14/1579	13/1538	14/1572
Fire					
Emergency calls for service	3,850	4,100	4,200	4,250	4,000
Public education events	75	73	73	70	65
Permits Inspections	2,160	1,909	2,514	4,231	4,300
Plan Review	660	786	845	1,005	1,000
Utility					
Clean sewer lines (feet)	347,670	358,610	500,000	500,000	500,000
Repair, replace or set water meters	399	341	422	425	600
Average daily consumption (thousands of gallons)	11,120	11,222	10,090	9,162	9,693

Source: City of Milpitas, final budget

Fiscal Year				
2008	2009	2010	2011	2012
3,500	3,500	2,700	2,800	2,800
1,000	1,000	800	800	800
139	139	139	139	139
3,500	3,924	3,900	3,000	3,350
150	100	118	225	200
1,100	1,250	980	800	725
150	112	84	45	96
8,278	8,500	10,000	1,200	1,400
21,165	23,228	24,056	23,076	23,304
1,946	2,242	2,100	1,641	n/a
3:06	2:46	2:47	2:49	2:42
3,500	3,500	1,469	1,469	1,693
240	275	266	281	235
12,386	11,558	11,391	8,544	6,901
14/1492	13/1440	12/850	11/845	12/770
4,368	4,300	4,400	4,400	4,075
80	70	90	80	120
5,400	4,000	4,000	4,000	12,000
750	995	1,000	900	850
500,000	500,000	550,000	500,000	500,000
580	700	500	380	491
9,566	8,870	9,200	8,100	8,200

CITY OF MILPITAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
Function/Program					
Public Works					
Miles of streets	137	137	137	139	139
Street lights	4,281	4,324	4,346	4,354	4,354
Square feet of buildings maintained (in thousands)	299	344	350	350	350
City vehicles	618	626	631	635	635
Signs	7,050	7,150	7,250	7,167	7,400
Signal lights	66	68	68	68	68
City Parks	26	24	26	26	29
Acres of Parkland	161	171	172	172	172
Playgrounds	26	26	32	32	30
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	3	3	3	3	4
Tennis courts	24	24	22	22	22
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	10	13	13	13	13
Basketball courts	5	5	5	5	5
Volleyball courts	7	7	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	30	30	30	30	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	11	15	13	14	16
Fire hydrants	1,670	1,739	1,755	1,756	1,756
Utility					
Miles of water mains	199	202	203	204	204
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	15.64	15.64
Miles of sanitary sewers	168	168	173	173	173
Miles of storm drain	99	99	99	105	105
Miles of recycled water main	7.5	7.5	11.0	11.0	11.0

Source: City of Milpitas, final budget

Fiscal Year				
2008	2009	2010	2011	2012
139	138	139	139	287
4,435	4,460	4,496	4,496	4,500
350	350	350	427	376
630	617	622	622	247
8,000	8,131	8,363	8,363	8,534
68	71	71	71	72
32	32	29	31	31
172	179	179	178	179
29	37	33	33	33
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
4	3	4	4	3
22	24	20	17	20
1	1	1	1	1
21	21	15	15	12
13	13	5	2	3
5	5.5	5.0	5.0	4.0
7	7	5	4	5
4	4	1	1	1
2	2	2	2	2
27	28	28	28	27
4	4	4	4	4
14	14	13	15	13
1,809	1,756	1,840	1,840	1,840
206	204	213	213	213
16.21	15.64	16.26	16.26	16.26
177	173	178	178	179
107	106	110	110	110
11.0	11.0	3.1	3.1	3.9

CITY OF MILPITAS

MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2012

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CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2012

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

December 19, 2012

To the City Council of
the City of Milpitas, California

In planning and performing our audit of the financial statements of the City of Milpitas as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 reasonably possibility that a material misstatement of the City'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 to those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the City.

The City's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

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CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2012-01 **Monitoring Expenditures of the Economic Development Corporation and Ensuring Compliance with the Dissolution Laws**

The Agency entered into an operating agreement with the Economic Development Corporation and provided funding to the Corporation for redevelopment purposes consistent with the California Redevelopment Law and to implement and carry out the Redevelopment Plans for the Project area. We understand the Corporation did not have any other source of funding in fiscal year 2012. The Redevelopment Agency was dissolved as of January 31, 2012 and certain dissolution laws enacted by AB x1 26 require the return of unexpended Agency funds to the Successor Agency to the Redevelopment Agency as of that date. However, the City contends that the operating agreement was lawfully executed and still valid as of that date and continued to expend funds under the agreement, and this matter has not yet been settled with the State Department of Finance. Therefore, the Agency should closely monitor the expenditures of the Corporation to ensure they are made in compliance with California Redevelopment Law as required by the operating agreement.

From July 1, 2011 to June 30, 2012, the Corporation spent $45,015,745, which included reimbursements of $9,806,734 to the Redevelopment Agency for expenditures incurred. We selected a total of $32,038,057 in expenditures for testing of compliance with the operating agreement. Since it is unsettled as to whether the redevelopment agency funding provided to the Corporation will need to be returned to the Agency/Successor Agency, we also tested the expenditures selected to determine whether they appeared to be enforceable obligations of the Agency. During that testing, we noted the Corporation expended $4,088,513 for the purchase of property in March 2012 related to the South Main Senior Lifestyles project.

The Redevelopment Agency's August 2009 Disposition and Development Agreement with South Main Senior Lifestyles LLC was assigned to the Corporation. The Corporation executed an amendment to the Agreement in February 2012 in which it agreed to purchase the additional parcels noted above. Although the expenditures appear to be in accordance with the purpose of the Corporation, the property was subsequently transferred to the Housing Authority as successor to the Redevelopment Agency's housing activities, and due to the dissolution of the Redevelopment Agency it is unclear as to whether they were an allowable use of Agency funds since the agreement was executed after the dissolution of the Agency.

The City/Agency should determine whether the expenditures of the Corporation are in compliance with the provisions of AB x1 26. If the costs cannot be supported by documentation that shows they are in compliance with the requirements noted, the Corporation should obtain a different funding source for those costs and ensure that the Agency's funding is made whole. In addition, the City/Agency should continue to monitor the expenditures related to the Agency's funding provided to the Corporation to ensure that they are in compliance with the operating agreement and the California Redevelopment Law.

Management's Response:
The City/Economic Development Corporation will continue to monitor the expenditures related to the Agency's funding provided to the Corporation to ensure that they are in compliance with the operating agreement and the California Redevelopment Law. It is the City/EDC's intent to address the proper disposition of all the RDA-related assets and liabilities through the wind down process described in AB x1 26 and its follow-up legislation, AB 1484.

SCHEDULE OF OTHER MATTERS

2012-02 Payroll Personnel Pay Review

Timesheets are entered into the payroll system by each department, and then the payroll staff reviews and approves the timesheets in the system. As an added measure, the timesheets/pay checks of key finance and payroll personnel are reviewed by the Senior Accountant to ensure that they do not include inappropriate amounts. During the interim audit we reviewed the procedures in place to ensure that the review was documented and noted that City staff is no longer maintaining the "Payroll Staff Verification" worksheet that documents the review.

We understand that during fiscal year 2012 the City implemented a new paperless policy and direct deposit check stubs are no longer printed out, so the review is now completed online without updating the above worksheet. However, during our testing of the process in May 2012 we noted that there was no documentation that the review had taken place.

The City should update the review procedures to include documentation in some formal manner that the Senior Accountant's review of the payroll staff's timesheets/paychecks has taken place.

Management's Response:
The Senior Accountant has updated the "Payroll Staff Verification" worksheet to document online review and the Finance Manager will verify that the review is done regularly.

2012-03 Sports Center Cash Collection Procedures

We reviewed the cash collection procedures at the Sports Center and noted the following:

a. The cash drawer located at the front desk was closed, but unlocked with the keys on the counter and staff not present. We understand the cash drawer typically holds an average of $2,000 per day. The cash drawer should remain locked and secured at all times when not being accessed by authorized personnel.

b. Manual receipts which are generally used for rentals and daily deposit over/short amounts are not pre-numbered. Although the manual receipts are assigned a number after they are entered into RecWare system, all manual receipts should be pre-numbered and numerically accounted for during the daily reconciliation.

c. The daily cash deposit reconciliation should be signed by the preparer and the reviewer (supervisor). We selected five daily cash receipt deposit reconciliations during the period December 2011 to April 2012 to determine whether the review process was documented. Although all five reconciliations tested appear to tie to the cash, checks and credit cards received and include tick marks tying out the amounts and the preparer's signature, only four included the supervisor's signature. One daily deposit tested was not signed by the supervisor. The supervisor should ensure that all daily deposit reconciliations are signed to document that they have been reviewed.

SCHEDULE OF OTHER MATTERS

2012-03 Sports Center Cash Collection Procedures (Continued)

d. We understand that unusual receipts include items such as rental deposits paid with credit cards and the customer fills out a credit card authorization form that is kept in the safe until it is approved by the Public Services Clerk or Public Services Assistant II at which point it is entered into the RecWare System and deposited. All collections should be treated consistently and entered into the cash receipts system immediately upon receipt.

The City should review the procedures at the Sports Center to ensure the above controls are implemented.

Management's Response:

a. Staff has been instructed that the cash drawer is to remain locked and secure at all times. The drawer will remain locked until a transaction has occurred where the staff member will use their key to access the drawer. Once the transaction is complete, the staff member will lock and secure the drawer and keep their key in their possession so it is not accessible to the public.

b. Recreation Services will use pre-numbered manual receipt books for all sites to use when the system is down. We have also created a separate form for the deposit over/short amounts to use and include in the daily deposit.

c. Staff has been informed that the preparer of the daily cash deposit must sign and that a supervisor must sign after reviewing the daily deposit. When a supervisor is not present, a Program Coordinator will review and sign the daily deposit reconciliation.

d. Staff has implemented a new protocol so that all payments accepted will be immediately entered into the RecWare System so it will not require cash, check or a credit card authorization form to be stored in the safe until approval.

2012-04 Obtain Council Approval for Contracts in Excess of $20,000

Section 3.03 of the City's Purchasing Policy adopted by Ordinance #23.10 requires that the purchase of supplies or services for $20,000 or more be approved by the City Council. In addition, the Purchasing Agent is to purchase supplies and services with a value of $20,000 or more using formal sealed bid procedures.

We selected 36 disbursements for testing of compliance with the City's Purchasing Policy and noted one disbursement in May 2012 in the amount of $50,312 for ongoing software support and maintenance was not accompanied by the required Council approval. It appears that the original contract with the vendor was below the $20,000 threshold, but an option exercised to extend the contract increased the contract beyond that amount. The revised contract was not approved by City Council before the disbursement was made to the vendor.

We understand that City staff overlooked the required City Council approval of the contract extension prior to processing the payment to the vendor. After we brought the issue to the attention of City staff, the contract was presented to City Council for approval in October 2012.

SCHEDULE OF OTHER MATTERS

2012-04 Obtain Council Approval for Contracts in Excess of $20,000 (Continued)

City staff should implement procedures to ensure that contract amendments or extensions to contracts that change the total contract amount remain in compliance with the Purchasing Policy approval and documentation requirements.

Management's Response:
Staff will develop procedures to ensure that contract amendments or extensions to contracts that change the total contract amount remain in compliance with the Purchasing Policy approval and documentation requirements.

2012-05 Establish Blanket Purchase Orders for Frequently Used Vendors

Section 4.01 of the City's Purchasing Policy adopted by Ordinance #23.10 requires that no award for supplies or services or the disposal of City property where the total expenditure or value is over Five Thousand Dollars ($5,000), shall be deemed to be an acceptance of any offer or bid unless and until the same be reduced to writing and signed by the Purchasing Agent and dispatched to the vendor or purchases. In addition, section 3.03 states that the purchase of supplies or services for $20,000 or more must be approved by the City Council. Finally, the Purchasing Agent is to purchase supplies and services with a value of $20,000 or more using formal sealed bid procedures.

We selected 36 disbursements for testing of compliance with the City's Purchasing Policy and for the disbursements that were less than $5,000 to vendors for services that were not exempt from the purchase order requirement we obtained the year-to date payments to the vendors to determine if they exceeded $20,000. Of the eight vendors tested, we noted seven that had expenditures for the fiscal year that were cumulatively approached or exceeded the $20,000 threshold as follows:

Vendor	Total Disbursements During Fiscal Year 2012
Cook's Automotive	$21,044
Burton's Fire	19,910
Pacific Air Solution	38,732
Summit Uniform	19,760
Dapper Tire Co.	32,221
Capitol Ford Express	40,287
Nachtmann Analytical	25,209

SCHEDULE OF OTHER MATTERS

2012-05 Establish Blanket Purchase Orders for Frequently Used Vendors (Continued)

Although the individual disbursements to each vendor were less than the $5,000, and therefore did not require the use of a purchase order, Council approval or formal sealed bid procedures, the cumulative expenditures for five of the vendors did appear to warrant these items. We understand that City staff evaluated each transaction individually and considered whether a purchase order and / or contract was needed on a case by case basis. Since each invoice did not exceed the $5,000 threshold, the City did not issue a purchase order and / or contract before the purchase was made and City Council approval was not deemed necessary.

For vendors that the City uses frequently throughout the fiscal year with cumulative purchases exceeding $5,000, the City should consider issuing blanket purchase orders and/or contracts and obtaining City Council approval for those vendors that are expected to be used with cumulative purchases exceeding $20,000.

Management's Response:
Finance staff will work with each responsible department to obtain contracts with City Council's approval for those vendors that are expected to be used with cumulative purchases exceeding $20,000 and to issue blanket purchase orders for those vendors that are expected to be used with cumulative purchases exceeding $5,000.

2012-06 Reviewing Accuracy of Payroll Charges to Federal Grant Programs

Payroll charges for federal grants should be reviewed closely to ensure that accurate and correct amounts are charged to the grant programs.

During our testing of payroll charges to the Community Development Block Grant, we selected four pay periods for the Senior Housing Specialist and noted that for the pay period ending December 31, 2011, a total of 28 hours should have been charged to the grant program, but only 4 hours were charged.

Although the effect of this error resulted in the grant being undercharged $1,087, the City had spent the maximum allowable amount of administrative costs for the grant program as of June 30, 2012, and therefore the City cannot correct the allocation. However, the City should implement procedures to ensure that payroll charges are accurately applied to grant programs.

Management's Response:
Staff will develop procedures to ensure that payroll charges are accurately applied to grant programs.

SCHEDULE OF OTHER MATTERS

2012-07 **Implement Automatic Session Locks**

We again conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it. During the current year review we noted that the City does not have session locks turned on for the financial application or the workstation operating systems. A session lock is a temporary lockout of the operating system or financial application when a user stops work and typically moves away from the immediate physical vicinity of the computer. Generally, employees may leave their workstation for lunch or break and not log off or log out of the application. This leaves the operating system or financial application open and available to any passerby. Any person with physical access would be able to perform any tasks the absent user has privileges or rights to perform. At the very least, workstations should be set to lock out the workstation after a period of inactivity. The best practice would be to have both the operating system and financial application have lockouts after a period of inactivity.

Management's Response:
The Information Services Department develop procedures to implement session locks to automatically lock a workstation after 20 minutes of inactivity.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

2011-01 **Monitoring Current and Future Redevelopment Agency-Related Transactions**

During fiscal year 2011, the Redevelopment Agency initiated a number of transactions that included the transfer of assets to the City and the rental of Agency-owned housing units. Although the transactions appear to have been completed in compliance with current Redevelopment Law, the City and Agency must develop new policies and procedures to ensure that all future transactions continue to be in compliance with those laws. During our audit we noted the following:

- **Continuous Monitoring of Agency-Owned Rental Units is Necessary**
  Five of the properties transferred to the City are currently rented to low and moderate income households. We reviewed the annual schedule of rents received and noted that one unit had not paid rent for the month of August 2010. Agency staff indicated that the rent had been abated due to repairs paid by the tenant, and although Agency staff had confirmed the need for the repairs, documentation that the repairs were made and paid for by the tenant was not available in the Agency's files. After Agency staff obtained the documentation from the tenant, it was noted that the repair costs were incurred in August 2011 and the cost of the repairs were less than the cost of the abated rent by $322.

  Agency and City staff should establish procedures to ensure that tenant rents are monitored to ensure they are received timely. The procedures should include a policy that abatements of revenue must be documented as approved, supporting documentation for the abatement must be retained in the Agency/City files, and a post-repair inspection must be completed and documented to ensure they were completed.

  Current Status:
  The Agency and City staff has established procedures to ensure that tenant rents are monitored and are received timely. The procedures included a policy regarding abatements of revenue and supporting documentation.

- **Parcel Excluded from the Property Conveyance should be Conveyed**
  One of the parcels purchased by the Housing Reserve Fund in fiscal year 2010 was recorded in the name of the City in error by the escrow company. When the Agency conveyed all property held for resale and other assets to the City during fiscal year 2011, this parcel was excluded from that conveyance, because it did not appear during the title search of Agency-owned properties. The parcel was included in the transfer from the Housing Reserve Fund to the General Fund on the general ledger as of June 30, 2011.

  Due to the current suspension of all redevelopment activities by the State, the Agency cannot take action to remedy this situation. Therefore, the City should determine what steps are necessary to convey this parcel from the Agency to the City since it was purchased by the Housing Reserve Fund. In the future, the City and Agency should closely review escrow statements and closing documents to ensure properties purchased are recorded in the name of the entity that funded the purchase.

  Current Status:
  The City and Agency has been closely reviewing escrow statements and closing documents to ensure that properties purchased are recorded in the name of the entity that funded the purchase. Also the City has created a resolution affirming that the Property mentioned above is restricted as an affordable unit.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

2011-01 Monitoring Current and Future Redevelopment Agency-Related Transactions (Continued)

- **Assets Derived from Property Held for Resale Must be Restricted**
  Property previously held for resale in the Redevelopment Project and Housing Reserve Funds was conveyed to the City and is recorded in the General Fund as property held for resale as of June 30, 2011. In accordance with the Resolution that authorized the conveyance of the property, the property is to be used for redevelopment purposes and since this property was purchased by the Redevelopment Agency, the properties purchased by the Redevelopment Project Fund must be used for redevelopment purposes and the property purchased by the Housing Reserve Fund must be used for low and moderate income housing purposes.

  The City should establish procedures to ensure that any assets derived from the use of these properties, such as sales proceeds or other income, is segregated and restricted for redevelopment or low and moderate income purposes.

  Current Status:
  The City has developed procedures to ensure that any assets derived from the Redevelopment Agency will be segregated and restricted for redevelopment or low and moderate activities.

2011-02 Senior Center Cash Collections

We reviewed the cash collection and reconciliation procedures at the Senior Center and noted the following:

- **Security over Cash Collections**
  When not being accessed by authorized personnel, any safe that holds cash and other assets in a facility should remain locked and secured at all times to prevent theft or other misappropriation of assets.

  During our site visit to the Senior Center, we noted that the safe located in hallway storage room was unlocked and the safe door was propped open. The Senior Center Supervisor explained that the safe door is sometimes left open because some staff members have a difficult time securing the door properly.

  Leaving the safe open increases the Senior Center's exposure to cash loss due to unauthorized access or theft. The safe should remain locked at all times and opened only by authorized personnel.

- **Documentation of Review of Receipt Reconciliations**
  Account reconciliations should be reviewed and approved by someone other than the preparer, and that review should be documented in some formal manner. Daily reconciliations of cash collections at the Senior Center are supposed to be completed by the cashier and reviewed and approved by the Program Coordinator.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

2011-02 Senior Center Cash Collections (Continued)

We selected five daily cash collection and deposit reconciliations during the fiscal year to test the reconciliation to the Senior Center and Finance Department records and noted that although the reconciliations appeared complete and had notations on them that appeared to indicate they had been reconciled, there was no documentation of who had completed the reconciliation or review.

The preparer and reviewer of each reconciliation should be documented on the face of each reconciliation, or in some other formal manner.

Current Status:
The Senior Center safe has since been upgraded and is locked at all times with a digital safe code for security. The deposits will show two signatures by two employees that independently review the deposit for accuracy.

2011-03 Periodic Review of the General Ledger Access Log

Employee access to the various modules of the General Ledger must be monitored periodically to ensure that the access to each individual is appropriate according to their specific job duties.

We requested a copy of the General Ledger Access Log as part of our interim audit work to review access allowed to key employees and key modules. We did not receive the Access Log until the week after we had completed our field work. In addition, once we had received the Access Log, we found it did not contain enough detail to resolve some of our internal control testing questions/issues. We were informed by City staff that the best way to examine the access staff has to the various general ledger modules is to individually look at their profile in the system online, which is what we had to do with the help of Finance staff.

While we understand the delay in providing the Access Log was caused by the new system implementation, when City staff found that the Access Log was not readily available in one document in the system. A document as important as this should be readily available to City staff throughout the year. The Access Log is an important tool for the City to monitor employee access to the financial system. A designated managerial staff should review the system access periodically to ensure that access to the various system modules is authorized and appropriate.

Current Status:
The City continues discussion with the Financial System vendor to provide a solution to replace the access log available before the new system implementation. The vendor replied that they have already started to work on this issue.

STATUS OF PRIOR YEAR SCHEDULE OF OTHER MATTERS

2011-04 **Regular Change of Passwords on the Financial Application**

We again conducted an Information Systems Review with our audit which encompassed the financial information system and the network environment that houses it, as discussed in the prior year comment 2010-01. During the current year review we noted that the City does not enforce regular password changes for users on the financial application. There should be a written policy for the regular changing of financial system account passwords. An automatic enforcement of this policy would be optimum. The policy for the financial system should include: enforced password complexity to reduce the risks of easy guessing and brute force attacks against the passwords; required use of unique alpha numeric and special character combinations along with a password length of at least 8 characters; and a limit on repeating financial system account passwords which would stop users from circumventing password change controls. In addition, users should not share passwords with other users nor use passwords easily guessed by other users.

Current Status:
The financial application does not have the ability to automatically require the user to periodically change passwords; however the City implemented a policy to require employees to periodically change their passwords.

MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

December 19, 2012

To the City Council of
the City of Milpitas, California

We have audited the financial statements of the City of Milpitas as of and for the year ended June 30, 2012 and have issued our report thereon dated December 19, 2012. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2012. The following pronouncement became effective but did not have a material effect on the financial statements:

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GASB 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2012. However, the dissolution of the Redevelopment Agency had a material impact to the financial statements of the City and its component units:

As discussed in Note 16 to the financial statements, the State enacted laws which dissolved Redevelopment Agencies effective January 31, 2012. The City elected to become a Housing Successor to the Redevelopment Agency and pursuant to the laws it received the encumbered housing assets of the former Redevelopment Agency. Certain other assets were distributed to and all of the Redevelopment Agency's debts were assumed by a Successor Agency governed by an Oversight Board. This Successor Agency is reported as a private purpose trust fund.

Also as discussed in Note 16, the Agency had transferred assets, including capital assets, totaling $195,187,960 to the City and to the Economic Development Corporation during fiscal year 2011 under the terms of various agreements. However, under the provisions of Health and Safety Code Section 34171(d)(2) that was created by AB x1 26, agreements between the City and the Agency that were executed after December 31, 2010 are no longer enforceable obligations, and Health and Safety Code Section 34167.5 requires that if the entity that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those funds that they be returned to the Successor Agency.

Health and Safety Code Sections 34167.5 and 34178.8 specifically direct the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency.

The State Controller's Office completed its asset transfer review of the Milpitas Redevelopment Agency for the period from January 1, 2011 through January 31, 2012 in August 2012. The review resulted in a demand that the City return assets comprised of cash and investments, property held for resale and capital assets totaling $147,108,600 be transferred to the Milpitas Redevelopment Successor Agency. However, the results of the State Controller's review also included an incomplete list of housing assets that should have been transferred to the Housing Successor Agency, instead of the Milpitas Redevelopment Successor Agency.

Subsequent to the State Controller's review, the State Department of Finance (DOF) also reviewed the housing assets inventory list and approved a majority of the non-cash assets as Housing Assets. The assets that were approved included all the housing loans that were committed to third parties, housing properties held for resale, and land planned for low-moderate income housing purposes. In November 2012, the DOF completed the first phase of the Due Diligence Review (DDR) of the Low and Moderate Housing Fund's cash balance available for allocation to the affected taxing entities. The City complied with the DOF's determination by transmitting the payment of $6,582,557 to the County Auditor-Controller in November 2012.

The City also returned property held for resale of $374,253 to the Agency's Housing Reserve Special Revenue Fund and $1,800,000 to the Redevelopment Capital Projects Fund, and $6,988,800 to the Successor Agency, and capital assets to the Successor Agency totaling $101,928,140. The balance of assets held by the Economic Development Corporation totaled $58,309,672 as of June 30, 2012, comprised of current assets of $35,942,644 and capital assets funded by the Redevelopment Agency of $22,367,028. The City opted to wait for the completion of the second phase of the State-required DDR of the non-housing cash balance to determine the correct amount of the remaining assets that should be transferred to the Milpitas Successor Agency.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are the fair value of investments, depreciation and compensated absences.

Estimated Fair Value of Investments: As of June 30, 2012, the City held approximately $179.1 million of cash and investments as measured by fair value as disclosed in Note 3 to the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2012. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2012.

Estimated Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 8 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Compensated Absences: Accrued compensated absences, which are comprised of accrued vacation and sick leave, is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year, and are disclosed in Note 12 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the City's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

As discussed in Note 16 to the financial statements, the State enacted ABx1 26 and AB1484 (Dissolution Laws) which dissolved California redevelopment agencies effective January 31, 2012. The provisions of the Dissolution Laws are extremely complex and contain provisions requiring the unwinding of transactions recorded in prior years and remeasurement of amounts due to the City and its component units. The Dissolution Laws also give the State Controller's Office and Department of Finance approval powers over transactions and asset transfers and require a plethora of filings, processes and special procedures to be performed by external audit firms. These matters required an exorbitant amount of staff's time and attention. This in turn had an adverse effect on audit timing and effort.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the City, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Council.

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

Maze & Associates

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CITY OF MILPITAS

SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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CITY OF MILPITAS

SINGLE AUDIT REPORT
For The Year Ended June 30, 2012

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CITY OF MILPITAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified?	____ Yes	X	None Reported
Noncompliance material to financial statements noted?	____ Yes	X No	

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified		
Internal control over major programs:			
• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified?	____ Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	____ Yes	X No	

Identification of major programs:

CFDA#(s)	Name of Federal Program or Cluster
14.218	U.S. Department of Housing and Urban Development – Community Development Block Grant/Entitlement Grant

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? X Yes ____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated December 19, 2012, which is an integral part of our audit and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –
Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

CITY OF MILPITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Housing and Urban Development Direct Programs:			
Community Development Block Grants/Entitlement Grants		14.218	
Loan Expenditures	B 11-MC-06-0055		$88,561
Program Expenditures	B 10-MC-06-0055		13,588
Program Expenditures	B 11-MC-06-0055		100,048
Subgrants	B 10-MC-06-0055		8,927
Subgrants	B 11-MC-06-0055		349,915
Loan program cash balance at the end of the year			115,541
Total Community Development Block Grants			676,580
U.S. Department of Justice Direct Program:			
Bulletproof Vest Partnership Program	2009 BU BX 09049895	16.607	10,589
Bulletproof Vest Partnership Program	2011 BU BX 11059130	16.607	5,707
Program subtotal			16,296
U.S. Department of Justice Pass-Through Program From:			
County of Santa Clara County			
Edward Byrne Memorial Justice Assistance Grant Program	2009-DJ-BX-0349	16.738	94
Edward Byrne Memorial Justice Assistance Grant Program	2011-DJ-BX-3301	16.738	13,911
Program subtotal			14,005
U.S. Department of Health and Human Services Pass-Through Program From:			
County of Santa Clara Public Health Department			
ARRA - Prevention and Wellness - Communities Putting Prevention To Work			
Funding Opportunities Announcement			
Tobacco Prevention Ordinance	1U58DP002545-01	93.724	5,740
County of Santa Clara Social Services Agency Department of Aging and Adult Services			
Special Programs for the Aging - Title III, Part C - Nutrition Services			
Nutrition Program for the Elderly	AP-1112-12	93.045	84,265
Program Subtotal			
U.S. Department of Transportation Pass-Through Program From:			
California Office of Traffic Safety			
County of Santa Clara			
State and Community Highway Safety			
Avoid the 13th Under the Influence Campaign	AL0980	20.600	1,966
University of California, Berkeley			
State and Community Highway Safety			
Sobriety Checkpoint Program for Local Law Enforcement Agencies	SC10260	20.600	7,822
Program subtotal			9,788
U.S. Department of Transportation Pass-Through Program From:			
State of California Department of Transportation			
Highway Planning and Construction			
Safe Routes to School Grant	CP4247	20.205	2,262
U.S. Department of Homeland Security Direct Program:			
Assistance to Firefighters Grant	EMW-2009-FO-02309	97.044	20,137
U.S. Department of Energy Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant Program	DE-SC0001663	81.128	32,024
Total Expenditures of Federal Awards			$861,097

See Notes to Schedule of Expenditures of Federal Awards

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CITY OF MILPITAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Milpitas, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S 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*

Honorable Mayor and City Council
of the City of Milpitas, California

We have audited the financial statements of the City of Milpitas as of and for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012. The report includes a reference to other auditors and special emphasis paragraphs concerning the dissolution of the Redevelopment Agency. We conducted our audit in accordance with generally accepted auditing standards 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. Other auditors audited the financial statements of the Terrace Gardens, Inc., as described in our report on the City's financial statements. This report does not included the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. 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 and other matters that are required to be reported under *Government Auditing Standards.*

We have also issued a separate Memorandum on Internal Control dated December 19, 2012 which is an integral part of our audit and should be read in conjunction with this report.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 19, 2012

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
of the City of Milpitas, California

Compliance

We have audited City of Milpitas's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated December 19, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 19, 2012